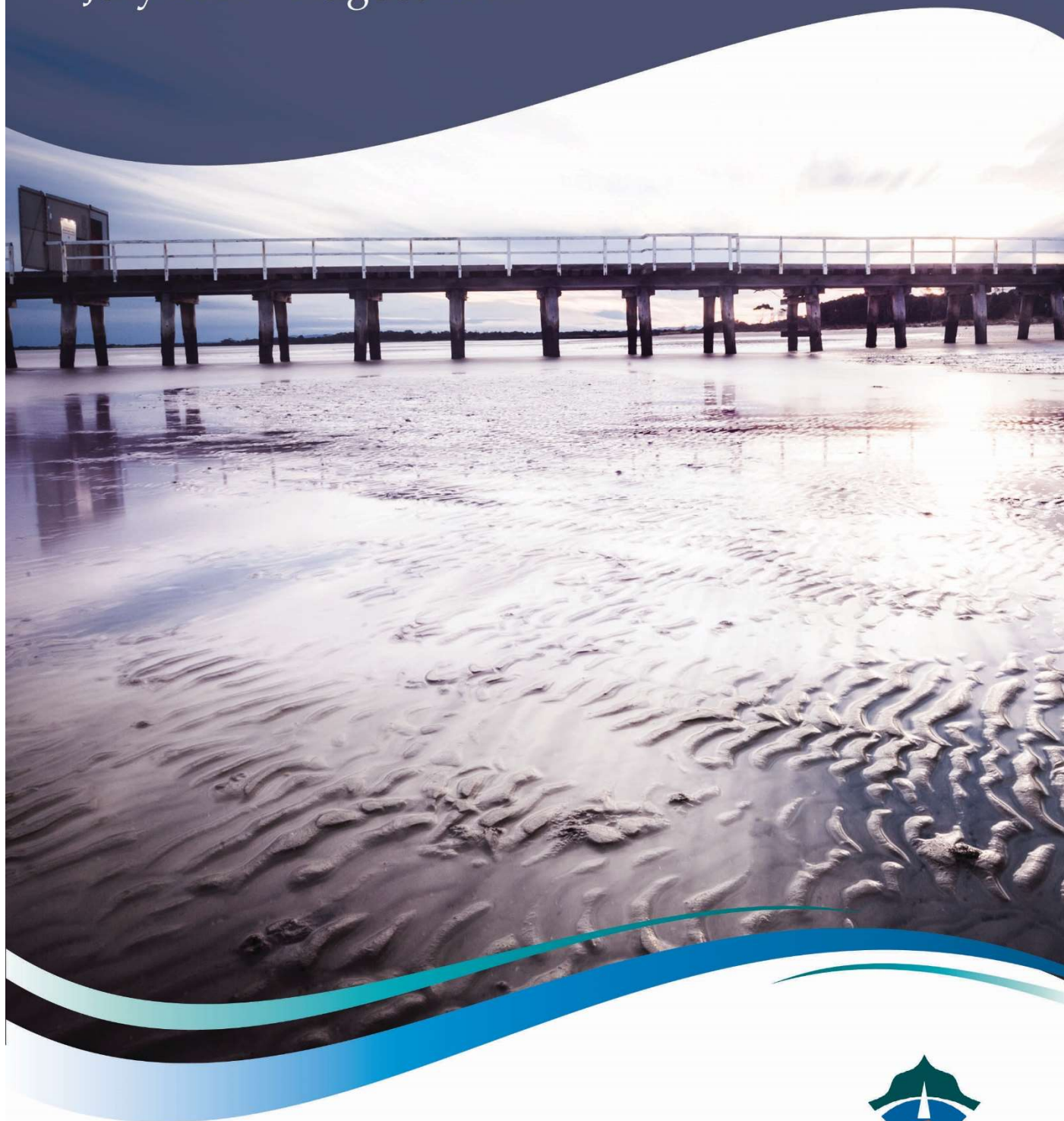


SOUTH GIPPSLAND SHIRE COUNCIL

Financial Performance Report

July 2019 - August 2019



*South Gippsland
Shire Council*

Glossary

	Definition
Capital Expenditure	The purchase or construction of assets that are expected to have a life of more than 1 year.
Capital Grants	Grants that are received to fund projects of a capital nature, including capital expenditure on Council owned land and operating expenditure of a capital nature on Crown land.
Cash	Includes cash on hand and highly liquid investments.
Contributions	Includes income for works performed by Council on behalf of third parties, contributions from community groups towards the construction or upgrade of community assets, contributions either in cash or in kind from developers, and minor recoups of some operating expenditure.
Current Assets	Assets that are expected to be consumed or converted into cash within 1 year such as stock on hand, debtors, cash and investments.
Current Liabilities	Amounts owed to third parties by the Council that are expected to be settled within 1 year, such as trust funds, sundry creditors, and annual leave accrued.
Debt Servicing	The interest expense of borrowings.
Depreciation	The systematic allocation of the net cost of a long-term asset over its useful life. Depreciation is an annual operating expense; therefore it is the annual process of expensing long-term costs.
Employee Costs	Wages and salaries paid to employees plus labour on-costs such as superannuation, WorkCover premium, long service leave and Fringe Benefits Tax.
Grants	Includes granted assets (usually cash) received from third parties such as Government Departments towards the cost of programs and capital expenditure.
LTFP	Long Term Financial Plan. This sets out Council's financial strategy over a 15 year period.
Materials and Services	Includes payments to third parties for goods received and services rendered.
Non-Current Assets	Assets with a useful life of more than 1 year, such as land, buildings, plant and machinery, furniture and equipment, and infrastructure.
Non-Current Liabilities	Amounts owed to third parties by the Council that are not expected to be settled within 1 year, such as long-term loans.
Operating Expenditure	Expenditure on Materials and Services, employee costs, depreciation and debt servicing.
Income	Income received from rates and charges, grants and subsidies, contributions and recoupments, user fees, interest on investments and net gain/(loss) on disposal.
Underlying Result from Operations	The annual operating surplus or deficit in a 'normal' year. It excludes major 'one-off' items (developer contributions, special rates or capital grants) that distort the true financial performance of the Council.
Underlying Working Capital Ratio	The ratio of current assets compared to current liabilities excluding cash-backed reserves.
WDV of Assets Sold	The Written Down Value of an asset is an operating expense, represent the undepreciated net cost of a long-term asset at the time it is sold. In the case of land sales, it represents the cost of land sold.
YTD	Year to Date
Working Capital	A measure of short-term liquidity represented by current assets less current liabilities.

Executive Summary

The financial performance report for the two months to the 31st August is presented for Council's information.

Operating Statement

The Year to Date (YTD) deficit of \$1.76M compares favourably with the YTD budget deficit of \$2.63M by \$0.87M. This is made up of the re-sheeting program being \$0.44M behind schedule due to the recent storms and wet weather and \$0.48M difference for swimming pool operations due to the YTD budget not yet being profiled across the year. Further detail can be found under the Financial Statements section, "Income Statement for the period ending 31st August 2019".

The Forecast is projecting a \$5.99M surplus for the end of the financial year. This is a favourable increase from the Original Budget surplus of \$5.17M as a result of carry forward adjustments.

Capital Expenditure

The YTD result for capital expenditure shows that Council is behind the YTD budget by \$0.92M with actual expenditure of \$1.17M compared to YTD budget of \$2.09M. This is largely due to IT capital purchases being \$0.28M behind schedule and a difference in the Community Hub – Korumburra project of \$0.39M due to the YTD budget not being profiled. Profiling of this budget will occur once project timelines are confirmed.

The forecasted capital expenditure for 19/20 is now \$34.84M. This is \$2.39M more than the original budget adopted by Council for the 19/20 financial year and recognises \$2.39M being carried forward from 18/19.

Cash

During the two months to the end of August, cash flows from operating activities returned a negative result of \$6.29M. This was partially offset by a positive result from investment activities of \$4.83M due largely to a reclassification of other financial assets to cash (\$6.0M). There were no cash flows from financing activities. The net result from operating and investing cash flows was an overall decrease in cash of \$1.46M, from \$7.0M opening cash to \$5.54M. Cash and cash equivalents of \$5.54M is made up of cash at bank of \$1.29M and short-term investments (investments with original maturity dates less than 90 days) of \$4.25M.

Total cash and investments held at the end of August was \$27.81M, which includes cash and cash equivalents of \$5.54M and other financial assets (investments with original maturity dates greater than 90 days) of \$22.27M.

Projected cash to be held at the end of the financial year including all investments is \$19.02M. This is \$0.96M favourable compared to the original budget of \$18.06M due to a favourable 2018/19 result and operating savings expected as a result of carry forward adjustments.

Further details on cash can be found under the Financial Statements section, "Cash Flow Statement for the period ended 31st August 2019".

Long Term Financial Plan

There have been minimal changes to the Long Term Financial Plan (LTFP) as presented in the Original Budget for 19/20. See further details in the Long Term Financial Plan Analysis.

The Long Term Financial Plan has been updated to reflect the final result of 2018/19 as well as adjusting projections for carry forward items.

Financial Statements

Income Statement for the period ended 31st August 2019

	YTD			Full Year		
	Actual \$'000	Forecast \$'000	Variance (Actual v Forecast) \$'000	Original Budget \$'000	Forecast \$'000	Forecast Variance (Forecast v Original) \$'000
Income						
Rates and charges	7,402	7,407	(5)	43,869	43,869	0
Statutory fees and fines	130	153	(23)	919	919	0
User fees	443	409	34	4,335	4,335	0
Grants - operating	1,614	1,512	102	6,609	9,124	2,515 ¹
Grants - capital	25	211	(186)	8,406	7,466	(940)
Contributions - monetary	19	1	18	1,140	1,185	45
Contributions - non monetary	0	395	(395)	395	395	0
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	0	(130)	130	145	154	9
Other income	297	301	(4)	1,710	1,710	0
TOTAL INCOME	9,930	10,259	(329)	67,528	69,157	1,629
Expenses						
Employee costs	4,359	4,543	184	24,817	24,817	0
Materials and consumables	3,538	5,160	1,622 ²	21,909	22,718	(809)
Bad and doubtful debts	0	0	0	0	0	0
Depreciation	1,897	1,989	92	11,939	11,939	0
Borrowing costs	0	18	18	108	108	0
Other expenses	1,898	1,180	(718)	3,581	3,581	0
TOTAL EXPENSES	11,692	12,890	1,198	62,354	63,163	(809)
SURPLUS / (DEFICIT)	(1,762)	(2,631)	869	5,174	5,994	820

¹ Higher projected operating grants compared to the original budget is largely made up of the following areas:

- Civic – Long Jetty Restoration - \$972K carried forward from 2018/19
- Storm Events - \$1,279K carried forward from 2018/19

² Lower YTD actual materials and consumables compared to the YTD forecast is largely made up of the following areas:

- Information Technology - \$239K made up of unspent software purchases and licenses
- Building Operational Works - \$101K due to profiling adjustments needed
- Resheets - \$394K due to delays caused by storms and wet weather
- Swimming Pools – Operational - \$485K due to profiling adjustments needed

Balance Sheet as at 31st August 2019

	YTD	Full Year		
	Actual \$'000	Original Budget \$'000	Forecast \$'000	Forecast Variance (Forecast v Original) \$'000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	5,544	9,062	6,743	(2,319)
Trade and other receivables	51,214	5,610	5,518	(92)
Other financial assets	22,273	9,000	12,273	3,273
Inventories	237	281	240	(41)
Other assets	0	61	58	(3)
	79,268	24,014	24,832	818
NON CURRENT ASSETS				
Investments in associates and joint ventures	1,359	1,237	1,358	121
Property, infrastructure, plant and equipment	551,762	576,189	602,072	25,883
Investment property	586	763	587	(176)
	553,707	578,189	604,017	25,828
TOTAL ASSETS	632,975	602,203	628,849	26,646
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	6,966	3,883	3,503	(380)
Trust funds and deposits	686	911	1,025	114
Provisions	5,700	6,811	5,936	(875)
Interest bearing loans and borrowings	3,591	340	340	0
Unearned revenue	36,174	0	0	0
	53,117	11,945	10,804	(1,141)
NON CURRENT LIABILITIES				
Provisions	3,780	2,084	3,732	1,648
Interest bearing loans and borrowings	0	2,953	2,953	0
	3,780	5,037	6,685	1,648
TOTAL LIABILITIES	56,897	16,982	17,489	507
NET ASSETS	576,078	585,221	611,360	26,139
REPRESENTED BY				
Accumulated Surplus	222,952	232,604	233,600	996
Reserves	353,126	352,617	377,760	25,143
TOTAL EQUITY	576,078	585,221	611,360	26,139

Cash Flow Statement for the period ended 31st 2019

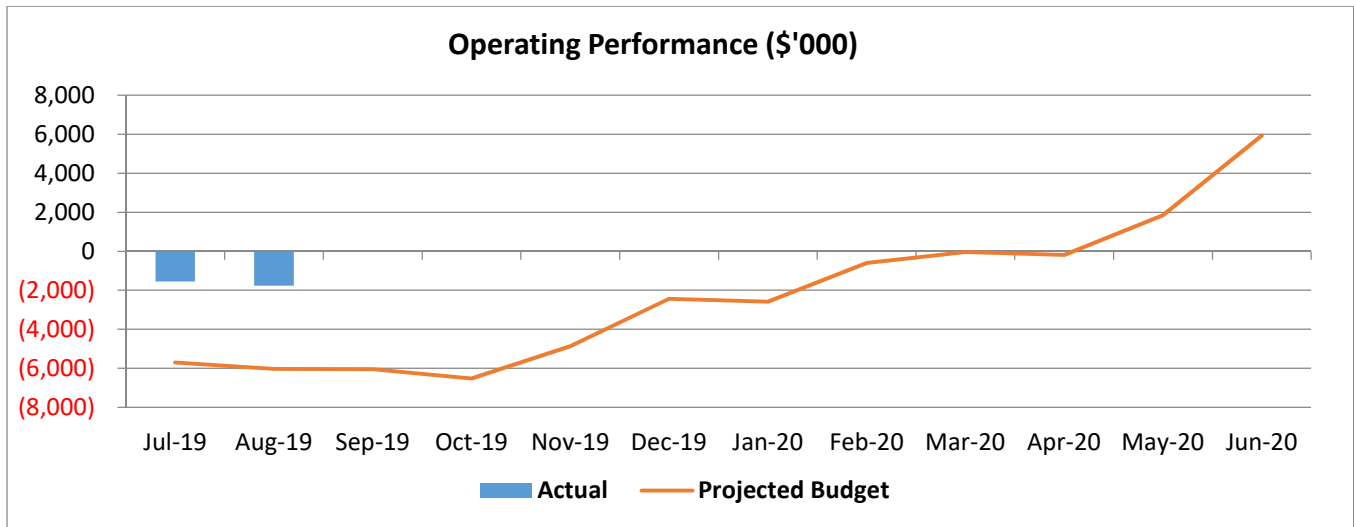
	YTD	Full Year		
	Actual \$'000	Original Budget \$'000	Forecast \$'000	Forecast Variance (Forecast v Original) \$'000
<u>Cash flows from operating activities</u>				
Rates and charges	1,479	43,869	43,869	0
Statutory fees and fines	130	919	919	0
User fees	708	4,335	4,335	0
Grants - operating	1,614	6,609	9,124	2,515
Grants - capital	25	8,407	7,467	(940)
Contributions- monetary	19	1,140	1,185	45
Interest received	106	550	550	0
Other receipts	167	1,161	1,161	0
Employee costs	(5,338)	(24,712)	(24,712)	0
Materials and services	(3,301)	(21,909)	(22,718)	(809)
Other payments	(1,898)	(3,581)	(3,581)	0
Net cash provided by / (used in) operating activities	(6,289)	16,788	17,599	811
<u>Cash flows from investing activities</u>				
Payments for property, infrastructure, plant and equipment	(1,172)	(32,449)	(34,844)	(2,395)
Proceeds from sale of property, infrastructure, plant and equipment	5	1,145	1,153	8
Trust Funds and deposits	0	0	0	0
Payments (for) / from other financial assets	6,000	7,000	16,000	9,000
Net cash provided by / (used in) investing activities	4,833	(24,304)	(17,691)	6,613
<u>Cash flows from financing activities</u>				
Finance costs	0	(108)	(108)	0
Proceeds from borrowing	0	3,600	3,600	0
Repayment of borrowings	0	(3,657)	(3,657)	0
Net cash provided by / (used in) financing activities	0	(165)	(165)	0
Net increase / (decrease) in cash and cash equivalents	(1,456)	(7,681)	(257)	7,424
Cash and cash equivalents at the beginning of the financial year	7,000	16,743	7,000	(9,743)
Cash and cash equivalents at the end of the period	5,544	9,062	6,743	(2,319)

Annual Year to Date Financial Analysis

This section analyses the implications of the year to date performance and the projected outcome for the financial year.

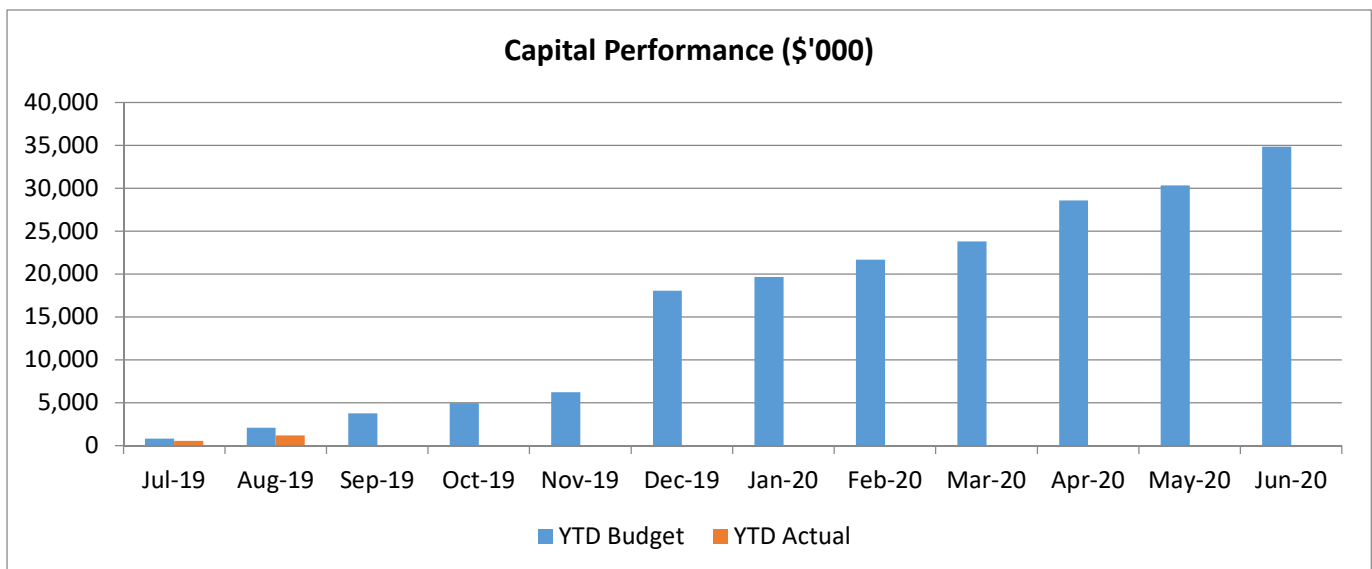
Operating Performance

The operating result is \$1.8M deficit for the period July 2019 to August 2019. This is a favourable variation of \$4.2M compared to the projected budget deficit of \$6.0M for the period July 2019 to August 2019. This variation is due to timing of actual costs compared to year to date budgets.

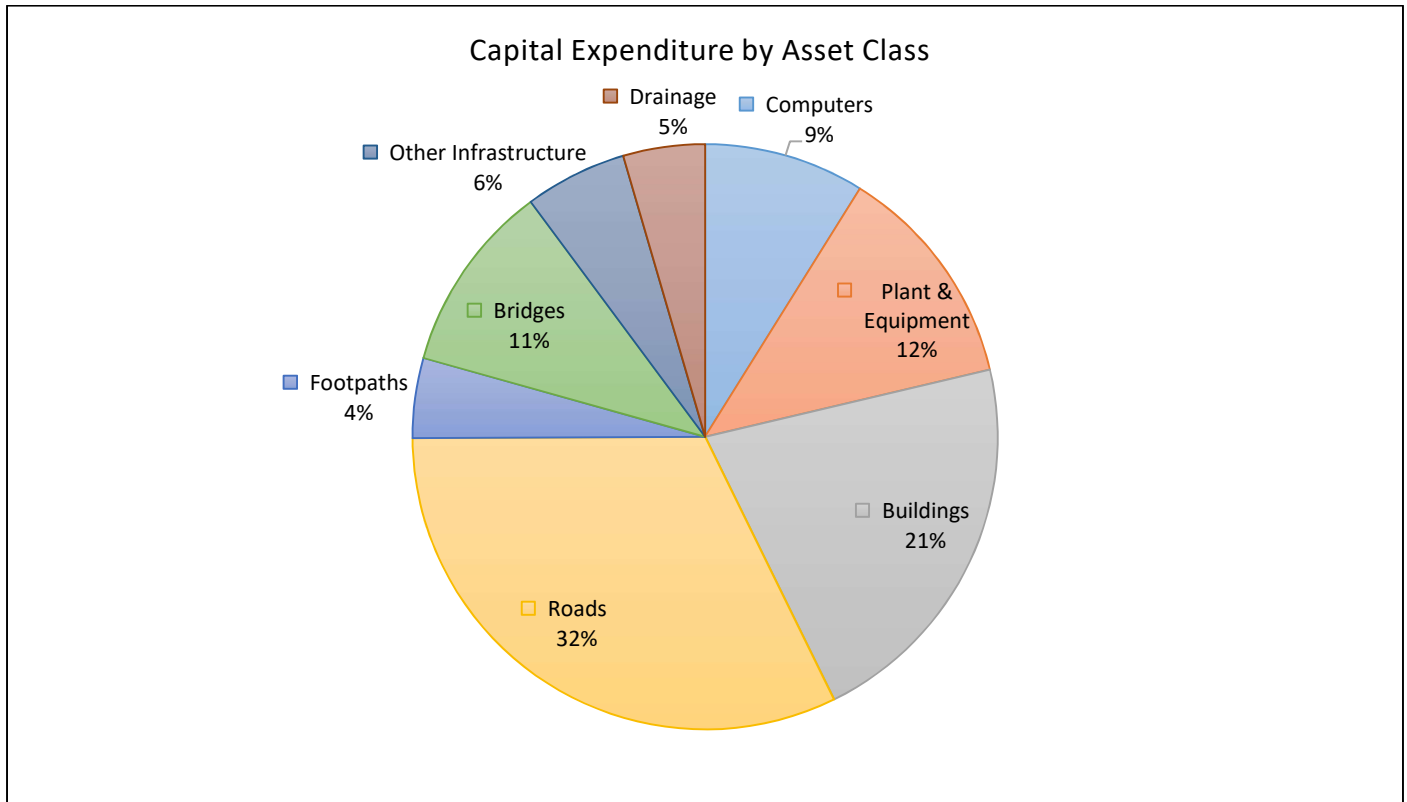


Capital Performance

The capital expenditure is \$1.2M for the period July 2019 to August 2019. This is \$0.9M behind the projected budget of \$2.1m for the period July 2019 to August 2019.

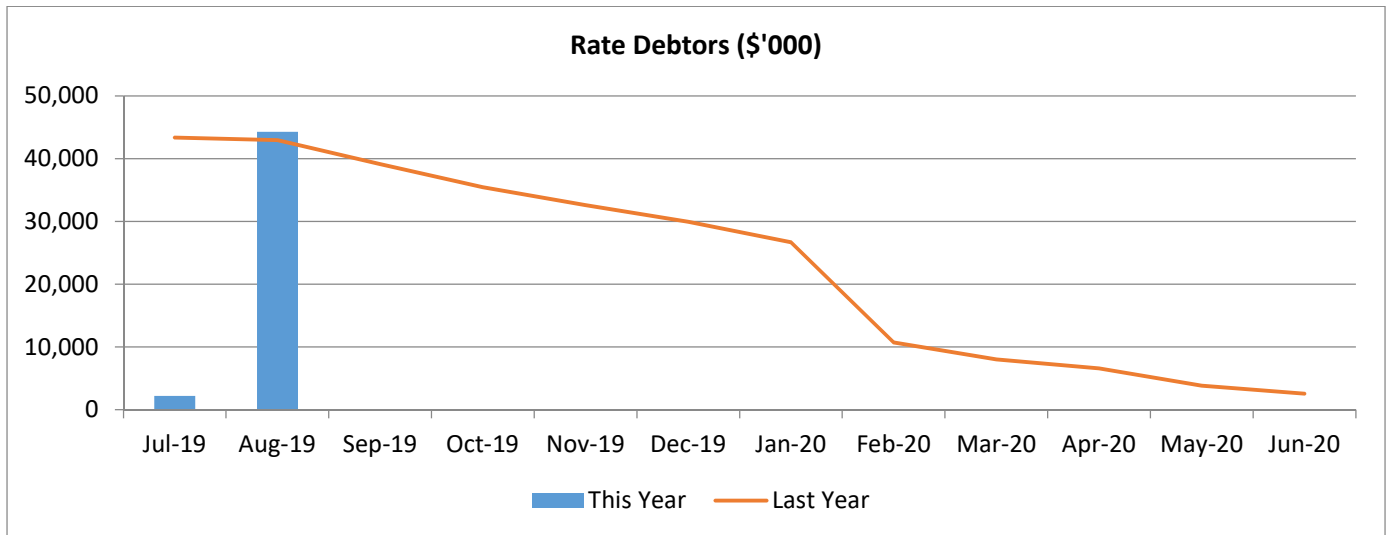


More than half of the capital expenditure for the period July 2019 to August 2019 was on Roads and Buildings. The largest individual projects being Sealed Rehabilitation Program (\$157K), E-Waste Sheds (\$137K) and Ruby Arawata Road Bridge (\$123K).



Rate Debtors

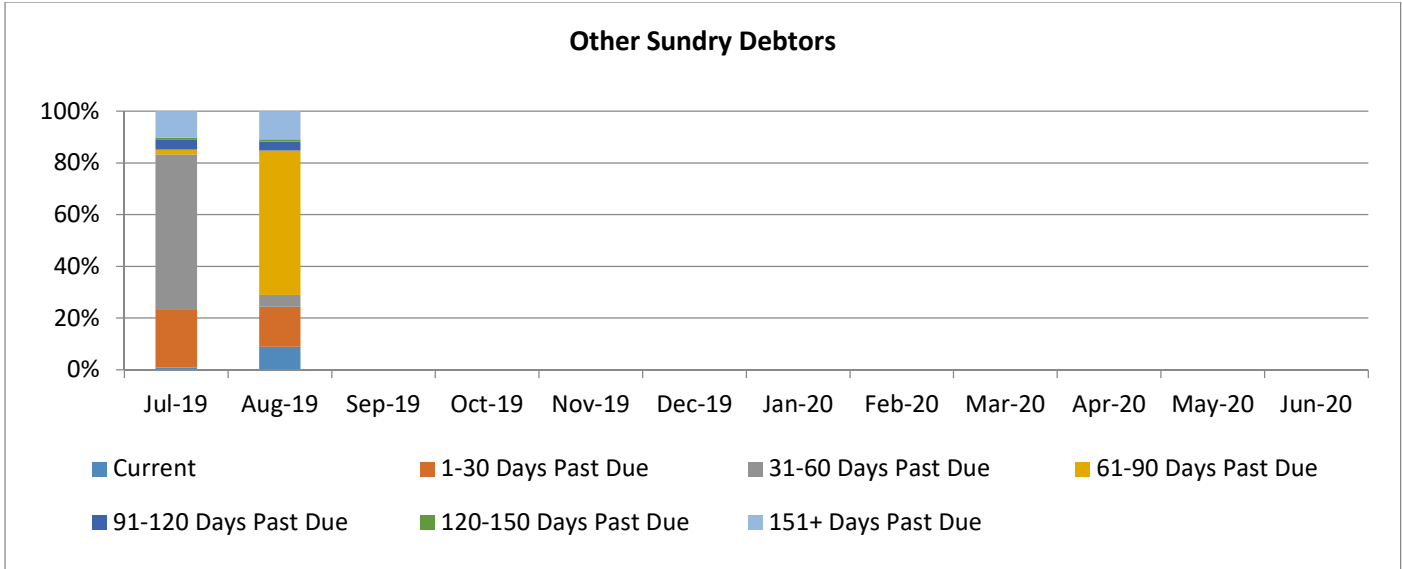
The outstanding rates balance as at August 2019 is \$44.3M. This is comparable to the outstanding rates balance the same time last year of \$42.9M at August 2018.



Other Sundry Debtors

The other sundry debtors outstanding balance as at August 2019 is \$1.5M. The other sundry debtors outstanding balance as at August 2018 was \$2.2M.

The 61-90 Days Past Due makes up approximately 56% of other sundry debtors outstanding and largely relates to 2 grants receivable for the Fixing Country Roads program. The Caravan Parks holders who have entered into payment arrangements make up a large proportion of the remaining outstanding balances greater than 30 Days Past Due.



Long Term Financial Plan Analysis

This section benchmarks and strategically analyses the financial impact of the year’s forecast financial results against the adopted Annual Budget, Long Term Financial Plan and the Long Term Financial Strategies key performance indicators.

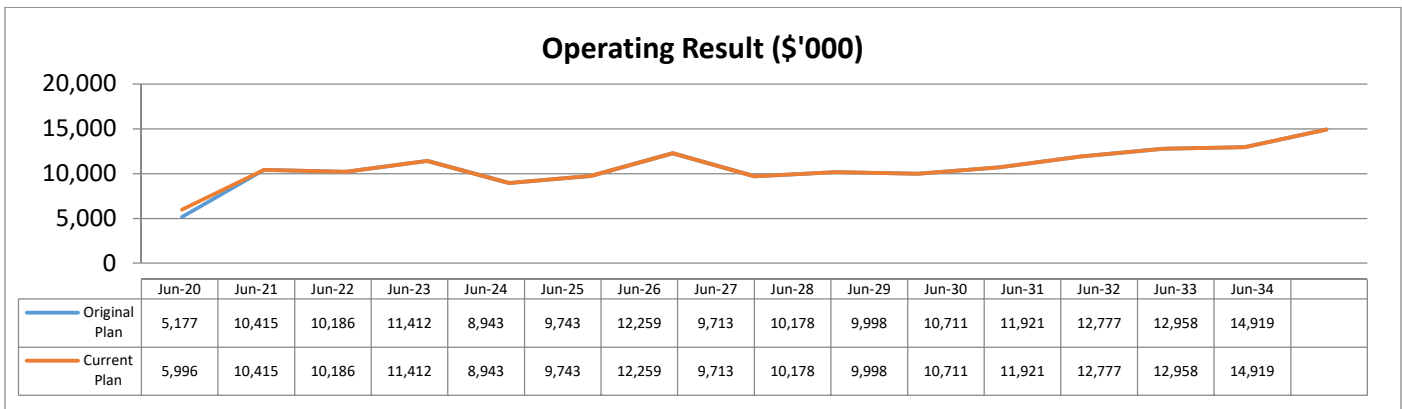
The Long Term Financial Plan analysis report compares the current 2019/20 Budget and Long Term Financial Plan forecasts to the original plan. The Annual Budget and Long Term Financial Plan were adopted for 2019/20 on 31 July 2019.

The lines in the following graphs are as follows:

- Original Plan – Blue Line – Original 2019/20 Budget and Long Term Financial Plan
- Current Plan – Red Line – Forecast 2019/20 and Long Term Financial Plan

Operating Result (including gain/loss on asset disposals)

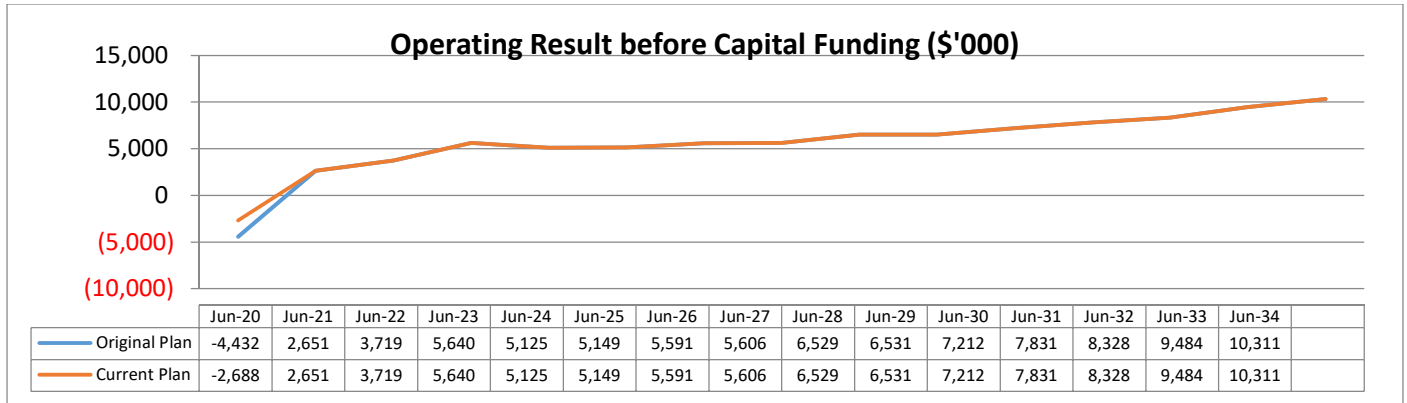
The projected operating results in the forward budget are in line with the adopted 2019/20 budget.



Operating Result before Capital Funding

The operating result before capital funding is sometimes referred to as the underlying financial result. Capital grants and contributions that artificially improve the operating result are removed to disclose the true underlying financial result.

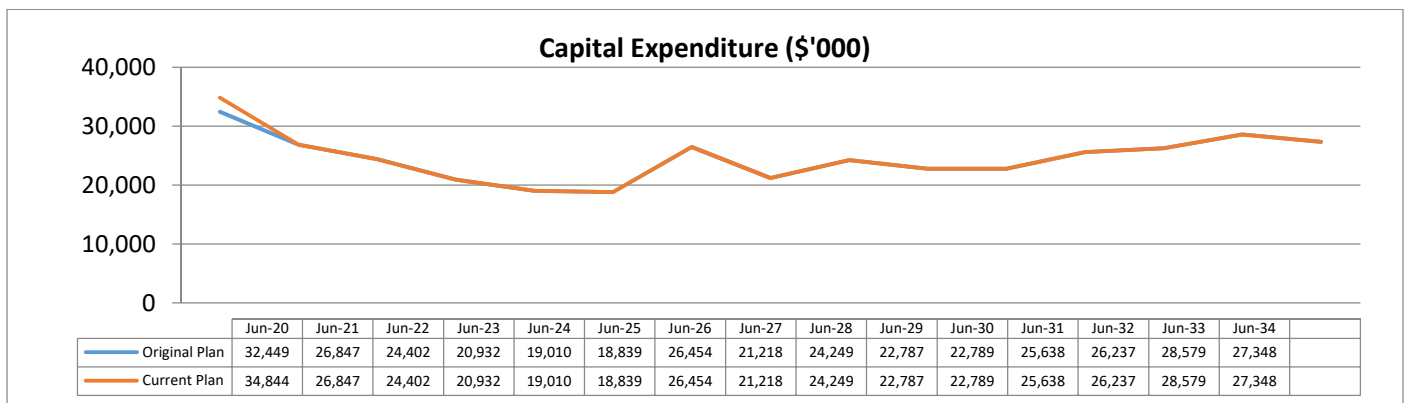
The underlying result shows more clearly the income sources relative to the expenses for Council's recurrent operating activities. The current plan's underlying result projection maintains parity with the original plan.



Capital Expenditure

The current year's capital expenditure is projected to be \$2.4M more than the original plan. This is due primarily to the carrying forward of projects from 2018/19 to 2019/20 where the capital spend in that year was below the original plan.

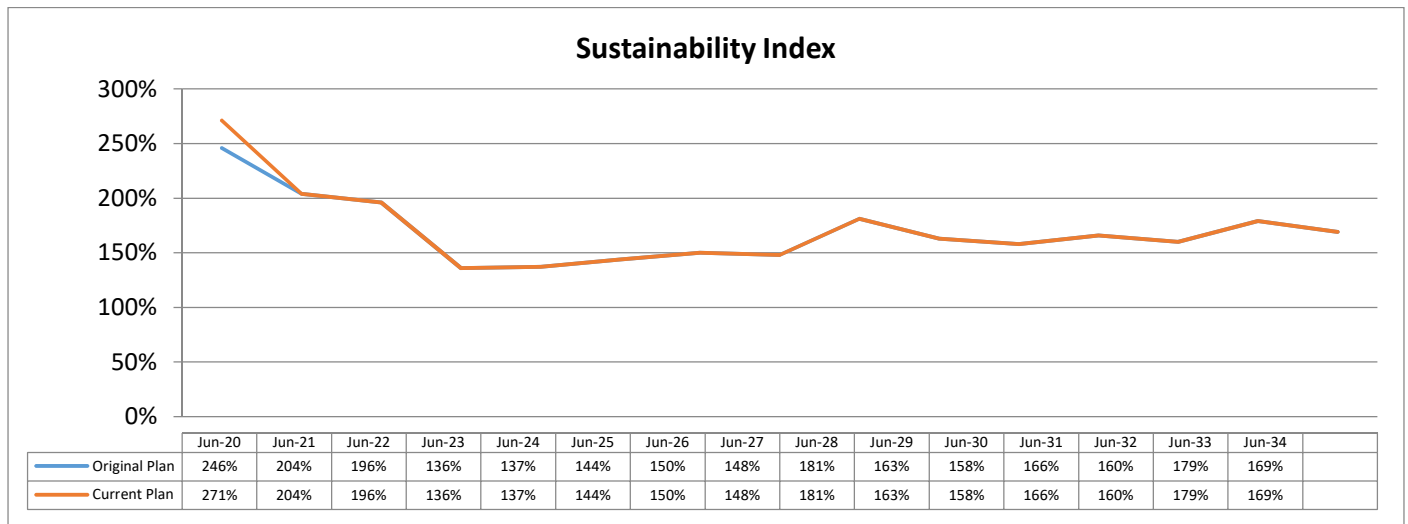
The capital program maintains parity in line with the adopted original budget over the life of the plan.



Sustainability Index for Capital Assets

The 'Sustainability Indicator' assesses asset renewal and upgrade expenditure spend effort over a period of time.

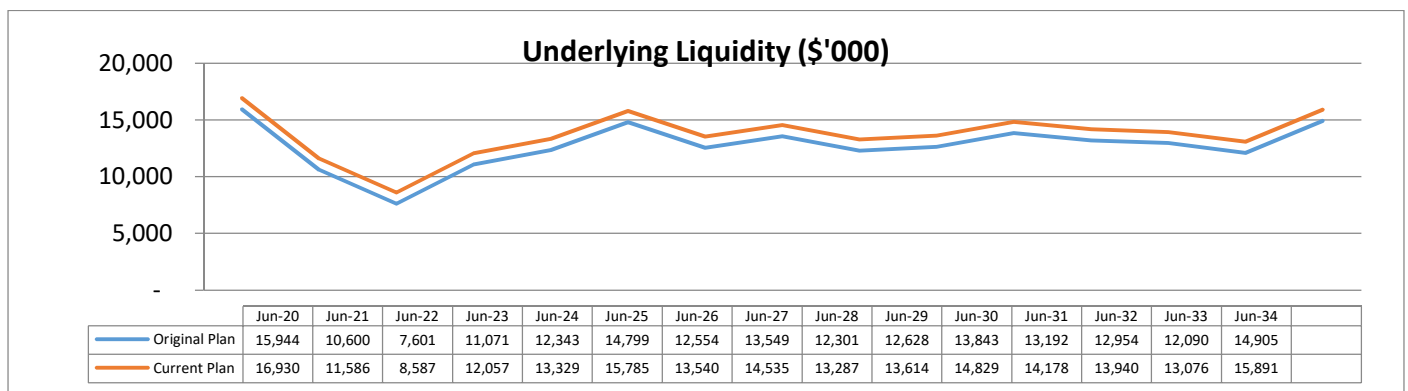
The sustainability index has remained in line with the original budget. The improvement in 2019/20 is due to carrying forward renewal and upgrade expenditure from 2018/19.



Underlying Liquidity

Underlying liquidity represents cash and investments at a point in time excluding internal reserves.

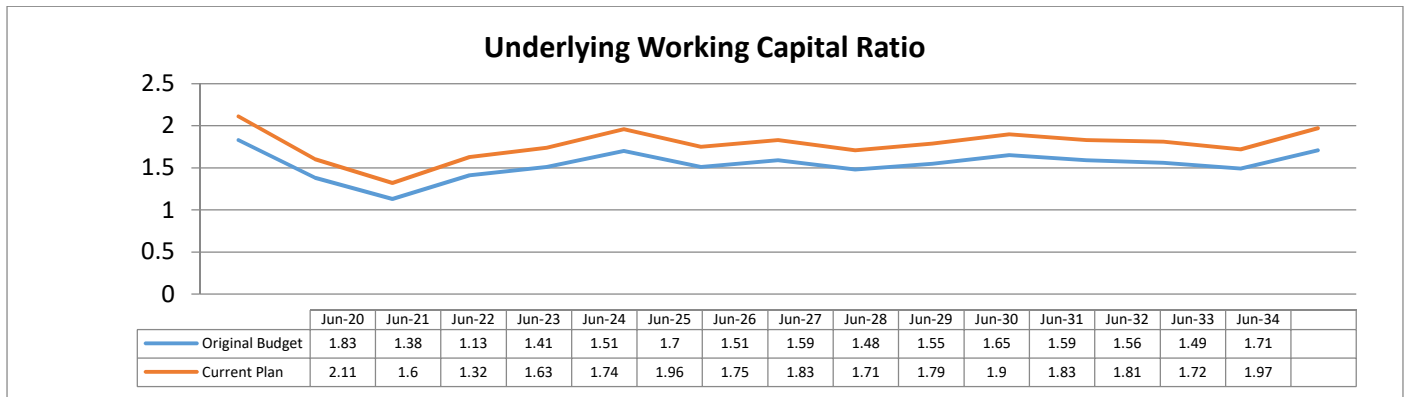
The current plan's forecast underlying cash position is slightly better than that of the original plan due to a favourable cash result in 2018/19.



Underlying Working Capital Ratio

The underlying working capital ratio assesses the relationships between current assets and liabilities in the Balance Sheet after excluding cash backed reserves. It is a very important strategic financial indicator.

The underlying working capital ratio across the plan is marginally better than the original plan due to a favourable 2018/19 cash result.



Conclusion – Long Term Financial Impact

Council manages its Long Term Financial position continuously by reference to a number of strategic financial indicators. These indicators form part of Council's Long Term Financial Strategies and are listed below.

The following financial indicators are used as measures for the 2019/20 Annual Budget:

- Underlying result >0%
- Underlying working capital ratio >1.25%
- Self-financing >20%
- Sustainability Index >95%
- Indebtedness < 40%
- Total Debt as a % of Rate revenue <60%
- Debt servicing costs as a % of Total revenue <5%

The proposed budget graphic below represents the Original adopted budget and the current Projected Actual position. The Projected Actual position is slightly changed to the Original budget as a result of updating the 2018/19 final results and carrying forward incomplete projects from 2018/19.

Projected Actual	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Financial performance															
Underlying result	-4.44%	4.08%	5.68%	8.28%	7.41%	7.24%	7.64%	7.46%	8.44%	8.20%	8.80%	9.30%	9.62%	10.65%	11.26%
Underlying Working Capital	2.11	1.60	1.32	1.63	1.74	1.96	1.75	1.83	1.71	1.79	1.90	1.83	1.81	1.72	1.97
Funding capacity															
Self-financing	25.59%	30.70%	31.27%	30.74%	29.15%	29.49%	31.71%	29.39%	29.09%	28.61%	29.05%	29.47%	29.63%	31.10%	31.97%
Sustainability Index	271%	204%	196%	136%	137%	144%	150%	148%	181%	163%	158%	166%	160%	179%	169%
Borrowing capacity															
Indebtedness	13.11%	12.24%	11.38%	10.39%	9.74%	8.97%	8.23%	7.53%	6.84%	6.73%	6.67%	6.58%	6.49%	6.53%	6.49%
Total Debt as a % of Rate revenue	7.51%	6.53%	5.60%	4.70%	3.84%	3.02%	2.23%	1.47%	0.75%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
Debt servicing costs as a % of Total revenue	0.16%	0.07%	0.06%	0.05%	0.04%	0.04%	0.03%	0.02%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2019/20 Original Budget															
Financial performance															
Underlying result	-7.65%	4.08%	5.68%	8.28%	7.41%	7.24%	7.64%	7.46%	8.44%	8.20%	8.80%	9.30%	9.62%	10.65%	11.26%
Underlying Working Capital	1.83	1.38	1.13	1.41	1.51	1.70	1.51	1.59	1.48	1.55	1.65	1.59	1.56	1.49	1.71
Funding capacity															
Self-financing	25.01%	30.70%	31.27%	30.74%	29.15%	29.49%	31.71%	29.39%	29.09%	28.61%	29.05%	29.47%	29.63%	31.10%	31.97%
Sustainability Index	246%	204%	196%	136%	137%	144%	150%	148%	181%	163%	158%	166%	160%	179%	169%
Borrowing capacity															
Indebtedness	9.88%	9.09%	8.32%	7.46%	6.85%	6.16%	5.50%	4.88%	4.27%	4.23%	4.25%	4.23%	4.22%	4.30%	4.32%
Total Debt as a % of Rate revenue	7.51%	6.53%	5.60%	4.70%	3.84%	3.02%	2.23%	1.47%	0.75%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
Debt servicing costs as a % of Total revenue	0.16%	0.07%	0.06%	0.05%	0.04%	0.04%	0.03%	0.02%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Ratios coloured green denote low risk, yellow medium risk and red indicates either short term/immediate sustainability concerns.

The 'Underlying Result' compares recurrent income and recurrent expenditure. The underlying result is forecast to be in the yellow zone in 2019/20 as a result of having to bring to account \$4.92m of Victoria Grants Commission allocation for 2019/20 in the prior financial year (2018/19) because it was received in June 2019. The dipping of the ratio into the yellow zone does not present any strategic concern.

The 'Underlying Working Capital' assesses Balance Sheet strength and in particular Council's ability to pay existing liabilities. In the forward plan, the ratio exceeds the strategic target of 1.25 to 1 in all forward years. Council has limited financial capacity to accommodate unforeseen strategic opportunities or unavoidable cost events that may arise in future years.

The 'Self Financing' indicator compares net operating cash flows to underlying revenue and capital grants. It is forecast to be in the green zone in all the forward budgets.

The 'Sustainability Indicator' assesses asset renewal and upgrade expenditure spend effort over a period of time as a percentage of depreciation expense. In the forward years it remains in the green. It is worth noting that there are no asset renewal primary funding gaps for all major classes of assets over the 15 year Long Term Financial Plan. There are adequate funds for recurrent cost requirements for all major asset classes for the current defined service levels as documented in Asset Management Plans.

The three borrowing capacity indicators, 'Indebtedness', 'Total Debt as a percentage of Rate Revenue' and 'Debt Servicing Costs as a percentage of Total Revenue' are forecast to be in the green zone for 2019/20 and all the forward budgets. Due to the inherent strength of the Balance Sheet, Council has borrowing capacity in the forward years if it wishes to consider funding additional capital upgrade or extension projects.

The key financial performance indicators in the Long Term Financial Plan serve as very important lead indicators to identify future years' financial ramifications of decisions that are made in the present period.

The 2019/20 Proposed Budget / Long Term Financial Plan is financially sustainable. Council will continue to monitor the Long Term Financial Plan in line with the Long Term Financial Strategies on a month by month basis to ensure that it remains that way.