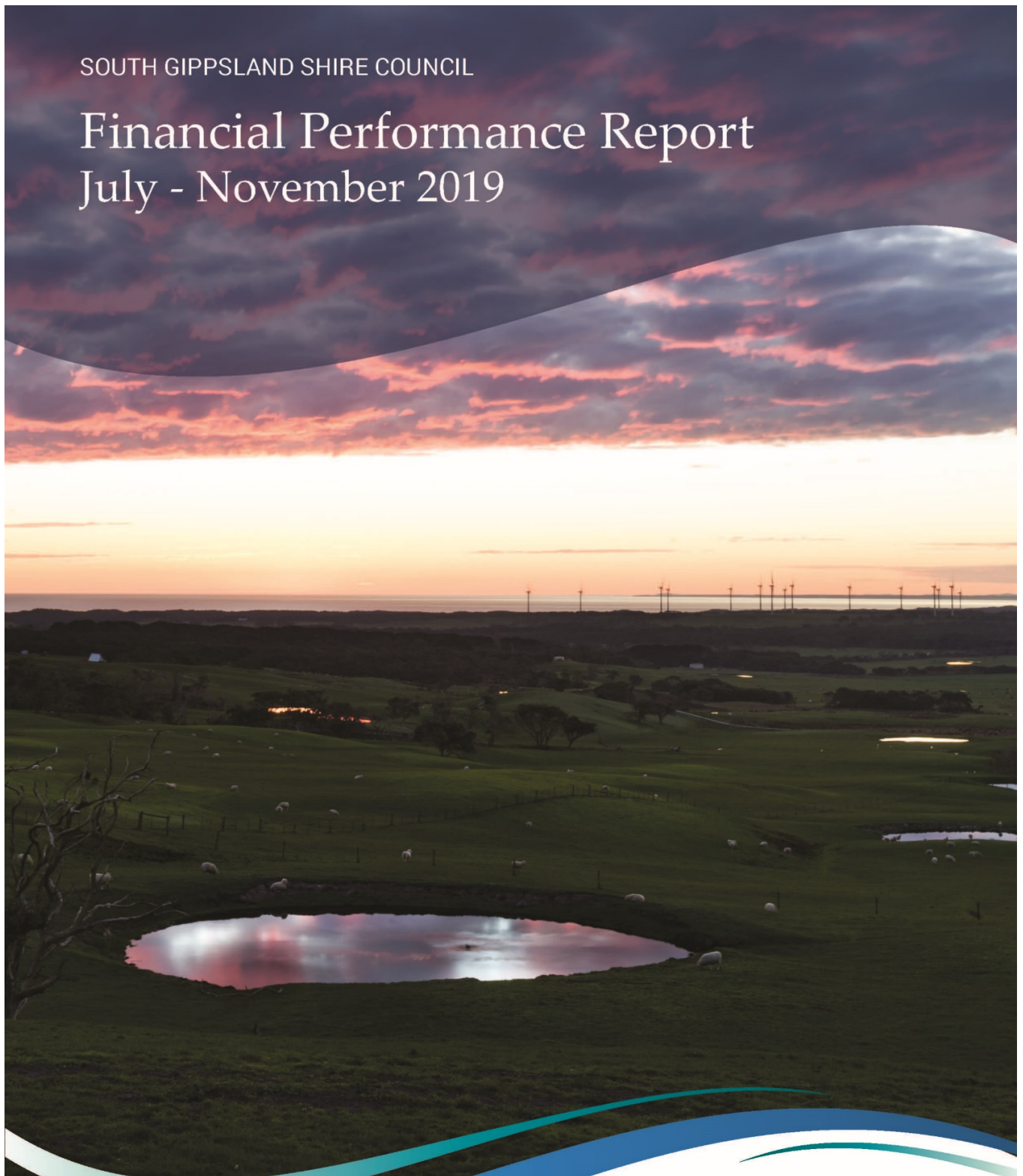


SOUTH GIPPSLAND SHIRE COUNCIL

Financial Performance Report July - November 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 Ratio	The ratio is the relative proportion of an entity's current assets to its current liabilities, and shows the ability of a business to pay for its current liabilities with its current assets.

Executive Summary

The financial performance report for the five months to 30 November is presented for Council's information.

Operating Statement

The Year to Date (YTD) surplus of \$2.34M compares favourably with the YTD budget deficit of \$0.94M by \$3.28M. This is largely made up of higher YTD capital grants due to \$0.83M Roads to Recovery being received in November but expected in December, as well as lower YTD materials and consumables of \$1.3M across a number of areas, most significantly the resheeting program being \$0.59M behind schedule due to difficulties obtaining materials so far this year.

The Forecast is projecting a \$4.91M surplus for the end of the financial year. This is comparable to the Original Budget surplus of \$5.17M. The slight decrease is due to an increase in projected total expenses of \$0.64M largely due to projects carried forward from 2018/19. This is offset by an increase in projected total income of \$0.37M as a result of carrying forward the related grants from 2018/19 as well as adjusting other capital grants projected.

Further detail can be found under the Financial Statements section, "Income Statement for the period ending 30th November 2019".

Capital Expenditure

The YTD result for capital expenditure shows that Council is behind the YTD budget by \$1.31M with actual expenditure of \$4.22M compared to YTD budget of \$5.53M. This is largely made up of variances for Buildings of \$0.29M due to Caravan Park work that has since been pushed back to 2020/21, Computers and telecommunications of \$0.79M due to various projects on hold for shared services arrangements and Roads of \$0.36M in the sealed rehabilitation program.

The forecast capital expenditure for 19/20 is now \$33.44M. This is \$0.99M more than the original budget adopted by Council for the 19/20 financial year. The increase is due to a \$2.2M projected increase in roads capital works from projects carried forward from 2018/19, offset by a decrease in projected buildings capital works by \$1.8M from the Korumburra Community Hub being postponed to 2020/21.

Further detail can be found under the Financial Statements Section, "Statement of Capital Works for the period ending 30 November 2019".

Cash

During the five months to the end of November, there was an overall increase in cash of \$0.43M from \$7.0M opening cash to \$7.43M closing cash. The net result was made up of a negative operating activities of \$0.14M, positive investing activities of \$4.01M and negative financing activities of \$3.44M as a result of a loan maturing in November.

Cash and cash equivalents of \$7.43M is made up of cash at bank of \$4.68M and short-term investments (with original maturity dates of less than 90 days) of \$2.75M.

Total cash and investments held at the end of August was \$27.71M, which includes cash and cash equivalents of \$7.43M and other financial assets (Term Deposit investments with original maturity dates greater than 90 days) of \$20.28M. Cash on hand and investments are predominantly held to fund current and future budgeted capital works, future reserve expenses, employee entitlements and current working capital.

Projected cash to be held at the end of the financial year including all investments is \$19.18M. This is \$1.12M 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. This will be used to fund future planned capital works.

Further details on cash can be found under the Financial Statements section, "Cash Flow Statement for the period ended 30 November 2019".

[Long Term Financial Plan](#)

The Long Term Financial Plan has been updated to reflect the current forecast for 2019/20 as well as changes as a result of preparing for the 2020/21 budget. See further details in the Long Term Financial Plan Analysis.

Financial Statements

Income Statement for the period ended 30 November 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	18,372	18,357	15	43,869	43,869	0
Statutory fees and fines	380	385	(5)	919	924	5
User fees	1,515	1,431	84	4,335	4,229	(106)
Grants - operating	5,006	4,853	153	6,609	9,289	2,680 ¹
Grants - capital	1,186	362	824 ²	8,406	6,080	(2,326) ³
Contributions - monetary	88	18	70	1,140	1,185	45
Contributions - non monetary	0	0	0	395	395	0
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	(93)	(52)	(41)	145	229	84
Other income	761	711	50	1,710	1,701	(9)
TOTAL INCOME	27,215	26,065	1,150	67,528	67,901	373
Expenses						
Employee costs	10,095	10,446	351 ⁴	24,817	25,084	(267) ⁵
Materials and consumables	8,598	9,922	1,324 ⁶	21,909	22,755	(846) ⁷
Bad and doubtful debts	3	0	(3)	0	0	0
Depreciation	4,628	4,907	279 ⁸	11,939	11,778	161 ⁹
Borrowing costs	72	45	(27)	108	108	0
Other expenses	1,484	1,687	203 ¹⁰	3,581	3,267	314 ¹¹
TOTAL EXPENSES	24,880	27,007	2,127	62,354	62,992	(638)
SURPLUS / (DEFICIT)	2,335	(942)	3,277	5,174	4,909	(265)

¹ Higher projected operating grants is due to \$2.3M carried forward from 2018/19 and an increase in VGC allocation projected of \$216K.

² Higher YTD capital grants compared to YTD forecast is due to \$830K received for Roads to Recovery that was not expected until December.

³ Lower projected capital grants compared to the original budget is due to a reduction in projected grants for Korumburra Community Hub (\$1.1M) and Great Southern Rail Trail (\$1.5M), net of an additional grant for Federal Blackspot Program of \$12M.

⁴ Lower YTD employee costs compared to YTD forecast is due to the profiling of super contributions creating a difference of \$200K.

⁵ Higher projected employee costs are due to including the Administrators wages not previously accounted for. This is offset by lower other expenses.

⁶ Lower YTD actual materials and consumables compared to the YTD forecast is largely made up of the following areas:

- Information Technology - \$138K made up of unspent software purchases and licenses
- Resheets - \$592K behind schedule due to difficulties obtaining materials
- Gravel Roads - \$184K behind schedule

⁷ Higher projected materials and consumables is due to projects carried forward from 2018/19.

⁸ Lower YTD depreciation is due to fewer capital expenditure additions than expected.

⁹ Lower projected depreciation is due to updating forecasts based on 2018/19 fixed asset additions and valuations that were not available for the original budget.

¹⁰ Lower YTD other expenses is due to lower library contributions compared to forecast.

¹¹ Lower projected other expenses are as result of taking out Councillor allowances that were previously included in the original budget. This is offset by higher employee costs.

Balance Sheet as at 30 November 2019

	YTD	Full Year		
	Actual \$'000	Original Budget \$'000	Forecast \$'000	Forecast Variance (Forecast v Original) \$'000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	7,434	9,062	6,903	(2,159)
Trade and other receivables	40,679	5,610	5,518	(92)
Other financial assets	20,276	9,000	12,273	3,273
Inventories	229	281	240	(41)
Other assets	0	61	58	(3)
	68,618	24,014	24,992	978
NON CURRENT ASSETS				
Investments in associates and joint ventures	1,359	1,237	1,358	121
Property, infrastructure, plant and equipment	551,772	576,189	601,050	24,861
Investment property	586	763	587	(176)
	553,717	578,189	602,995	24,806
TOTAL ASSETS	622,335	602,203	627,987	25,784
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	6,031	3,883	3,503	(380)
Trust funds and deposits	878	911	1,025	114
Provisions	5,947	6,811	5,936	(875)
Interest bearing loans and borrowings	220	340	340	0
Unearned revenue	25,322	0	0	0
	38,398	11,945	10,804	(1,141)
NON CURRENT LIABILITIES				
Provisions	3,763	2,084	3,732	1,648
Interest bearing loans and borrowings	0	2,953	2,953	0
	3,763	5,037	6,685	1,648
TOTAL LIABILITIES	42,161	16,982	17,489	507
NET ASSETS	580,174	585,221	610,498	25,277
REPRESENTED BY				
Accumulated Surplus	227,048	232,604	234,579	1,975
Reserves	353,126	352,617	375,919	23,302
TOTAL EQUITY	580,174	585,221	610,498	25,277

Cash Flow Statement for the period ended 30 November 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	12,167	43,869	43,869	0
Statutory fees and fines	380	919	924	5
User fees	1,248	4,335	4,229	(106)
Grants - operating	5,006	6,609	9,289	2,680
Grants - capital	1,186	8,407	6,081	(2,326)
Contributions- monetary	88	1,140	1,185	45
Interest received	356	550	550	0
Other receipts	476	1,161	1,152	(9)
Employee costs	(10,849)	(24,712)	(24,979)	(267)
Materials and services	(8,713)	(21,909)	(22,755)	(846)
Other payments	(1,484)	(3,581)	(3,267)	314
Net cash provided by / (used in) operating activities	(139)	16,788	16,278	(510)
<u>Cash flows from investing activities</u>				
Payments for property, infrastructure, plant and equipment	(4,215)	(32,449)	(33,438)	(989)
Proceeds from sale of property, infrastructure, plant and equipment	228	1,145	1,228	83
Payments (for) / from other financial assets	7,997	7,000	16,000	9,000 ¹
Net cash provided by / (used in) investing activities	4,010	(24,304)	(16,210)	8,094
<u>Cash flows from financing activities</u>				
Finance costs	(87)	(108)	(108)	0
Proceeds from borrowing	0	3,600	3,600	0
Repayment of borrowings	(3,350)	(3,657)	(3,657)	0
Net cash provided by / (used in) financing activities	(3,437)	(165)	(165)	0
Net increase / (decrease) in cash and cash equivalents	434	(7,681)	(97)	7,584
Cash and cash equivalents at the beginning of the financial year	7,000	16,743	7,000	(9,743) ²
Cash and cash equivalents at the end of the period	7,434	9,062	6,903	(2,159)

¹The original budget assumed cash and cash equivalents at the beginning of the financial year of \$16.7M. The actual beginning cash and cash equivalents was \$7.0M as a result of reclassifying investments to other financial assets. To keep cash flows consistent, the projected proceeds from financial assets was increased by \$9M.

² See above Note 1

Statement of Capital Works for the period ended 30 November 2019

	YTD			Full Year		
	Actual \$'000	Forecast \$'000	Variance (Actual v Forecast) \$'000	Original Budget \$'000	Forecast \$'000	Forecast Variance (Forecast v Original) \$'000
Property						
Buildings	459	746	(287) ¹	4,693	2,852	(1,841) ²
TOTAL PROPERTY	459	746	(287)	4,693	2,787	(1,906)
Plant and equipment						
Plant, machinery and equipment	985	524	461 ³	3,615	3,645	30
Computers and telecommunications	142	930	(788) ⁴	1,999	2,054	55
TOTAL PLANT AND EQUIPMENT	1,127	1,454	(327)	5,614	5,699	85
Infrastructure						
Roads	1,533	1,888	(355) ⁵	6,809	8,978	2,169 ⁶
Bridges	201	307	(106)	916	1,018	102
Major Culverts	3	40	(37)	95	95	0
Footpaths and cycleways	171	185	(14)	2,801	2,957	156
Drainage	106	107	(1)	100	260	160
Other infrastructure	623	803	(180)	11,421	11,580	159
TOTAL INFRASTRUCTURE	2,637	3,330	(693)	22,142	24,888	2,746
TOTAL CAPITAL WORKS EXPENDITURE	4,223	5,530	(1,307)	32,449	33,439	990
Represented by:						
Asset renewal expenditure	3,631	4,818	(1,187)	27,889	28,235	346
Asset expansion expenditure	328	389	(61)	3,764	4,333	569
Asset upgrade expenditure	264	323	(59)	796	871	75
TOTAL CAPITAL WORKS EXPENDITURE	4,223	5,530	(1,307)	32,449	33,439	990

¹ Lower YTD buildings capital works is due to capital works for Long Jetty and Yanakie Caravan Parks not starting. These projects have since been pushed to the 2020/21 year.

² Lower projected buildings capital works is due to \$2M for Korumburra Community Hub postponed until 20/21.

³ Higher YTD plant, machinery and equipment purchases is due to a purchase of a \$429K CAT grader that was not forecasted until April 2020.

⁴ Lower YTD IT capital works is due to projects on hold for Shared services arrangements in place.

⁵ Lower YTD roads capital works is due to Sealed Rehabilitation Program being behind schedule.

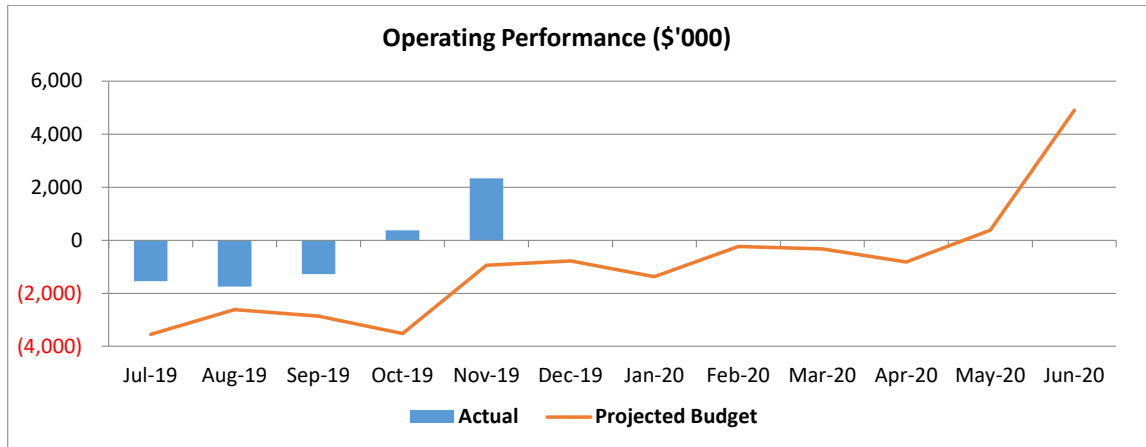
⁶ Higher projected roads capital works is due to works carried forward from 18/19.

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.

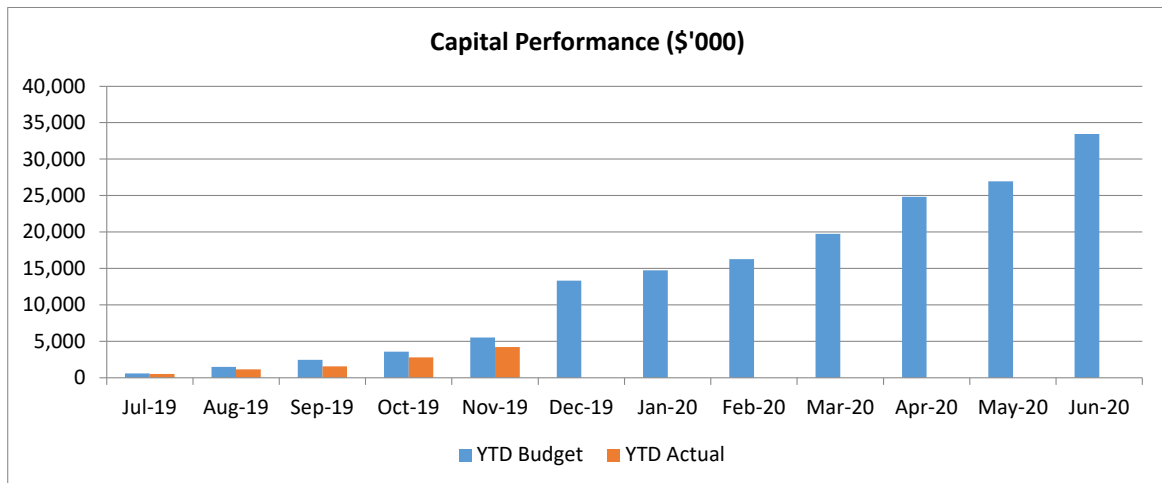
Operating Performance

The operating result is \$2.3M surplus for the period July 2019 to November 2019. This is a favourable variation of \$3.2M compared to the projected budget deficit of \$0.9M for the period July 2019 to November 2019. This variation is due to timing of actual costs compared to year to date budgets.

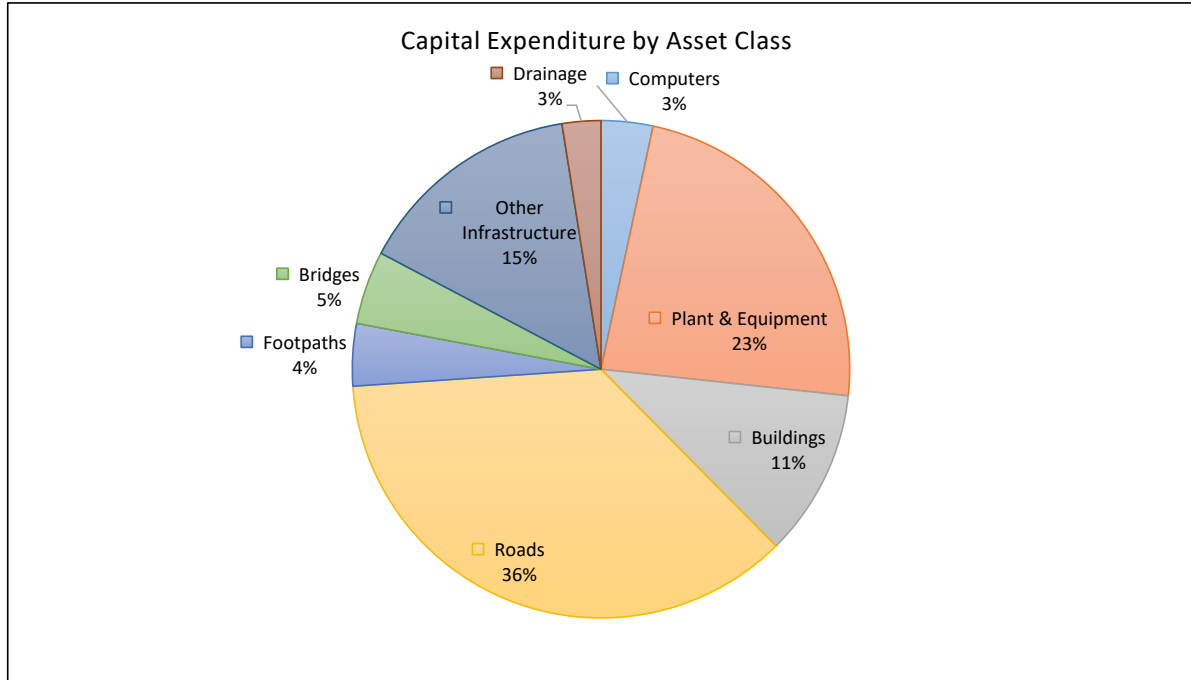


Capital Performance

The capital expenditure is \$4.2M for the period July 2019 to November 2019. This is \$1.3M behind the projected budget of \$5.5M for the period July 2019 to November 2019. Further detail can be found on the Statement of Capital Works for the period ended 30th November 2019 on Page 6.

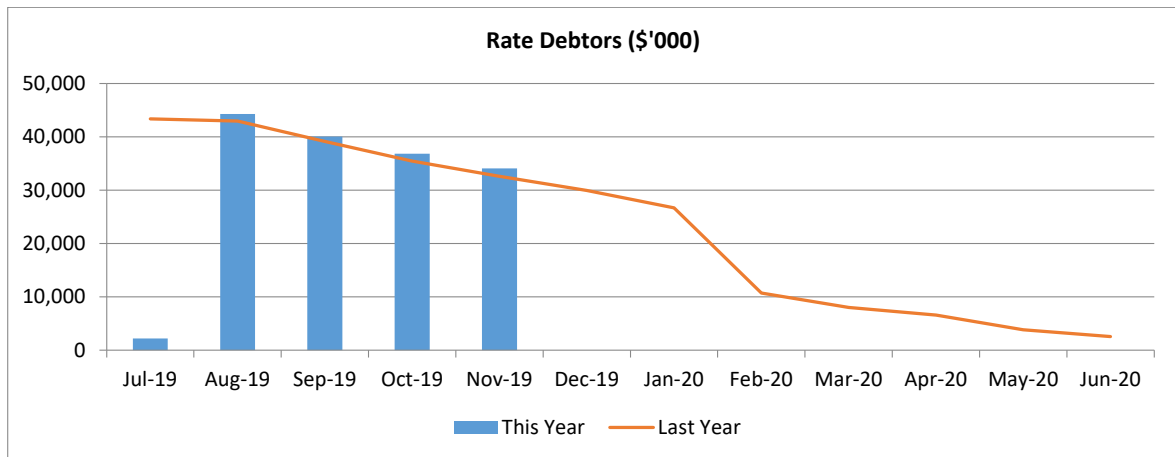


More than half of the capital expenditure for the period July 2019 to November 2019 was on Roads and Plant & Equipment. The largest individual projects and purchases being Loch Main Street Renewal (\$508K), a new Cat Grader (\$429K), Sealed Rehabilitation Program (\$337K), Federal Blackspot Program (\$274K) and E-Waste Sheds (\$259K).



Rate Debtors

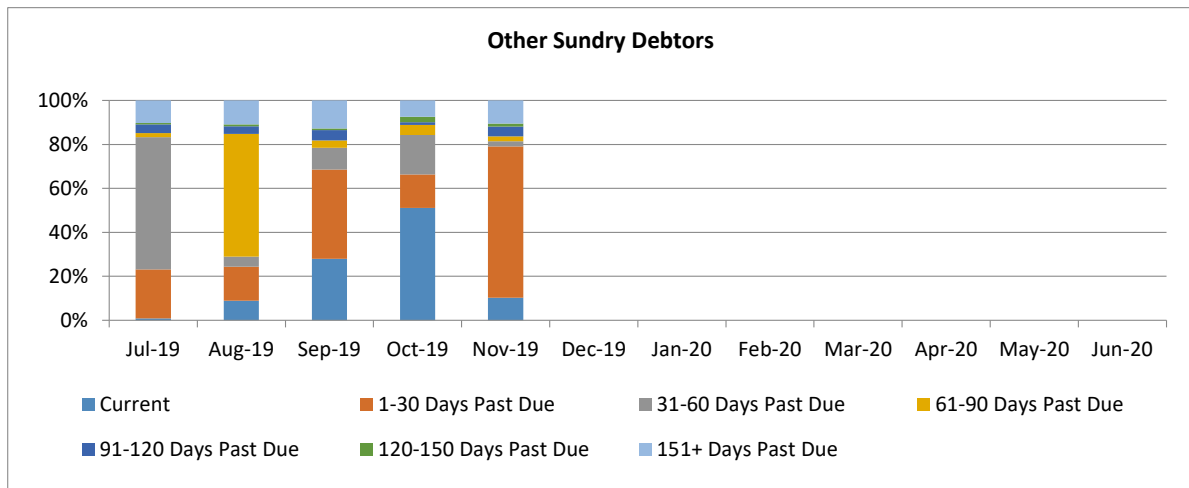
The outstanding rates balance as at November 2019 is \$34.1M. This is comparable to the outstanding rates balance the same time last year of \$32.6M at November 2018.



Other Sundry Debtors

The other sundry debtors outstanding balance as at November 2019 is \$2.1M. The other sundry debtors outstanding balance as at November 2018 was \$1.7M.

Approximately 79% of other sundry debtors outstanding are current or 1-30 Days Past Due. 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.

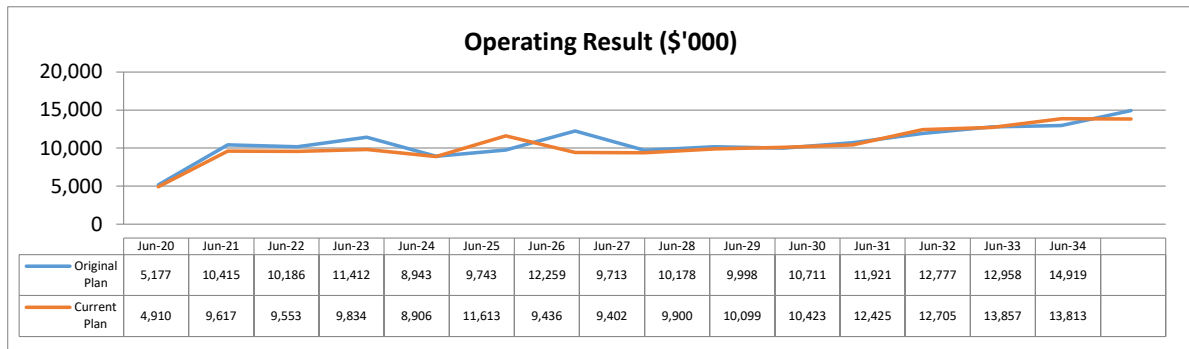
The Long Term Financial Plan analysis report compares the current 2019/20 Budget and Long Term Financial Plan forecasts to the original plan. The Annual Budget and Long Term Financial Plan were adopted for 2019/20 on 31 July 2019.

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)

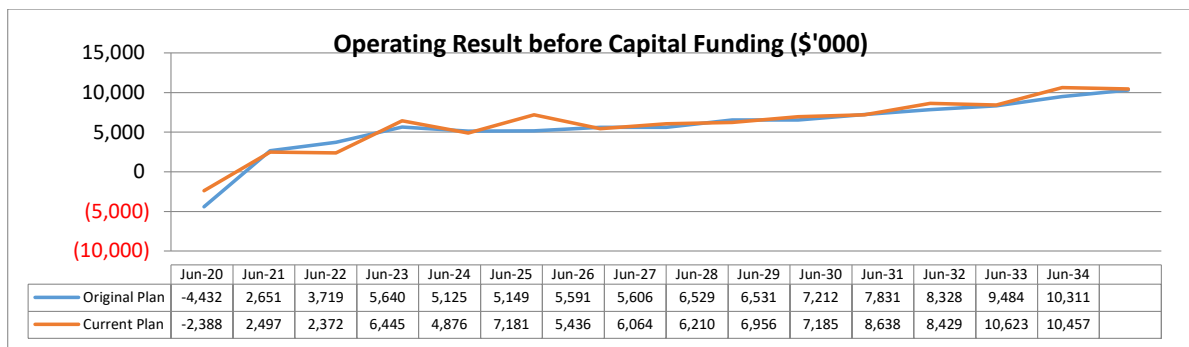
The projected operating results in the forward budget are overall in line with the adopted 2019/20 budget.



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.

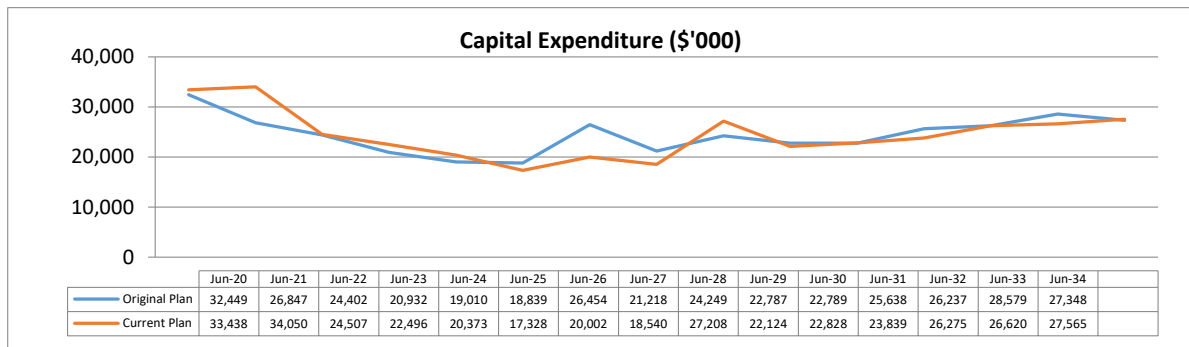
The underlying result shows more clearly the income sources relative to the expenses for Council’s recurrent operating activities. The current plan’s underlying result projection largely maintains parity with the original plan.



Capital Expenditure

The current year’s capital expenditure is projected to be \$1M 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 2020/21 year capital expenditure is projected to be \$7.3M more than the original plan due to proposed additional capital works.

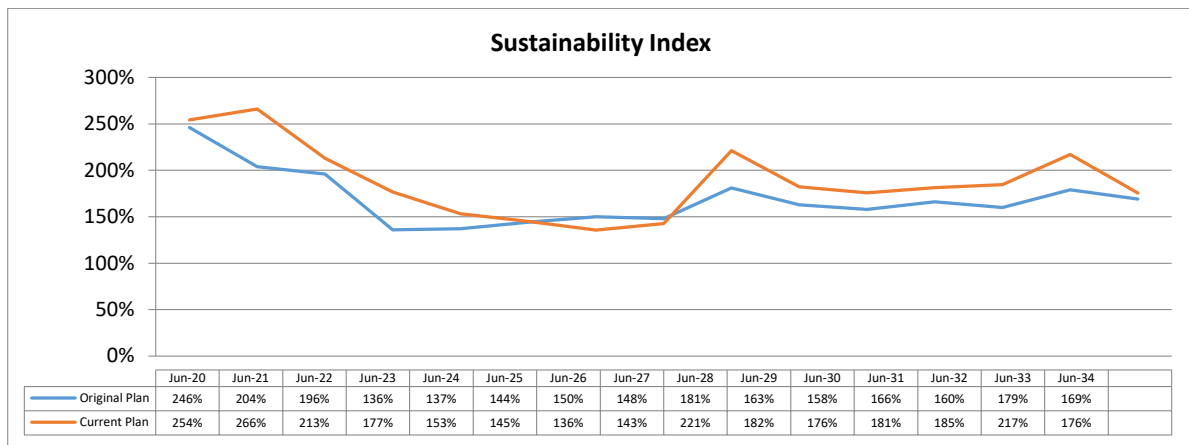
In future years, the capital program maintains parity in line with the adopted original budget over the life of the plan.



Sustainability Index for Capital Assets

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

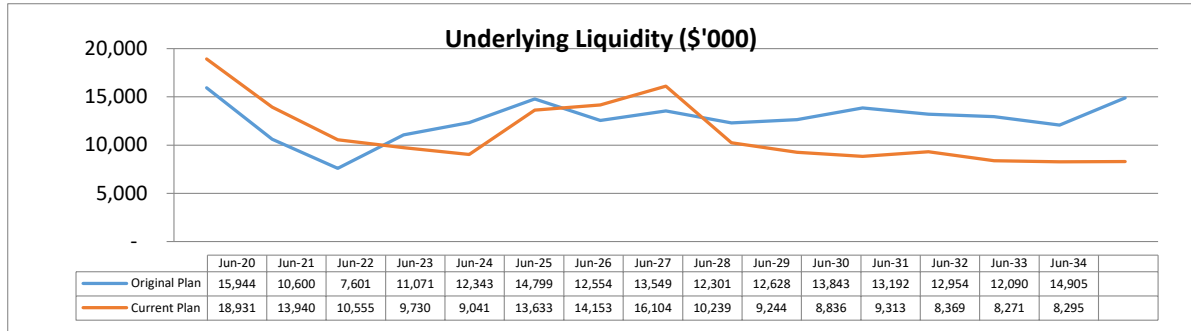
The sustainability index has improved over the course of the Long Term Financial Plan due to additional update and renewal capital works planned.



Underlying Liquidity

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

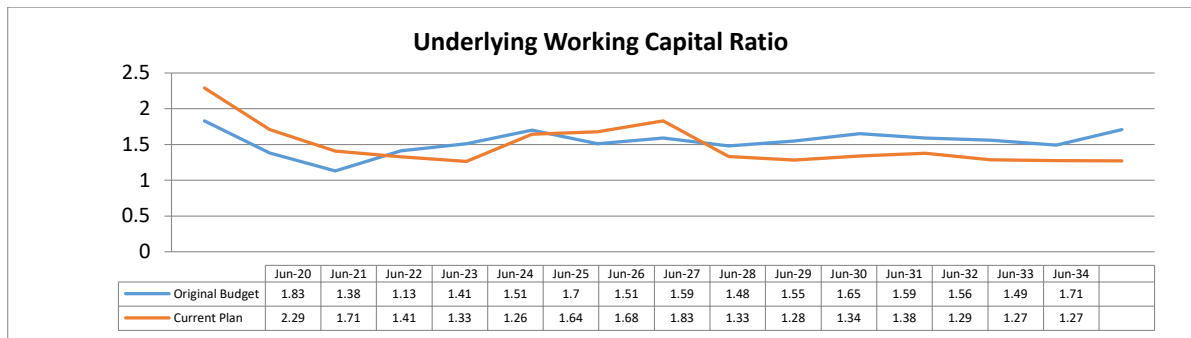
The current plan’s forecast underlying liquidity position is slightly better than that of the original plan for the current year due to a favourable cash result in 2018/19. The degradation over the later years is due to building up the internal reserves.



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 has slightly improved for the current year consistent with higher projected underlying liquidity. The degradation in later years is consistent with the underlying liquidity.



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%
- 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 changed to the Original budget reflecting the current forecast for 2019/20 as well as changes as a result of preparing for the 2020/21 budget.

	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
Projected Actual															
Financial performance															
Underlying result	-3.94%	3.92%	3.64%	9.38%	7.10%	9.93%	7.49%	8.14%	8.10%	8.83%	8.87%	10.38%	9.85%	12.08%	11.57%
Underlying Working Capital	2.29	1.71	1.41	1.33	1.26	1.64	1.68	1.83	1.33	1.28	1.34	1.38	1.29	1.27	1.27
Funding capacity															
Sustainability Index	254%	266%	213%	177%	153%	145%	136%	143%	221%	182%	176%	181%	185%	217%	176%
Borrowing capacity															
Indebtedness	13.12%	25.02%	22.44%	19.26%	17.46%	14.66%	12.79%	10.58%	8.42%	6.89%	6.71%	6.50%	6.41%	6.46%	6.41%
Total Debt as a % of Rate revenue	7.51%	22.90%	19.96%	17.08%	14.30%	11.61%	9.02%	6.52%	4.10%	1.77%	0.13%	0.00%	0.00%	0.00%	0.00%
Debt servicing costs as a % of Total revenue	0.16%	0.47%	0.45%	0.41%	0.35%	0.29%	0.24%	0.19%	0.13%	0.08%	0.03%	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															
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 '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.