



**AGENDA APPENDIX**  
**Council Meeting**  
**Wednesday 23 March 2016**

AGENDA ITEM FOR SEPARATE DISTRIBUTION TO COUNCILLORS AND  
EXECUTIVE LEADERSHIP TEAM DUE TO DOCUMENT SIZE.

THE ITEM IS ACCESSIBLE VIA THE COUNCIL WEBSITE OR BY  
CONTACTING COUNCIL ON 03 5662 9200.

**D.1 FINANCIAL PERFORMANCE REPORT FEBRUARY 2016**

Appendix 1 – Financial Performance Report February 2016

# Financial Performance Report – February 2016

The Financial Performance Report covers the 8 month period from July 2015 to February 2016.

## **Overview**

### Income Statement

Annual year to date performance:

- Operating result: \$2.67 million surplus which is \$3.41 million favourable compared the year to date budget projection of \$0.74 million deficit.

### Balance Sheet

Projected year end result:

- Underlying working capital ratio 1.78 to 1 (original budget 1.62 to 1)

### Cash Flow Statement

Projected year end result:

- Cash assets: \$10.351 million (original budget \$13.850 million)

The Minister for Local Government Natalie Hutchins announced that Victorian council rate increases will be capped to the rate of inflation, 2.5% for 2016/17. This situation has been strategically managed as part of the development of the forthcoming 2016/17 Annual Budget / Long Term Financial Plan (LTFP).

The February Financial Performance Report includes the draft proposed 2016/17 Annual Budget and forward budgets that are currently being considered by Council. The longer term financial performance indicators show that the financial plan (adjusted for budget carry forwards and other budget adjustments) is financially sustainable.

The balance of this Financial Performance Report is broken down to the following sections:

Section 1 - Year to date financial performance and projected financial results (including financial carry forwards).

Section 2 – Annual year to date financial analysis.

Section 3 – Long Term Financial Plan analysis.

## SECTION 1 – YEAR TO DATE FINANCIAL PERFORMANCE AND PROJECTED FINANCIAL RESULTS

This section discusses variations in year to date performance and budget projections. The information is presented in the budgeted financial statements format.

### YEAR TO DATE FINANCIAL PERFORMANCE AND PROJECTED FINANCIAL RESULTS

<b>South Gippsland Shire Council</b>								
<b>INCOME STATEMENT</b>								
<b>For the Period Ending 29 February 2016</b>								
	Y.T.D. Actual \$'000	Y.T.D. Budget \$'000	Y.T.D. Variance \$'000	Note	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
<b><u>INCOME</u></b>								
Rates and charges	25,917	25,874	43		38,275	38,584	309	
Statutory fees and fines	329	328	1		576	550	(26)	
User fees	2,584	2,654	(70)		4,179	4,119	(60)	
Grants - Operating	6,164	6,107	57		13,215	8,841	(4,374)	A
Grants - Capital	4,636	2,348	2,288	1	5,516	7,593	2,077	B
Contributions - monetary	203	178	25		344	491	147	
Contributions - non monetary	0	0	0		370	370	0	
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	98	88	10		423	(128)	(551)	
Other income	1,609	1,321	288		2,178	2,351	173	
<b>TOTAL INCOME</b>	<b>41,540</b>	<b>38,898</b>	<b>2,642</b>		<b>65,076</b>	<b>62,771</b>	<b>-2,305</b>	
<b><u>EXPENSES</u></b>								
Employee costs	15,000	14,941	(59)		23,089	22,713	376	
Materials and consumables	14,263	14,733	470		22,035	22,916	(881)	C
Bad and doubtful debts	0	0	0		1	1	0	
Depreciation	7,340	7,342	2		11,166	11,155	11	
Borrowing costs	53	52	(1)		142	142	0	
Other expenses	2,212	2,568	356		3,352	3,485	(133)	
<b>TOTAL EXPENSES</b>	<b>38,868</b>	<b>39,636</b>	<b>768</b>		<b>59,785</b>	<b>60,412</b>	<b>(627)</b>	
<b>SURPLUS / ( DEFICIT )</b>	<b>2,672</b>	<b>(738)</b>	<b>3,410</b>		<b>5,291</b>	<b>2,359</b>	<b>(2,932)</b>	

## **NOTES: MATERIAL VARIATIONS IN YEAR TO DATE FINANCIAL PERFORMANCE**

### **Note 1 Income: Grants- Capital - \$2.288 million ahead**

- \$1.69m additional Roads to Recovery funds received.
- \$480,000 funding for Korumburra Child Care Hub received in advance.

## **NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET**

### **Note A Income: Grants- Operating \$4.374 million unfavourable**

- Less \$4.34 million Victoria Grants Commission (VGC) grants originally expected to be received in 2015/16 was received in advance in previous 2014/15 financial year.
- Additional \$92,000 for Community Strengthening program for Deadly in Gippsland, Road Safety program and Warreeeny Sports funding
- Additional \$50,000 for Sustainability program.
- Less \$5,000 for immunisation program as a “one-off” grant in 14/15 was inadvertently included as budgeted income in 15/16
- Less \$300,000 for Agnes Falls.
- Additional \$20,000 for footpaths.
- Additional \$41,000 for Supported Play Groups for an expanded program
- Additional \$12,000 for Youth development.
- Additional \$62,000 for severe rain event.

### **Note B Income: Grants- Capital - \$2.077 million favourable**

- Additional \$666,000 for federal Blackspot program.
- Additional \$21,000 for Traffic Accident Commission (TAC) Community Road Safe program.
- Additional \$1.43 million Roads to Recovery grants.
- Less \$346,000 for Foster Streetscape due to timing of grant because of deferral of project until 2016/17.
- Less \$23,000 for Allambee Bridge rehabilitation, as project completed under budget which reduced the grant.
- Additional \$54,000 for Leongatha CBD Recycling Project.
- Additional \$160,000 for Korumburra Child Care Centre.
- Additional \$113,000 for Port Welshpool Jetty upgrade.

### **Note C Expenditure: Materials and consumables - \$881,000 unfavourable**

- \$349,000 restructure savings offset against \$280,000 productivity budget allocation.
- Additional \$121,000 for recurrent plant operating costs.
- Additional \$103,000 for Community Strengthening projects, offset by increased Grant income

- Less \$59,000 for Council business operations due to a delay in community engagement expenditure and lower than anticipated salary and catering costs.
- Additional \$55,000 for community strengthening – recreation programs.
- Additional \$500,000 for resheet program.
- Additional \$150,000 for Venus Bay garbage collections, as service commenced after the 15/16 Budget had been adopted
- Less \$20,000 for biodiversity program.
- Additional \$28,000 for building operations.
- Less \$21,000 for property services.
- Additional \$30,000 for innovation technology and Council business for software, annual support, licences and website development not adequately budgeted
- Additional \$48,000 for corporate information management for digital archiving project
- Additional \$29,000 for strategic planning.
- Less \$280,000 productivity savings.
- Additional \$100,000 for Civil Infrastructure maintenance.
- Less \$409,000 for Engineering and Assets Directorate programs
- Additional \$81,000 in Operation department's programs
- Additional \$33,000 for Coal Creek operations.

<b>South Gippsland Shire Council</b>					
<b>BALANCE SHEET</b>					
<b>For the Period Ending 29 February 2016</b>					
	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	25,034	13,850	10,352	(3,498)	A
Trade and other receivables	13,540	4,624	3,815	(809)	
Other financial assets	4,312	351	4,312	3,961	B
Inventories	193	248	292	44	
Other assets	0	212	303	91	
	43,079	19,285	19,074	(211)	
<b>NON CURRENT ASSETS</b>					
Investments in associates and joint ventures	752	776	752	(24)	
Property, infrastructure, plant and equipment	484,513	517,104	518,697	1,593	C
Investment property	716	716	716	0	
	485,981	518,596	520,165	1,569	
<b>TOTAL ASSETS</b>	<b>529,060</b>	<b>537,881</b>	<b>539,239</b>	<b>1,358</b>	
<b><u>LIABILITIES</u></b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	5,829	4,202	2,531	(1,671)	D
Trust funds and deposits	671	526	1,065	539	
Provisions	5,487	5,893	5,869	(24)	
Interest bearing loans and borrowings	0	0	0	0	
	24,649	10,621	9,465	(1,156)	
<b>NON CURRENT LIABILITIES</b>					
Provisions	1,229	315	825	510	
Interest bearing loans and borrowings	3,350	3,350	3,350	0	
	4,579	3,665	4,175	510	
<b>TOTAL LIABILITIES</b>	<b>29,228</b>	<b>14,286</b>	<b>13,640</b>	<b>(646)</b>	
<b>NET ASSETS</b>	<b>499,832</b>	<b>523,595</b>	<b>525,599</b>	<b>2,004</b>	
<b><u>REPRESENTED BY</u></b>					
Accumulated Surplus	198,816	197,687	199,518	1,831	
Reserves	301,015	325,908	326,081	173	
<b>TOTAL EQUITY</b>	<b>499,831</b>	<b>523,595</b>	<b>525,599</b>	<b>2,004</b>	

## **NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET**

### **Note A Current Assets: Cash and cash equivalents \$3.498 million**

- \$3.961 million financial assets (investments with maturity above 3 months) reclassified as Financial assets. The cash was also impacted by levels of accounts payable and receivable at year end that vary to budgeted year end projections.

### **Note B Current Assets: Financial Assets \$3.961 million**

- \$3.961 million financial assets (investments with maturity above 3 months) reclassified as Financial assets.

### **Note C Non Current Assets: Property, infrastructure, plant and equipment \$1.593 million**

- \$1.593 million variance projection predominantly due to asset closing position for previous 2014/15 year being less than originally anticipated.

### **Note D Current Liabilities: Trade and other payables \$1.671 million**

- \$1.671 million variance projection for 'Trade and other payables' because the balances will tend to fluctuate year to year depending on level of accounts payable the preceding year.

**South Gippsland Shire Council**  
**CASH FLOW STATEMENT**  
**For the Period Ending 29 February 2016**

	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>					
Rates and charges	29,554	38,275	38,584	309	
Statutory fees & fines	329	576	550	(26)	
User fees	1,829	4,179	4,119	(60)	
Grants - operating	6,164	13,215	8,841	(4,374)	A
Grants - capital	4,636	5,516	7,593	2,077	B
Contributions- monetary	203	344	491	147	
Interest received	300	491	541	50	
Other receipts	1,325	1,687	1,809	122	
Employee costs	(14,871)	(22,991)	(22,616)	375	
Materials and services	(10,901)	(22,036)	(22,916)	(880)	C
Other payments	(2,212)	(3,352)	(3,485)	(133)	
<b>Net cash provided by (used in) operating activities</b>	<b>16,356</b>	<b>15,904</b>	<b>13,511</b>	<b>(2,393)</b>	
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>					
Payments for property, infrastructure, plant & equipment	(6,849)	(18,475)	(19,206)	(731)	D
Proceeds from sale of property, infrastructure, plant and equipment	194	1,344	769	(575)	
Trust Funds and deposits	(15)	0	0	0	
<b>Net cash provided by (used in) investing activities</b>	<b>(6,670)</b>	<b>(17,131)</b>	<b>(18,437)</b>	<b>(1,306)</b>	
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>					
Finance costs	(72)	(142)	(142)	0	
Proceeds from borrowing	0	0	0	0	
Repayment of borrowings	0	0	0	0	
<b>Net cash provided by (used in) financing activities</b>	<b>(72)</b>	<b>(142)</b>	<b>(142)</b>	<b>0</b>	
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>9,614</b>	<b>(1,369)</b>	<b>(5,068)</b>	<b>(3,699)</b>	
Cash and cash equivalents at the beginning of the financial year	15,420	15,218	15,420	202	
<b>Cash and cash equivalents at the end of the period</b>	<b>25,034</b>	<b>13,849</b>	<b>10,352</b>	<b>(3,497)</b>	



## **NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET**

### **Note A Cash inflows from operations: Grants operating \$4.374 million unfavourable**

- Reduced \$4.34 million Victoria Grants Commission (VGC) grants originally expected to be received in 2015/16 was received in advance in previous 2014/15 financial year.
- Additional \$92,000 for Community Strengthening program.
- Additional \$50,000 for Sustainability program.
- Less \$5,000 for Immunisation program
- Less \$300,000 for Agnes Falls.
- Additional \$20,000 for footpaths.
- Additional \$41,000 for Supported Play Groups.
- Additional \$12,000 for Youth development.
- Additional \$62,000 for severe rain event.

### **Note B Cash inflows from operations: Grants capital \$2.077 million favourable**

- Additional \$666,000 for federal Blackspot program.
- Additional \$21,000 for Traffic Accident Commission (TAC) Community Road Safe program.
- Additional \$1.43 million Road to Recovery grants.
- Less \$346,000 for Foster Streetscape.
- Less \$23,000 for Allambee Bridge rehabilitation.

### **Note C Cash outflows from operations: Materials and Services \$880,000 unfavourable**

- \$349,000 restructure savings offset against \$280,000 productivity budget allocation.
- Additional \$121,000 for recurrent plant operating costs.
- Additional \$103,000 for Community Strengthening projects.
- Less \$59,000 for Council business operations Additional \$55,000 for community strengthening – recreation programs.
- Additional \$500,000 for resheet program.
- Additional \$150,000 for Venus Bay garbage collections.
- Less \$20,000 for biodiversity program.
- Additional \$28,000 for building operations.
- Less \$21,000 for property services.
- Additional \$30,000 for innovation technology and Council business.
- Additional \$48,000 for corporate information management.
- Additional \$29,000 for strategic planning.
- Less \$280,000 productivity savings.

- Additional \$100,000 for Civil Infrastructure maintenance.
- Less \$409,000 for Engineering and Assets Directorate programs
- Additional \$81,000 in Operation department's programs
- Additional \$33,000 for Coal Creek operations.

**Note D Cash outflows from Investing Activities: Payment for property, infrastructure plant and equipment \$731,000 increase**

- \$241,000 capital expenditure originally expected to be incurred in 2014/15 have had budgets carried forward into this financial year.
- Additional \$716,000 for Princess St Korumburra.
- Additional \$465,000 for A Beckett St Leongatha.
- Restructure savings \$35,000 for Civil capital works design.
- Additional \$199,000 for Korumburra Child Care Hub.
- Less \$51,000 for Wonthaggi Road Loch- budgets re-profiled.
- Less \$108,000 for Buffalo Rd Waratah- budgets re-profiled.
- Less \$309,000 for Bass Valley Rd Bena - budgets re-profiled.
- Less \$308,000 for A'Beckett Street - budgets re-profiled.
- Less \$41,000 for Leongatha Yarragon Rd Leongatha- budgets re-profiled.
- Additional \$284,000 for Station St Korumburra - budgets re-profiled.
- Additional \$296,000 Sealed Roads rehabilitation program.
- Additional \$94,000 for fleet.
- Less \$215,000 on landfills.
- Less \$1.2 million on Nth Poowong Road.
- Less \$33,000 on Allambee Estate Road bridge.
- Additional \$10,000 on drainage rehabilitation program.
- Additional \$55,000 on Guardrail replacement program.
- Additional \$1.1 million on Grand Ridge Road.
- Additional \$500,000 on Carmodys Road Leongatha.
- Less \$116,000 on playground replacement program.
- Less \$99,000 on Plant replacement program
- Less \$58,000 on Municipal Precinct Investigation
- Less \$54,000 in Information Technology purchases
- Additional \$76,000 on Leongatha CBD Recycling Project.
- Additional \$77,000 on Design and Service management
- Less \$513,000 on a number of projects that will not be completed by 30 June that will have funds carried forward into 2016/17.

## SECTION 2 – 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.

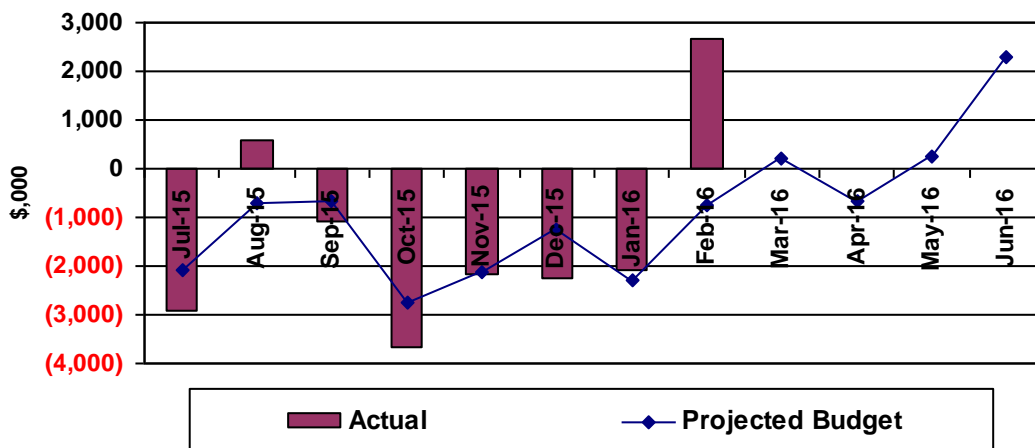
### Operating Performance

Operating Budget \$ 0.74 million Deficit for the period Jul-15 to Feb-16

Operating Result \$ 2.67 million Surplus for the period Jul-15 to Feb-16

The operational result varies by \$3.41 million to the projected year to date budget. Variation is due to timing of actual costs to year to date budgets, predominantly impacted by receiving grant funds ahead of schedule.

#### Operating Performance (\$'000)



### Capital Performance

Capital Budget \$9.62 million for the period Jul-15 to Feb-16

Actual Expenditure \$6.85 million for the period Jul-15 to Feb-16

Capital Expenditure \$2.77 million behind year to date budgets

The Capital Works Program is running behind year to date budgets.

Projects running behind / (ahead) schedule as at 29 February 2016 are detailed in the following table:

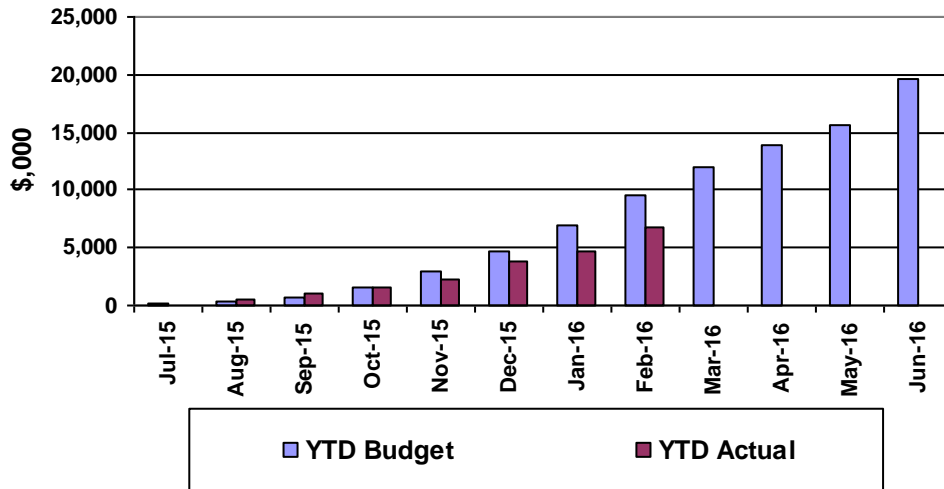
Directorate	Department	Cost Centre	Expenditure Major Variation \$	Major Variation Explanation
Sustainable Communities and Infrastructure	Operations	<b>8040 - Fleet - Fleet Purchases Total</b>	(25,520)	Expenditure is due to one vehicle being delivered ahead of schedule.
Sustainable Communities and Infrastructure	Operations	<b>8050 - Plant - Plant Purchases Total</b>	(41,464)	Expenditure for Plant is ahead of schedule but is still all on budget.
Sustainable Communities and Infrastructure	Sustainable Communities	<b>8060 - General Land Purchases / Sales Total</b>	(247,029)	Expenditure increased due to purchase of a property in Korumburra
Sustainable Communities and Infrastructure	Engineering and Assets	<b>8152 - Roads - Rehabilitation Program Total</b>	(30,855)	Extra expenditure incurred as a result of works carried out against previous years projects.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>8279 - Roads - Princes Street - Korumburra Total</b>	212,922	Project running behind schedule. Expect completion in March 2016.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>8287 - Roads - A`Beckett Street - Leongatha Total</b>	304,945	Project delayed due to unsuitable sub-grade materials being discovered. Expect project to be completed within the terms of the contract.
Sustainable Communities and Infrastructure	Operations	<b>8289 - Grand Ridge Road, Leongatha Total</b>	309,634	Project running behind schedule. Expect completion in March 2016.

Directorate	Department	Cost Centre	Expenditure Major Variation \$	Major Variation Explanation
Sustainable Communities and Infrastructure	Engineering and Assets	<b>8292 - Roads - Victory Avenue - Foster Total</b>	231,216	Project completed late February. Expect payments to contractor to occur in March.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>8567 - Waste - Landfills Total</b>	312,918	The construction tender has been awarded, but was held up due to design sign off by EPA. Works commenced in December 2015. Works are now progressing well.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>8770 - Civil - Capital Works Design Total</b>	46,720	Some projects not invoiced.
Sustainable Communities and Infrastructure	Operations	<b>8772 - Roads - Reseals (Partially funded R2R) Total</b>	273,335	Asphalt program still being prepared for quoting. Spray Sealing has started but is slightly behind schedule.
Sustainable Communities and Infrastructure	Operations	<b>8774 - Roads - Reseal Preparation Total</b>	(127,244)	This budget has been exhausted. Completing program from Sealed Road Maintenance.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>8841 - Footpaths - Renewal Total</b>	87,573	Program running behind original schedule. Expect completion within the terms of the contract.
Sustainable Communities and Infrastructure	Operations	<b>8849 - Footpaths - Extension Program Total</b>	49,753	Program running behind original schedule. Expect completion by end of May.

Directorate	Department	Cost Centre	Expenditure Major Variation \$	Major Variation Explanation
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9000 - Federal Blackspot Program Total</b>	178,855	Works are well underway but running behind original schedule.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9081 - Roads - North Poowong Road, Poowong Total</b>	37,316	Design and planning investigations are well advanced. Project has been carried forward to 2016/17 due to planning issues.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9096 - Roads - Henrys Road - Nyora Total</b>	22,791	Project completed. Budget adjustment to be done at next opportunity.
Sustainable Communities and Infrastructure	Operations	<b>9401 - Carmodys Road, Leongatha Total</b>	272,471	Stage 1 works completed prior to Christmas break. Stage 2 works scheduled for March/April.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9425 - Buildings - Child Care Hub - Korumburra Total</b>	385,704	Program running behind original schedule
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9524 - Buildings - Public Toilets Reconstruction - Fish Creek Total</b>	28,548	Project complete
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9550 - Buildings - Public Toilet Renewal Total</b>	(89,730)	Project running ahead of schedule.

Directorate	Department	Cost Centre	Expenditure Major Variation \$	Major Variation Explanation
Sustainable Communities and Infrastructure	Operations	<b>9657 - Bridge - Rehabilitation Program Total</b>	(61,131)	Expenditure ahead of schedule.
Sustainable Communities and Infrastructure	Operations	<b>9685 - Major Culvert - Renewal Program Total</b>	49,535	Program behind original schedule. Expect completion within financial year.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9721 - Drainage - Rehabilitation Program Total</b>	63,819	Works well underway but running behind original schedule.
Sustainable Communities and Infrastructure	Operations	<b>9722 - Roads - Sealed Rehabilitation Program Total</b>	477,287	Works are progressing well due to favourable weather conditions. Budget profiles need to be amended when open for adjustment.
Sustainable Communities and Infrastructure	Engineering and Assets	<b>9825 - Guard Rails - Replacement Program Total</b>	129,653	Spencers Road bridge railing project delayed due to component availability. Expect works to be completed within terms of the contract.

Capital Performance (\$'000)



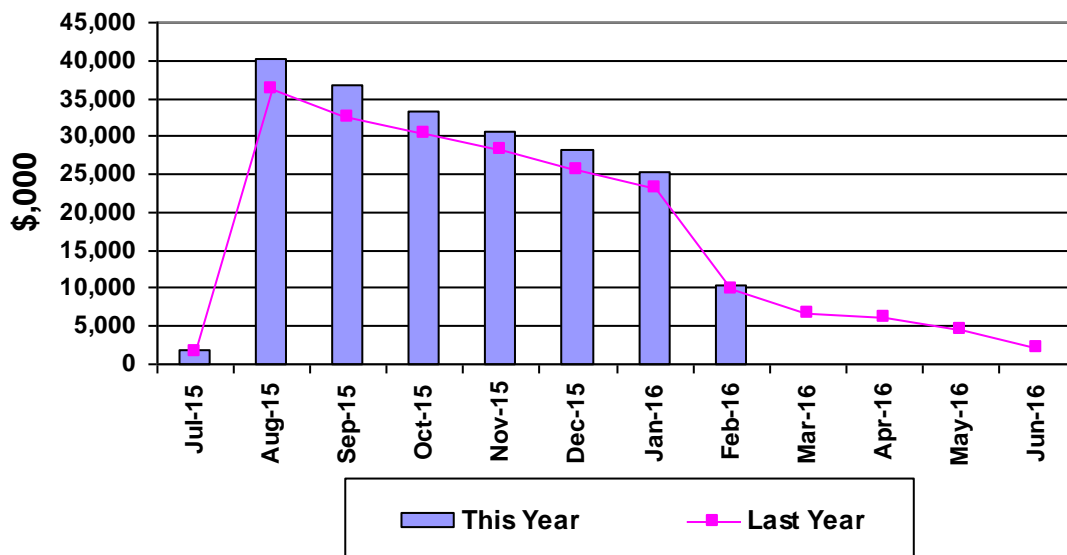
Rate Debtors

Outstanding 15/16 \$10.36 million as at Feb-16

Outstanding 14/15 \$ 9.95 million as at Feb-15

The outstanding rates as at 29 Feb 2016 have parity to last year.

Rate Debtors (\$,000)



**Other Sundry Debtors**

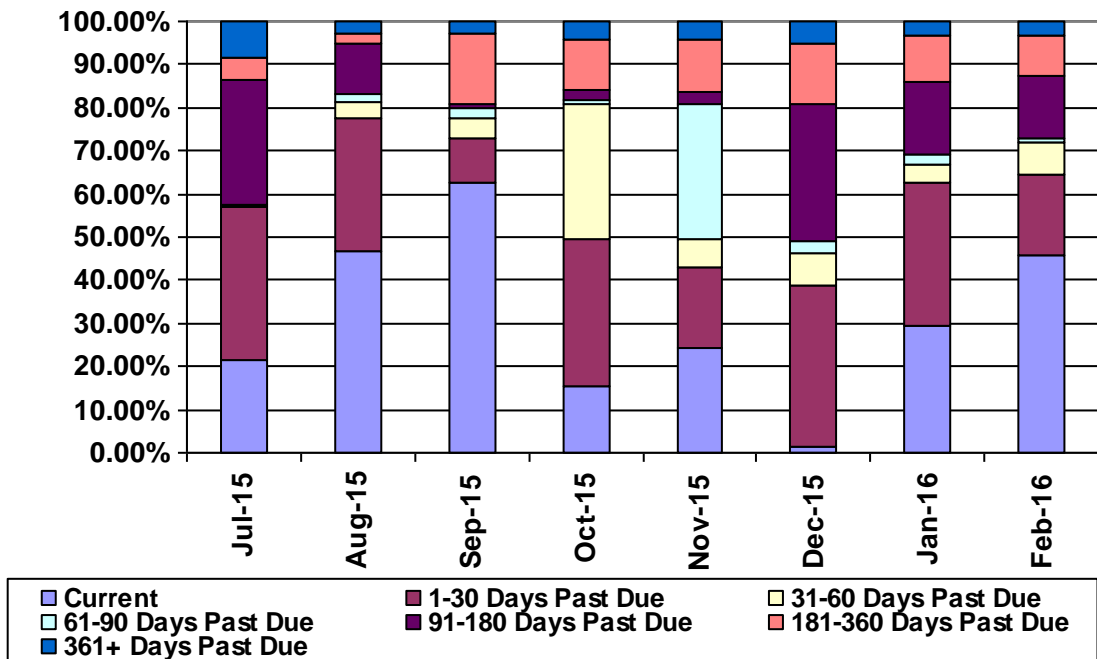


Outstanding 15/16 \$ 1.42 million as at Feb-16

Outstanding 14/15 \$ 1.18 million as at Feb-15

The Current and 1-30 Days Past Due Date make up approximately 64% of total debtors outstanding. A majority of the outstanding amounts in the 91-180 Days Past Due Date and beyond are primarily made up of unpaid caravan park fees.

Other Sundry Debtors



## SECTION 3 – LONG TERM FINANCIAL PLAN ANALYSIS

This section benchmarks and strategically analyses the financial impact of the year's projected 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 2015/16 Budget and Long Term Financial Plan forecasts to the original plan (the Annual Budget & Long Term Financial Plan for 2015/16 that was adopted on 24 June 2015).

Council in March is scheduled to formally consider a Proposed 2016/17 Budget / Long Term Financial Plan. The February financial performance report includes the Proposed 2016/17 annual and forward budgets (Current Plan).

The lines in the following graphs are as follows:

- Original plan – Blue line –original 2015/16 Budget and Long Term Financial Plan
- Current Plan – Purple line – proposed 2016/17 Budget and Long Term Financial Plan

### **Operating Result (including gain /loss on asset disposals)**

The unfavourable financial impact of receiving \$4.34 million 2015/16 VGC grant allocations in the previous financial year (June 2015) can be seen in the reduced projected operating result for 2015/16.

The rate rises in the forward years of the 'original' adopted 2015/16 Budget/Long Term Financial Plan had been set at 3.0% from 2016/17 to 2022/23 and thereafter at 4.0%.

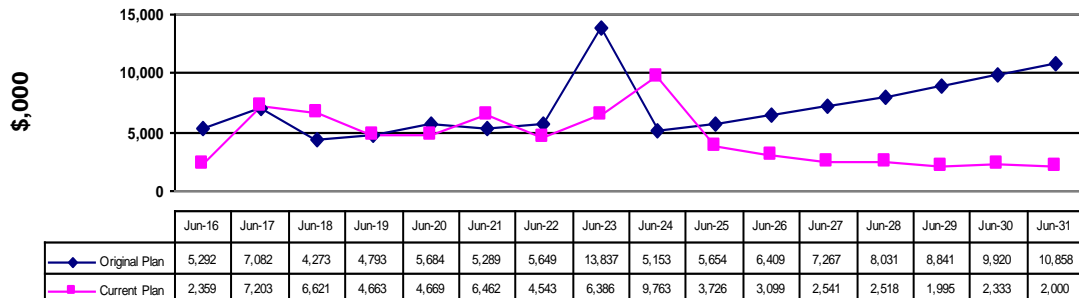
The Minister for Local Government Natalie Hutchins announced that Victorian council rate increases will be capped to the rate of inflation, 2.5% for 2016/17. The rate rises in the forward years have also been modelled at 2.5%.

Council will now receive \$38.9m less rates & charges revenue over a 14 year period when comparing the Current Plan 2016/17 Budget / LTFP to the previously adopted 2015/16 Budget / LTFP.

For 2016/17 and immediate years in the forward plan the underlying result remains relatively stable. In the later years it trends down. Council is managing this issue by allowing any future years' productivity gains to flow through to the bottom line in the later years, so as to strategically begin addressing the downward trend in the forecast underlying operating results.

The spike in 2023/24 is attributable to modelling that Council will receive \$6.76m Special Charge Scheme income for a major roads and drainage project.

## Operating Result (\$,000)

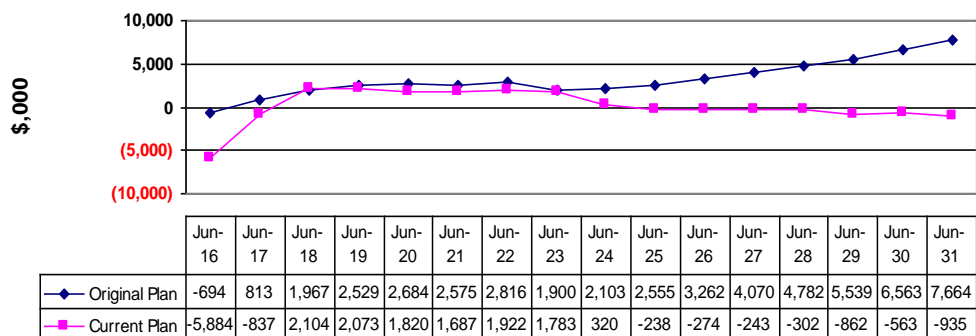


## Operating Result before Capital Funding

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 the recurrent operating activities of Council. The current plan underlying result mirrors the operating result outcomes discussed immediately above.

## Operating Result before Capital Funding (\$,000)

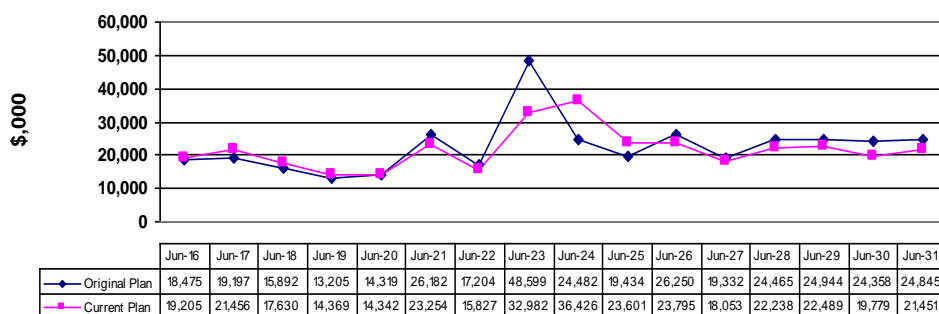


## Capital Expenditure

The 2015/16 budget was adjusted to take into account the financial ramifications of carrying forward funds for projects that were not expected to be completed by 30 June 2015. In total, \$1.83 million funds were carried forward from 2014/15 (this includes \$1.59 million identified during the 2015/16 budget development process and an additional \$241,000 identified at financial year end).

The Current Plan's projected capital works program for the current plan correlates closely with the original plan. 2022/23 and 2023/24 includes \$24.72m funding for a municipal precinct, library and community centre project proposal as well as \$10.14m for a Roads / Drainage Special Charge Scheme in Nyora.

### Capital Expenditure (\$,000)

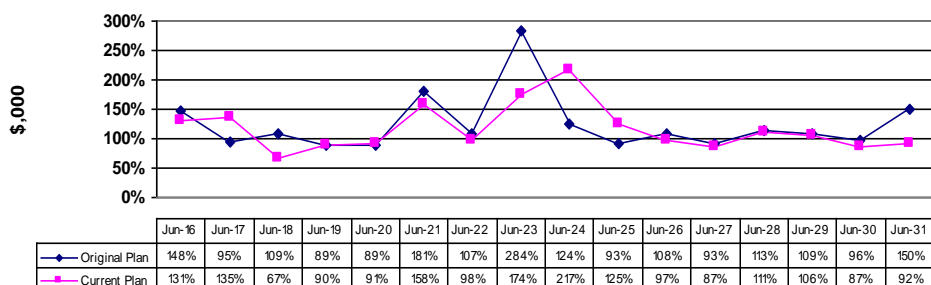


## Sustainability Index for Capital Assets

The sustainability index expresses as a percentage the amount of expenditure incurred on capital renewal and upgrade infrastructure works relative to the amount of depreciation on infrastructure assets that are expensed to the Income Statement. The impact of carrying forward significant amounts of capital renewal expenditure from 2014/15 to the following financial year is evident in the 2015/16 sustainability indicator.

The current plan's sustainability index correlates closely when benchmarked with the original Long Term Financial Plan. The strategic target is to exceed 95%. There are no asset renewals funding gaps for all major classes of assets in the current plan.

### Sustainability Index



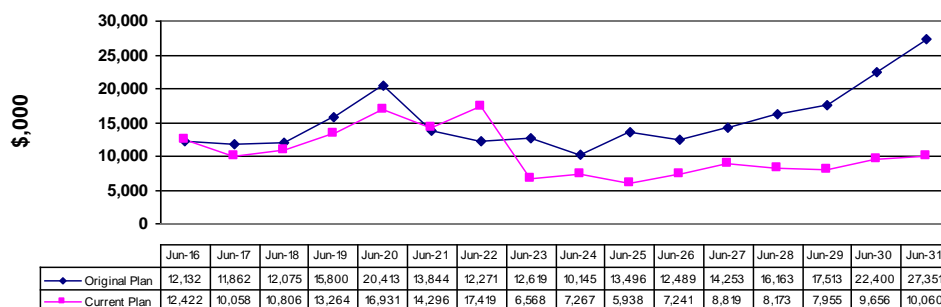
## Underlying Liquidity

The current plan's forecast underlying cash position is weaker than the original plan, particularly in the mid to later years.

In the later years of the plan the projected underlying operating result has a gradual downward trend. This is due to the longer term impact of less rates revenue being generated as a result of rate capping.

Council is managing this issue by allowing any future years' productivity gains to flow through to the bottom line in the later years.

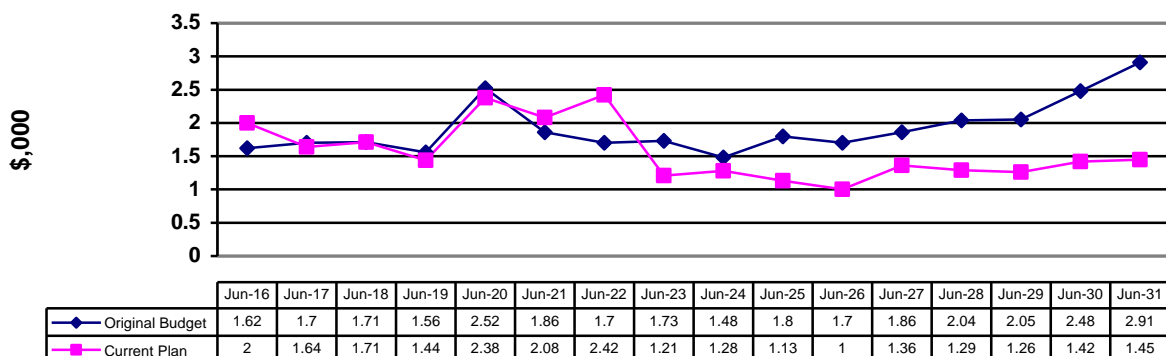
### Underlying Liquidity (\$,000)



## 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. Again, as expected the rate caps has an unfavourable impact on the mid to longer term underlying working capital ratio.

### Underlying Working Capital Ratio



## Conclusion

The table below shows several key financial performance indicators targets set when the 2015/16 Budget and Long Term Financial Plan were adopted. Ratios coloured red indicate either short term / immediate sustainability concerns, yellow denotes medium risk and green low risk.

<b>2015/16 Original Budget</b>	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
<b>Financial performance</b>																
Underlying result	4.08%	-1.17%	1.39%	3.26%	4.04%	4.17%	3.86%	4.09%	2.66%	2.84%	3.30%	4.07%	4.86%	5.5%	6.1%	6.9%
Underlying Working Capital	1.95	1.62	1.70	1.71	1.56	2.52	1.86	1.70	1.73	1.48	1.80	1.70	1.86	2.04	2.05	2.48
<b>Funding capacity</b>																
Self-financing	26.06%	24.58%	29.01%	26.22%	27.02%	27.74%	27.52%	21.51%	37.43%	30.03%	30.46%	31.09%	31.45%	30.93%	31.46%	32.18%
Sustainability Index	99%	148%	95%	109%	89%	89%	181%	107%	284%	124%	93%	108%	93%	113%	109%	96%
<b>Borrowing capacity</b>																
Indebtedness	9.61%	8.11%	7.90%	7.75%	1.00%	1.10%	1.20%	1.30%	25.69%	27.77%	26.73%	25.74%	14.71%	14.23%	9.75%	8.74%
Total Debt as a % of Rate revenue	9.35%	8.75%	8.44%	8.14%	7.85%	0.00%	0.00%	0.00%	28.31%	30.98%	29.61%	28.31%	15.22%	14.55%	10.07%	8.81%
Debt servicing costs as a % of Total revenue	0.20%	0.22%	0.22%	0.23%	0.22%	0.08%	0.00%	0.00%	1.15%	1.25%	1.19%	1.15%	0.62%	0.60%	0.40%	0.38%

The table below shows the current status of proposed 2015/16 Budget and Long Term Financial Plan's key financial indicators.

<b>Proposed 2016/17 Budget</b>	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
<b>Financial performance</b>																
Underlying result	-0.29%	-1.43%	3.49%	3.36%	2.88%	2.58%	2.86%	2.56%	0.49%	-0.32%	-0.36%	-0.31%	-0.38%	-1.05%	-0.66%	-1.07%
Underlying Working Capital	1.78	1.64	1.71	1.44	2.38	2.08	2.42	1.21	1.28	1.13	1.00	1.36	1.29	1.26	1.42	1.45
<b>Funding capacity</b>																
Self-financing	21.65%	28.59%	28.09%	27.01%	26.94%	29.00%	26.98%	28.96%	27.09%	28.59%	28.08%	27.59%	27.55%	27.24%	26.44%	26.22%
Sustainability Index	133%	135%	87%	90%	91%	158%	98%	174%	217%	125%	97%	87%	111%	166%	87%	92%
<b>Borrowing capacity</b>																
Indebtedness	9.18%	10.50%	8.51%	1.74%	1.82%	1.91%	1.98%	2.86%	22.85%	24.91%	20.44%	15.26%	18.11%	16.97%	15.85%	14.76%
Total Debt as a % of Rate revenue	8.68%	8.40%	8.14%	7.89%	0.00%	0.00%	0.00%	0.00%	24.16%	26.63%	25.83%	20.62%	19.16%	17.74%	16.34%	14.97%
Debt servicing costs as a % of Total revenue	0.23%	0.21%	0.22%	0.22%	0.08%	0.00%	0.00%	0.00%	0.84%	0.88%	0.86%	0.65%	0.66%	0.62%	0.57%	0.53%

The majority of indicators remain within strategic thresholds targets. It is marginally weaker than the original plan. The deterioration of Council's financial position longer term is due to the longer term impact of less rates revenue being generated as a result of rate capping.

The 'Underlying Result' compares recurrent income and recurrent expenditure. The underlying result is forecast to be in the red zone in 2015/16 as a result of having to recognise \$4.34m Victoria Grants Commission allocation for 2015/16 in the previous financial year (2014/15).

For 2016/17 and immediate years in the forward plan the underlying result trends into and remains in the green zone. In the later years it trends down into the yellow 'cautionary zone'. Council is managing this issue by allowing any future years' productivity gains to flow through to the bottom line in the later years, so as to strategically begin addressing the downward trend in the forecast underlying operating results.

The 'Underlying Working Capital' assesses Balance Sheet strength and in particular Council's ability to pay existing liabilities. In the forward plan the ratio marginally falls below the strategic target of 1.25 to 1 in 2022/23, 2024/25 and 2025/26 before strengthening again in the later years. Council has financial capacity to

accommodate unforeseen strategic opportunities or unavoidable cost events that may arise.

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 2016/17 and all the forward budgets.

The 'Sustainability Indicator' assesses asset renewal and upgrade expenditure over a period of time. It is forecast to be in the green zone for 2016/17. In the following years it generally fluctuates between the green and yellow zone and even dips into the red zone in 2017/18, 2026/27 and 2029/30. This does not present as a strategic concern. 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 2016/17 and all the forward budgets. Due to the inherent strength of the current 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 draft proposed 2016/17 Budget / Long term Financial Plan is financially sustainable.