

SOUTH GIPPSLAND SHIRE COUNCIL

Financial Performance Report for the period July 2021 to December 2021



*South Gippsland
Shire Council*

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Section 1- Financial Performance Statement

For the period 1 July 2021 to 31 December 2021

	Note	YTD ACTUAL \$'000	YTD FORECAST \$'000	YTD VARIANCE \$'000	PROPOSED ANNUAL FORECAST \$'000	ANNUAL ADJUSTED BUDGET \$'000	ANNUAL ORIGINAL BUDGET \$'000
INCOME	A1						
Rates and charges		23,394	23,365	29	46,654	46,777	46,777
Statutory fees and fines		551	551	0	1,035	1,006	1,006
User fees		1,900	1,908	(8)	4,653	4,955	4,955
Grants - operating		6,520	3,409	3,111	8,765	6,947	6,947
Grants - capital		1,275	4,608	(3,333)	12,624	12,618	10,883
Contributions							
- monetary		367	288	79	996	535	535
Contributions							
- non monetary		490	0	490	903	413	413
Net gain on disposal of PIPE		10	121	(111)	413	231	177
Other income		640	828	(188)	1,167	1,693	1,694
Total Income		35,147	35,078	69	77,210	75,175	73,387
EXPENSES	A2						
Employee costs		14,615	13,805	(810)	30,074	28,317	28,317
Materials and consumables		13,907	13,335	(572)	25,437	24,769	23,440
Depreciation		6,691	7,298	607	13,448	14,599	14,599
Borrowing costs		7	11	4	27	71	71
Other expenses		1,556	1,713	157	3,133	3,088	3,090
Total Expenses		36,776	36,162	(614)	72,119	70,844	69,517
Net Surplus / (Deficit)		(1,629)	(1,084)	(545)	5,091	4,331	3,870

1.1 Overview

The deficit as at 31 December 2021 is unfavourable to forecast by \$0.55M.

The unfavourable variance is largely due to an overspend in employee costs across all areas of \$0.82M due to grant funded labour costs including Working for Victoria and payment for the failed MAV Workcover Scheme.

Capital works expenditure is tracking at \$10.28M as compared to the year to date forecast of \$11.46M, mainly due to timing of plant and machinery purchases and infrastructure works.

The Quarter 2 forecast has been conducted across the organisation for both operating and capital budgets. Changes to the Adjusted Budget are as follows:

Operating Budget	Q2 Proposed Forecast (\$'000)	Variance Fav/(Unfav) (\$'000)
Operating income (not including capital grants listed below)	\$64.586	\$2.029
Operating expense	\$72.119	(\$1.275)
Net change		\$0.754
Capital Budget		
Capital grants	\$12.642	\$0.006
Capital expense	\$39.378	\$9.786
Carry forwards included in forecast		\$6.156

The major operating forecast changes include:

- Operating grants increased by \$1.818M including funding for Outdoor Activation, Storm Assistance, Working for Victoria and Local Roads.
- Increased employee costs of \$1.757M including Working for Victoria (\$692K) and payment towards the failed MAV Workcover scheme (\$529.5K)
- Lower depreciation costs of \$1.151M

For more detailed analysis please refer to:

Appendix 1 – Operating Forecast Changes

Appendix 2 – Capital Forecast Changes

The Local Government Act 2020 requires that the second quarterly report of a financial year must include a statement by the CEO as to whether a revised budget is required. There is no indication that a revised budget will need to be adopted for the 2021/22 financial year.

1.2 [Budget Information](#)

- The Annual Original Budget referred to in the report is the budget adopted by Council at the meeting on 23 June 2021
- The Annual Adjusted Budget is the Annual Original Budget plus carry forwards from 2020/21
- The Annual Forecast includes any adjustments identified since the adoption of the budget
- The Year to Date Forecast represents the phased Annual Forecast to 31 December 2021.

1.3 Notes to the Financial Performance Statement

A1. Operating Income

The chart below shows the categories of operating income against their respective year to date forecasts.

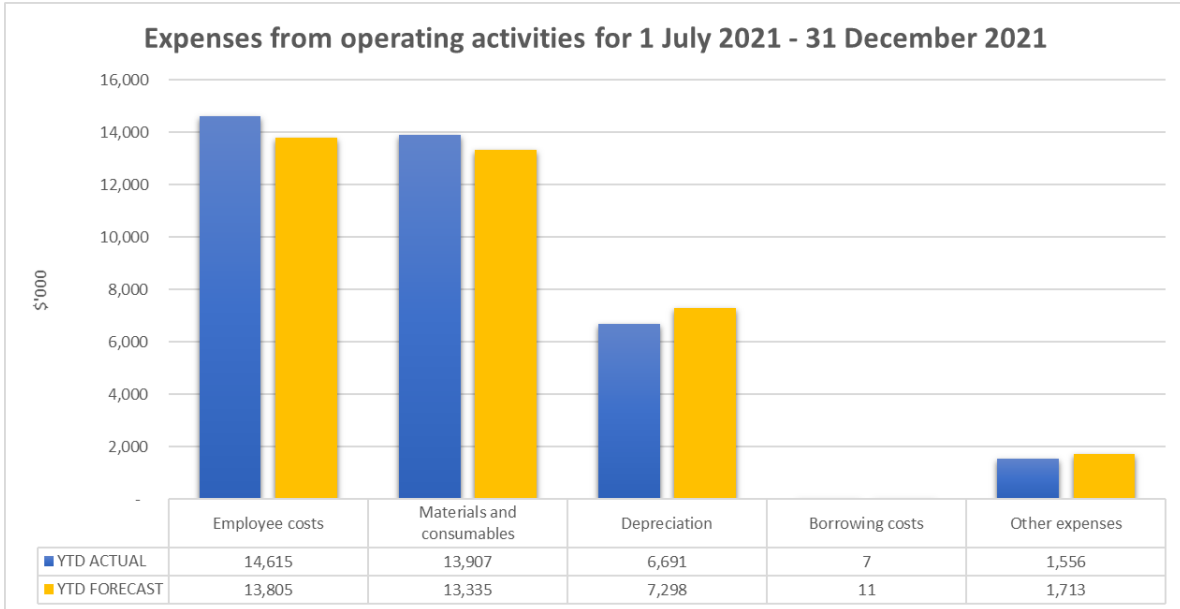


Income for the period ended 31 December 2021 is overall consistent with the forecast. Significant variances within income include:

- **Favourable – Grants - operating \$3.1M:** Due to receiving grants not budgeted for, including Working for Victoria (\$625K) and various storm events (\$2.1M). These grants are included in the Quarter 2 Forecast.
- **Unfavourable – Grants – capital (\$3.3M):** Due to grant payments not yet received for Leongatha Business Precinct Project (\$1.2M) and Great Southern Rail Trail (\$1.9M).
- **Favourable – Contributions – non-monetary \$490K:** Due to recognition of found infrastructure assets, which are not budgeted for due to their nature.
- **Unfavourable – Other income (\$188K):** Due to a \$197K variance in interest income earned, due to historically low interest rates continuing. This loss of income is reflected in the Quarter 2 forecast.

A.2 Operating Expenses

The chart below shows the categories of operating expenses against their respective year to date forecasts.



Operating expenses for the period ended 31 December 2021 is unfavourable against budget. This is primarily due to the following:

- **Unfavourable – Employee costs (\$810K):** Due to \$740K Working for Victoria labour unbudgeted for. These variances are included in the Quarter 2 forecast.
- **Unfavourable – Materials and consumables (\$573K):** Due to costs for Storm Events (\$1.9M) offset by an underspend across the rest of the organisation. Grant revenue for storm events of has also been received but not yet forecast, minimal impact on the net result.
- **Favourable – Depreciation \$607K:** Lower depreciation due to fewer capital additions completed compared to the original budget. The variance is included in the Quarter 2 Forecast.

1.4 Capital Works Statement

As at 31 December 2021

	Note	YTD ACTUAL \$'000	YTD FORECAST \$'000	YTD Variance \$'000	PROPOSED ANNUAL FORECAST \$'000	ANNUAL ADJUSTED BUDGET \$'000	ANNUAL ORIGINAL BUDGET \$'000
Property	B1						
Buildings		3,527	3,778	251	13,969	15,781	15,108
Total Property		3,527	3,778	251	13,969	15,781	15,108
Plant and equipment	B2						
Plant, machinery and equipment		1,019	1,123	104	2,738	2,919	2,919
Computers and telecommunications		438	1,020	582	2,044	2,077	956
Total Plant and Equipment		1,457	2,143	686	4,782	4,996	3,875
Infrastructure	B3						
Roads		2,111	2,122	11	9,770	12,667	12,189
Bridges		(5)	0	5	0	0	0
Major culverts		260	302	42	754	615	256
Footpaths and cycleways		1,361	1,306	(55)	3,338	5,914	5,530
Drainage		17	0	(17)	110	462	475
Car parks		0	0	0	455	215	215
Land stabilisation		4	0	(4)	0	0	0
Waste		102	142	40	457	545	109
Other infrastructure		1,449	1,662	213	5,743	7,969	6,526
Total Infrastructure		5,299	5,534	235	20,627	28,387	25,300
Total Capital Works Expenditure		10,283	11,455	1,172	39,378	49,164	44,283

Notes to the Capital Works Statement:

B1 Property

- **Under budget – Buildings \$251K:** Due to numerous projects behind schedule and partially offset by numerous projects ahead of schedule due to timing. Most notable variances include the Main Office refurbishment which is favourable to budget by \$499K as the revised project timing will result in a carry forward to 2022/23 and the Foster Indoor Stadium redevelopment unfavourable to budget by \$323K and is due to timing of expenditure.

B2 Plant and equipment

- **Under budget – Plant, machinery and equipment \$104K:** Due to timing of purchases of fleet vehicles being later than expected by \$211K, offset by plant deliveries being ahead of schedule by \$108K.
- **Under budget – Computers and telecommunications \$582K:** Due to works forecasted but not yet started.

B3 Infrastructure

- **Under budget – Other infrastructure \$213K:** Due to works forecasted at the Long Jetty and Yanakie Caravan Parks that have not yet occurred (\$293K).

1.5 Treasury

1.5.1 Cash Position

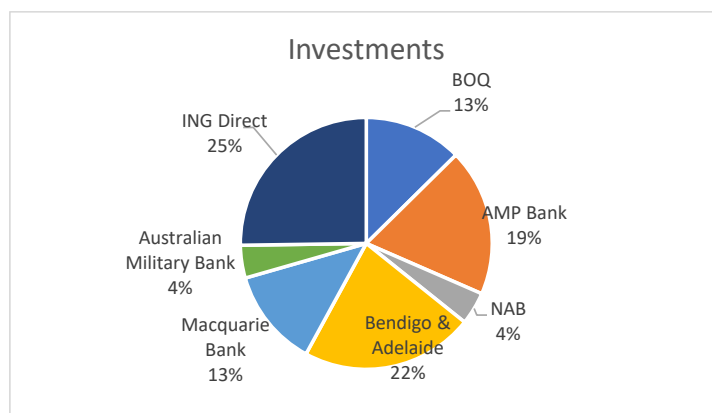
Cash and investment holdings total \$30.9M as of 31 December 2021, decreasing by \$11.9M since 30 June 2021 largely due to capital works performed. Total cash flows for the period ended 31 December 2021 was a negative movement of \$3.5M.

Total cash and investment holdings are made up of operating cash of \$14.7M and restricted cash of \$16.2M.

Restricted cash includes:

- Carry forward projects \$14.93M
- Trust funds and deposits \$0.75M
- Reserves \$0.54M

The average current interest rate on the term-deposits held is 0.5%.

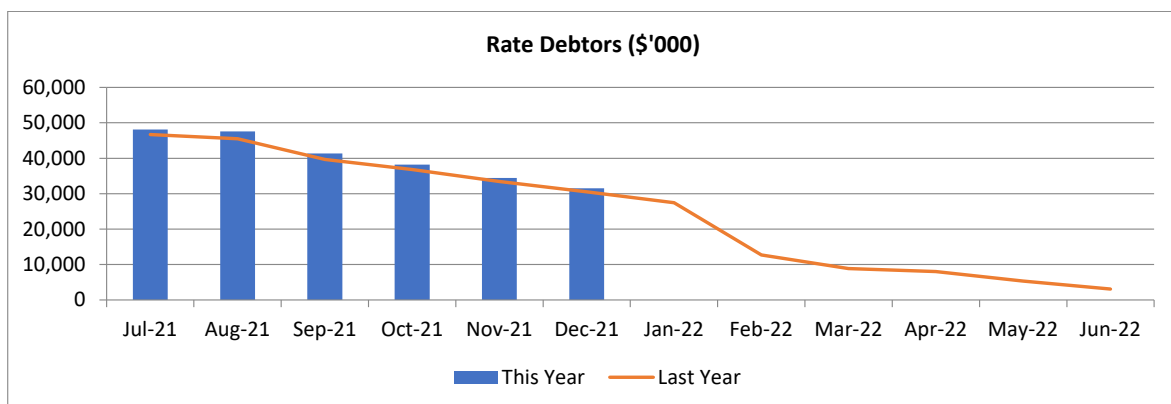


1.5.2 Debtors

Rates Debtors

The outstanding rates balance as at 31 December 2021 is \$31.6M (67.5% total annual rates), compared to \$30.5M (67.3% total annual rates) as at 31 December 2020.

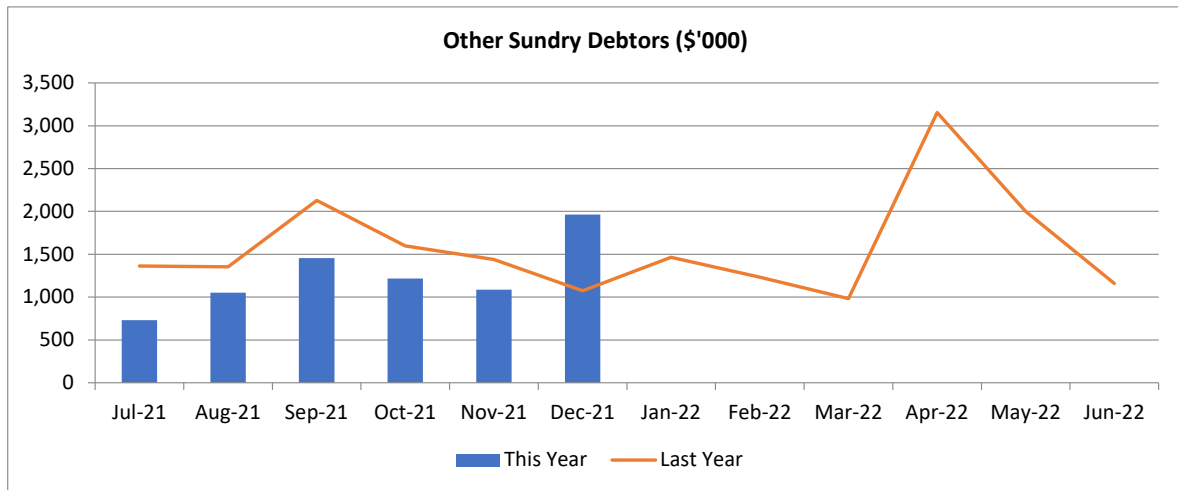
The outstanding rates balance has increased by \$1.1M (3.6%) from the same period last year. The increase is largely consistent with the increase in rates raised for 2021/22 as the outstanding balance as a percentage of total annual rates remains similar. There is also differences in timing of payments in December 2021 and a large amount of rates have since been received in January 2022.



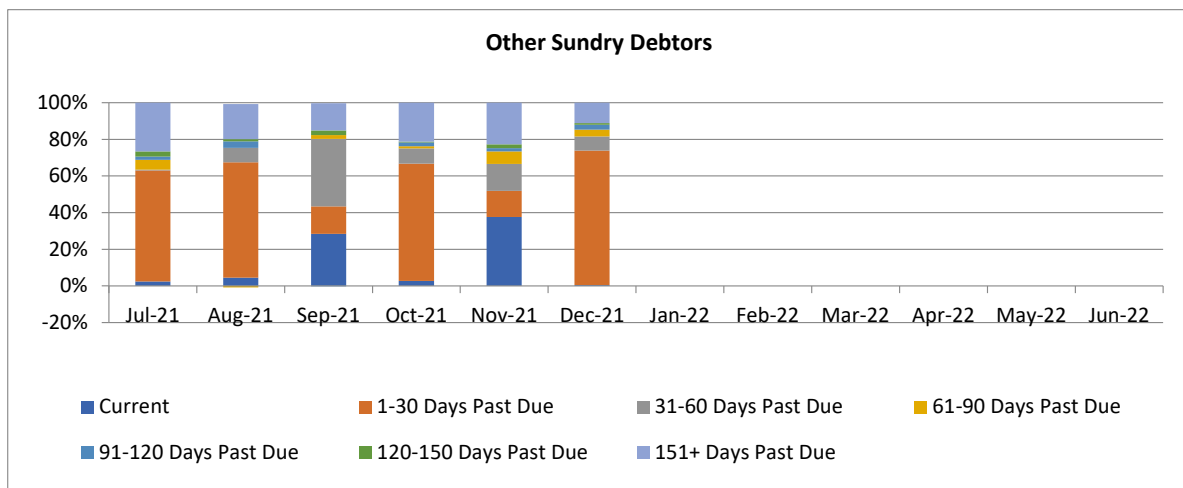
Other Sundry Debtors

The outstanding other sundry debtors balance as at 31 December 2021 is \$2.0M, compared to \$1.1M as at 31 December 2020.

The outstanding other sundry debtors balance has increased \$0.9M (81.8%) from the same period last year due to an outstanding invoice to the Department of Education and Training for \$0.95M.



Approximately 74% of other sundry debtors outstanding are current or less than 30 Days Past Due. \$217K of other sundry debtors have been outstanding greater than 151 Days Past Due. Over half of the debts greater than 151 Days Past Due relate to Caravan Park permits, other large invoices outstanding include \$29K from Ausnet Electrical Services relating to the Leongatha Business Precinct Project and \$12K from NBN Co Ltd for an annual lease. 80% of these debts greater than 151 Days Past due have already been allowed for in the provision for doubtful debts.



Section 2 – Financial Statements

2.1 Balance Sheet as at 31 December 2021

	Notes	YTD Actual December 2021 \$'000	YTD Actual December 2020 \$'000	Year over Year Variance \$'000	%	Original Budget June 2022 \$'000	Annual Forecast June 2022 \$'000
Current Assets	C1						
Cash and cash equivalents		7,073	8,124	(1,051)	-12.9%	2,088	9,401
Trade and other receivables		38,280	35,885	2,395	6.7%	7,155	5,263
Other financial assets		23,779	24,279	(500)	-2.1%	12,000	17,000
Inventories		233	188	45	23.9%	208	210
Non-current assets classified as held for sale		1,691	1,542	149	9.7%	1,541	1,691
Other assets		40	10	30	300.0%	218	240
Total Current Assets		71,096	70,028	1,068	1.5%	23,210	33,805
Non-Current Assets	C2						
Property, infrastructure, plant and equipment		591,324	564,489	26,835	4.8%	606,328	614,095
Right-of-use-assets		39	132	(93)	-70.5%	85	0
Investment property		615	619	(4)	-0.6%	620	615
Total Non-Current Assets		591,978	565,240	26,738	4.7%	607,033	614,710
TOTAL ASSETS		663,074	635,268	27,806	4.4%	630,243	648,515
Current Liabilities	C3						
Trade and other payables		10,580	8,745	(1,835)	-21.0%	5,347	4,028
Trust funds and deposits		747	859	112	13.0%	1,332	6,478
Provisions		7,047	6,297	(750)	-11.9%	5,999	6,534
Interest-bearing loans and borrowings		349	347	(2)	-0.6%	1,333	1,333
Lease liabilities		48	60	12	20%	85	0
Unearned rates revenue		23,149	22,391	(758)	-3.4%	0	0
Total Current Liabilities		41,920	38,699	(3,221)	-8.3%	14,096	18,373
Non-Current Liabilities	C4						
Provisions		4,766	4,473	(293)	-7%	4,411	4,728
Interest-bearing loans and borrowings		2,904	3,224	320	10%	6,759	5,259
Lease liabilities		0	79	79	100%	0	0
Total Non-Current Liabilities		7,670	7,776	106	1.4%	11,170	9,987
TOTAL LIABILITIES		49,590	46,475	(3,115)	-6.7%	25,266	28,360
NET ASSETS		613,484	588,793	24,691	4.2%	604,977	620,155
Equity	C5						
Accumulated Surplus		241,757	230,544	11,213	4.9%	247,562	248,464
Asset Revaluation Reserve		371,184	357,976	13,208	3.7%	357,105	371,182
Other Reserves		543	273	270	98.9%	310	509
TOTAL EQUITY		613,484	588,793	24,691	4.2%	604,977	620,155

2.2 Statement of Cash flows for the period 1 July 2021 to 31 December 2021

	Notes	YTD Actual \$'000	Annual Forecast \$'000	Annual Original Budget \$'000	Full Year Forecast Variance \$'000	%
CASH FLOWS FROM OPERATING ACTIVITIES	D1					
Rates and charges		17,607	46,844	46,777	67	0%
Statutory fees and fines		551	1,043	1,006	37	4%
User fees		1,017	4,692	4,955	(263)	-5%
Grants - operating		6,520	8,836	6,947	1,889	27%
Grants - capital		1,275	12,734	10,883	1,851	17%
Contributions - monetary		367	997	535	462	86%
Interest received		136	150	550	(400)	-73%
Other receipts		560	1,220	1,144	76	7%
Employee costs		(15,112)	(29,514)	(28,207)	(1,307)	5%
Materials and services		(13,459)	(24,963)	(23,441)	(1,522)	6%
Other payments		(1,424)	(3,083)	(3,090)	7	0%
Net cash provided by (used in) operating activities		(1,962)	18,956	18,059	897	5%
CASH FLOWS FROM INVESTING ACTIVITIES	D2					
Payments for property, infrastructure, plant & equipment		(10,283)	(39,378)	(44,283)	4,905	-11%
Proceeds from sale of property, infrastructure, plant & equipment		448	904	668	236	35%
Payments for / from Other Financial Assets		8,499	15,279	4,000	11,279	282%
Net cash provided by (used in) investing activities		(1,336)	(23,195)	(39,615)	16,420	-41%
CASHFLOWS FROM FINANCING ACTIVITIES	D3					
Finance costs		(5)	(27)	(71)	44	-62%
Proceeds from borrowings		0	4,500	6,000	(1,500)	-25%
Repayment of borrowings		(145)	(1,306)	(1,245)	(61)	5%
Repayment of leases		(46)	(94)	(83)	(11)	13%
Net cash provided by (used in) financing activities		(196)	3,073	4,601	(1,528)	-69%
Net increase (decrease) in cash and cash equivalents		(3,494)	(1,166)	(16,955)	15,789	-93%
Cash and cash equivalents at the beginning of the financial year	D4	10,567	10,567	19,043	(8,476)	-45%
Cash and cash equivalents at the end of the period		7,073	9,401	2,088	7,313	350%

2.3 Notes to the Financial Statements

Balance Sheet

Council's net assets are valued at \$613M as at the end of December 2021.

Year over Year variances**C1 Current Assets**

- **Unfavourable – Cash and cash equivalents (\$1.1M):** Higher net cash outflows compared to same period in 2020-21.
- **Favourable – Trade and other receivables \$2.4M:** An increase in both the outstanding rates and sundry debtors as at 31 December 2021 compared to 31 December 2020. Refer to Debtors section for more information.
- **Favourable – Non-current assets classified as held for sale \$149K:** Due to recognizing Council's portion of the West Gippsland Regional Library's income for the year-ended 30 June 2021. The West Gippsland Regional Library Corporation is due to be wound-up and assets gifted to My Community Library as of 30 June 2022.

C2 Non-Current Assets

- No significant variance to note.

C3 Current Liabilities

- **Unfavourable – Trade and other payables (\$1.8M):** Increase in trade and other payables is largely due to an increase in invoices outstanding as of 31 December due to some larger invoices being received after the last payrun in December prior to the holidays which were paid in January 2022, and does not represent an ongoing increase in outstanding debts.
- **Favourable – Trust funds and deposits \$112K:** Due to payment of retention amounts held upon completion of jobs during the period since 31 December 2020.
- **Unfavourable – Current Provisions (\$728K):** Both current and non-current provisions have increased for Employee Benefits. A reconciliation of provisions will be done during February.

C4 Non-Current Liabilities

- **Unfavourable – Non-current Provisions (\$293K):** Both current and non-current provisions have increased as a result of more leave being accrued than taken.
- **Favourable – Non-current Interest-bearing loans and borrowings \$320K:** Due to payment of the Mirboo North Pool loan over the period up to 31 December 2021.

C5 Equity

- **Favourable – Other Reserves \$270K:** Due to an increase in the Public Open Space reserve recognized as of 30 June 2021.

Cash flow Statement

Forecast variances to budget**D1 Cash flows from operating activities**

- **Favourable \$0.9M:** Due to an increase in capital grants of \$1.9M. This is offset largely by an increase in the forecast for Working for Victoria costs of \$0.74M, the associated operating grants for Working for Victoria will be forecasted when funds have been received.

D2 Cash flows from investing activities

- **Favourable \$16.4M:** Due to increasing forecasted redemptions of Other Financial Assets to fund the capital asset program by \$11.3M, as well as a decrease in the forecasted capital works outlays for 2021/22 by \$4.9M

D3 Cash flows from financing activities:

- **Unfavourable (\$1.5M):** Due to a delay in the proceeds from borrowings for the Korumburra Commercial Streetscape construction drawdown loan, due to carrying forward some of the project expenditures to 2022/23.

D4 Cash and cash equivalents at the beginning of the financial year

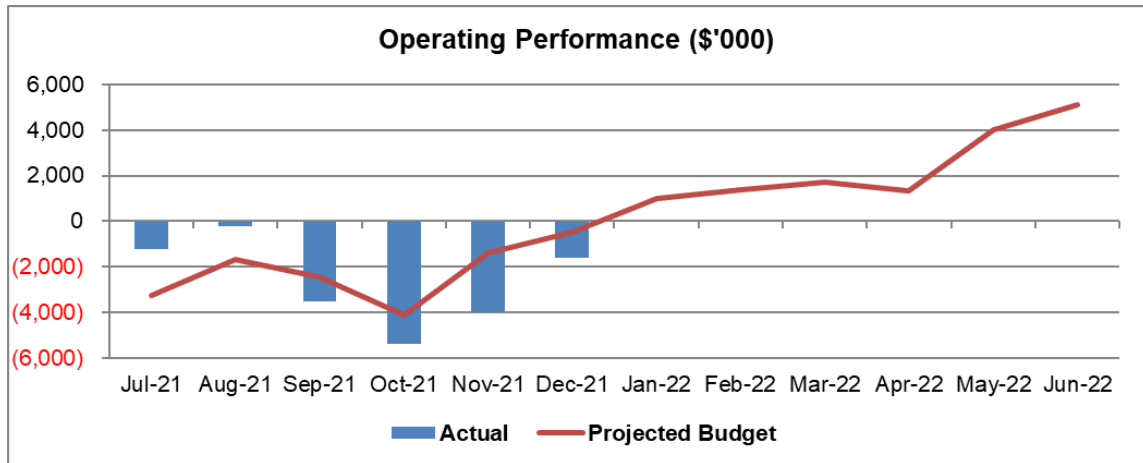
- **Unfavourable (\$8.5M):** Due to updating the forecast based on the actual cash and cash equivalents balance as of 30 June 2021. This was due to not redeeming as much Other Financial Assets as originally expected in 2020/21 as cash flows were sufficient to fund operating and capital works.

Section 3 - 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.

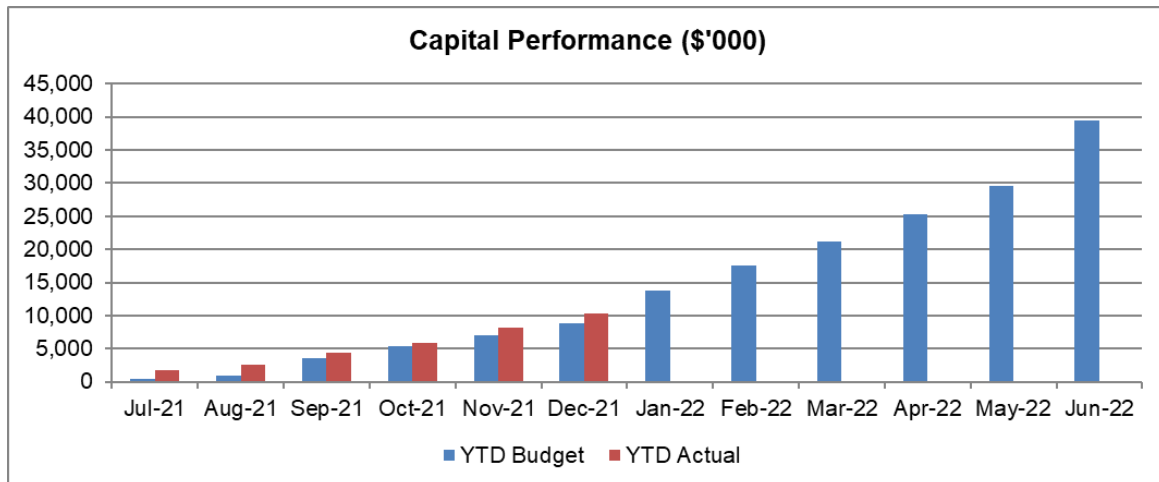
3.1 Operating Performance

The operating result is a \$1.6M deficit for the period July 2021 to December 2021. This is an unfavourable variation of \$1.1M compared to the proposed forecast deficit of \$0.5M for the period July 2021 to December 2021. Further detail can be found on the Income Statement for the period ended 31 December 2021.



3.2 Capital Performance

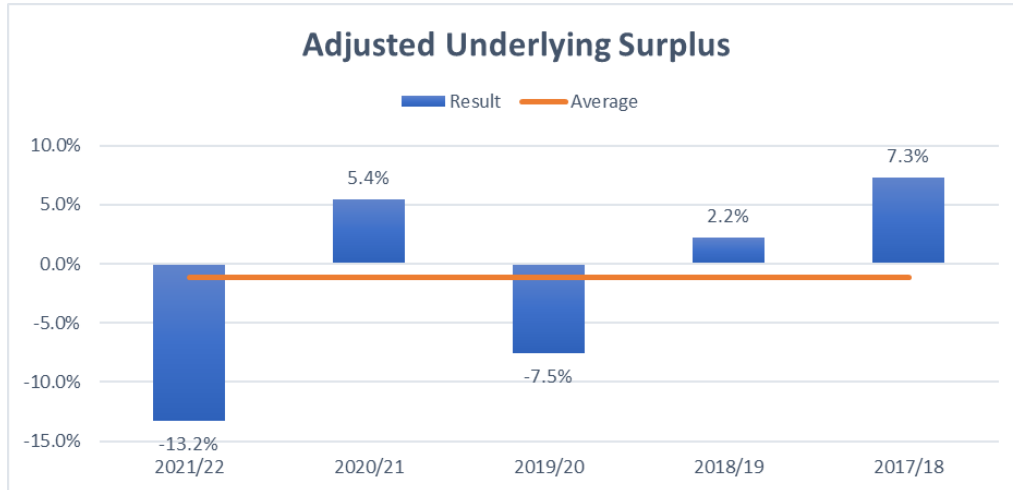
The capital expenditure is \$10.3M for the period July 2021 to December 2021. This is \$1.5M behind the proposed forecast of \$8.8M for the period July 2021 to December 2021. Further detail can be found on the Statement of Capital Works for the period ended 31 December 2021.



3.3 Financial Ratios

Operating position

Council proposed forecast result is an \$8.4M adjusted underlying deficit for the year ended 30 June 2022.



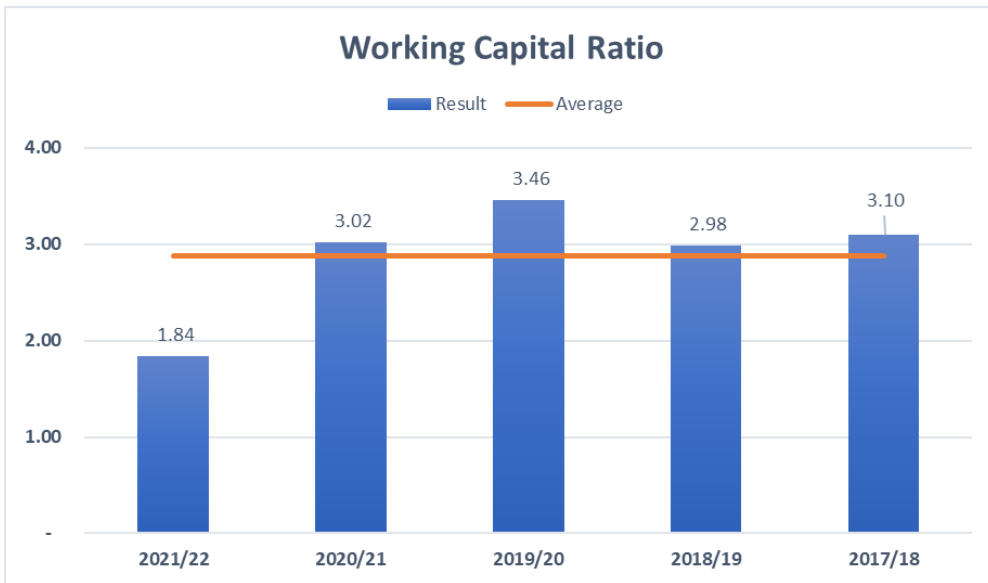
The adjusted underlying result demonstrates Council’s ability to generate a surplus in its ordinary course of business, excluding non-recurrent capital grants, non-monetary asset contributions and other contributions to fund capital works from its net result. A surplus or increasing surplus suggest an improvement in operations.

The significant decrease in the forecasted adjusted underlying result for 2021/22 compared to previous years is largely due to 50% of the 2021/22 Victorian Local Government Grants Commission allocation (\$5.6M) having been brought forward and paid in 2020/21. Therefore only 50% of the allocation is forecast to be received in 2021/22. If the full allocation had been forecasted for 2021/22, the overall average adjusted underlying surplus is a positive 0.7% result.

Liquidity

The Working Capital Ratio, which assesses Council’s ability to meet current commitments, is calculated by measuring Council’s current assets as a percentage of current liabilities.

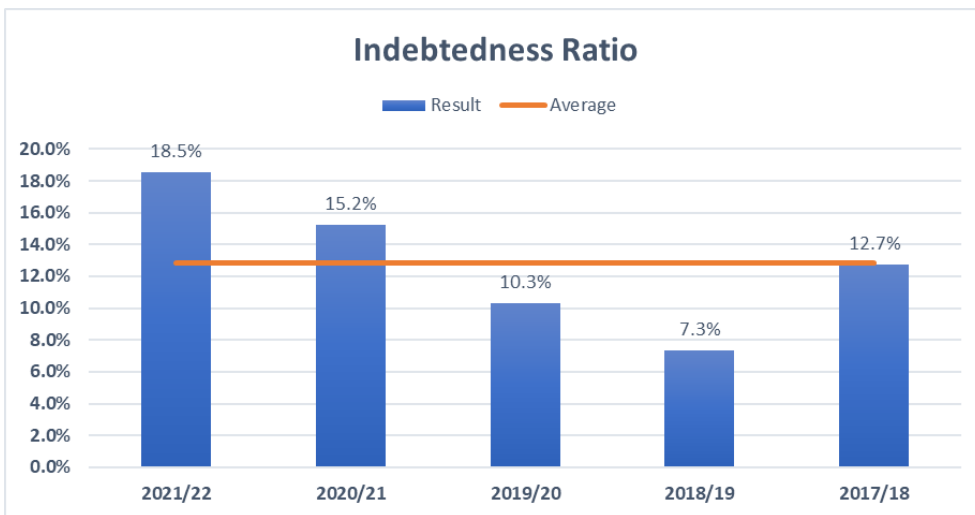
Council’s proposed forecast as of 30 June 2022 has a Working Capital Ratio of 1.84. This is within the targeted range above 1.5. The decrease in the forecast compared to previous years is due to a decline in cash and cash equivalents and other financial assets (expected to be \$26.4M as of 30 June 2022), to fund the capital works program.



Obligations

The Indebtedness Ratio Percentage measures Council’s ability to pay the principal and interest on borrowings when they are due from the funds it generates. Own-sourced revenue is used in the calculation, not including any grants or contributions.

Council’s proposed forecast Indebtedness Ratio as of 30 June 2022 is 18.5%, and is well within the target of 40% or lower. The increase over the previous years is due to additional construction drawdown facilities though TCV during 2021/22.

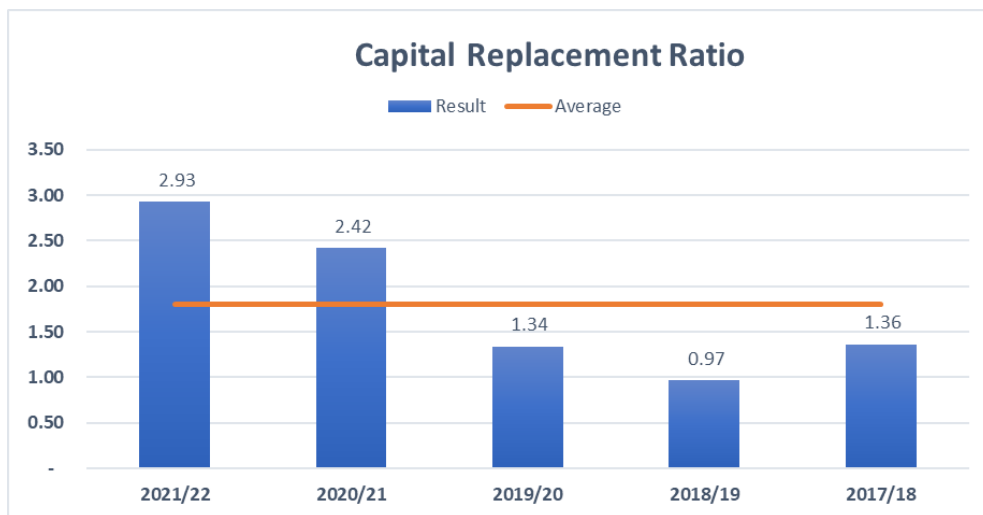


Asset Renewal

Council aims to ensure that it is able to maintain its infrastructure assets at the expected levels, while at the same time continuing to deliver the services needed by the community. The investment in asset renewal for the 2021/22 year is forecasted to be \$29.2M.

The Capital Replacement Ratio compares the total rate of spending on new infrastructure, property, plant and equipment with its depreciation. Ratios of higher than 1:1 indicate that spending is faster than the depreciation rate.

Council’s proposed forecast Capital Replacement Ratio of 2.93 for the year ending 30 June 2022, which is well above the target of 1.5.



Appendix 1 – Operating Forecast Changes

Operating Income is forecast to **increase \$2.035 M** from \$75.175 M to \$77.210 M comprising of:

- Operating Grants increased by \$1.818 M due to the inclusion of grants for Working for Victoria, Outdoor Activation, Local Roads and Storm Recovery funding.
- Increased developer contributions of \$0.461 M
- Found assets \$0.490 M
- Decreased fees and charges of \$0.302 M due to lower volumes of waste at landfills
- Decreased interest on investments of \$0.337 M.

Operating Expenditure is forecast to **increase by \$1.275 M** from \$70.844 M to \$72.119 M due to:

- Increased employee costs of \$1.757 M primarily due to the inclusion of the Working for Victoria program (\$0.630 M), Grant funded roles (\$0.265 M), employee costs moved from the capital budget to operating (\$0.219 M) and payment required for the failed MAV Workcover Scheme.
- Increased expenditure on materials and consumables of \$0.668 M due to expenditure related to the Outdoor Activation grant, Storm Damage and costs related to recruitment and legal activities.
- Savings in depreciation of \$1.151 M due to timing of delivery of the capital works program.

The net result of these changes is a favourable movement of **\$0.76 M**. It should be noted that at the Council meeting on October 20 2021 it was resolved to use **\$0.599 M** to fund the WorkCover shortfall and Municipal Monitor. After allowing for this, the favourable movement totals **\$1.359 M**.

Appendix 2 – Capital Expenditure Forecast Changes

A review of projects as at 31 December has resulted in a change of forecast for expenditure on capital works program to be a favourable underspend of \$9.736 M. At this stage, officers are proposing to carry forward projects totalling \$6.156M

	Current Forecast	Proposed Forecast	Variance
Buildings	15,781	13,969	1,812
Plant and Equipment	4,996	4,782	214
Infrastructure	28,387	20,627	7,710
Total	49,164	39,378	9,736

The following table lists projects and income proposed to be carried forward to 2022/23.

Project	Income	Expenditure
Korumburra Community Hub		812,482
Leongatha Precinct works		1,000,000
Plant purchases	(23,500)	201,000
Roads		
Korumburra Commercial Streetscape	(1,500,000)	1,324,000
Great Southern Rail Trail		930,000
Drainage Rehabilitation Program		288,482
Foster Showgrounds		300,000
Venus Bay Activity Centre		302,000
Leongatha & Korumburra Railway projects		910,167
Landfills		88,230
Total	(1,523,500)	6,156,361