



AGENDA APPENDIX
Council Meeting
Wednesday 28 September 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 AUGUST 2016

Appendix 1 – Financial Performance Report August 2016

Financial Performance Report – August 2016

The Financial Performance Report covers the two month period from July 2016 to August 2016.

Overview

Income Statement

Annual year-to-date performance:

- Operating result: \$85,000 deficit which is \$587,000 favourable compared to the year-to-date budget projection of a \$672,000 deficit.

Balance Sheet

Projected year end result:

- Underlying working capital ratio 1.74 to 1 (original budget 1.64 to 1)

Cash Flow Statement

Projected year end result:

- Cash assets: \$7.164 million (original budget \$9.121 million)

Financial carry forwards and other budget adjustments – Impact on projected results

- The projected operating result for 2016/17 is a \$4.810 million surplus. This is \$850,000 unfavourable compared to the original \$5.660 million surplus. This relates to operating budgets for uncompleted grant funded projects being carried forward from 2015/16 to 2016/17. The expected flow on unfavourable financial impact on this year's projected operating result does not present as a strategic concern.
- The \$1.109 million increase in capital expenditure when compared to the original budget can be attributed to unexpended capital budgets at 30 June 2016 being carried forward.
- The longer term financial performance indicators show that the current 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 – 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

South Gippsland Shire Council								
INCOME STATEMENT								
For the Period Ending 31 August 2016								
	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
INCOME								
Rates and charges	6,707	6,660	47		39,962	39,962	0	
Statutory fees and fines	88	92	(4)		606	606	0	
User fees	408	457	(49)		4,015	4,015	0	
Grants - Operating	2,800	2,803	(3)		13,106	13,168	62	A
Grants - Capital	0	0	0		7,660	7,540	(120)	B
Contributions - monetary	11	4	7		218	417	199	C
Contributions - non monetary	0	0	0		379	379	0	
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	289	24	265	1	81	167	86	D
Other income	333	330	3		2,309	2,309	0	
TOTAL INCOME	10,636	10,370	266		68,336	68,563	227	
EXPENSES								
Employee costs	3,974	4,044	70		23,837	23,879	(42)	E
Materials and consumables	3,876	4,145	269	2	23,797	24,681	(884)	F
Bad and doubtful debts	4	0	(4)		1	1	0	
Depreciation	1,834	1,966	132	3	11,797	11,797	0	
Borrowing costs	0	0	0		142	142	0	
Other expenses	1,033	887	(146)	4	3,102	3,253	(151)	G
TOTAL EXPENSES	10,721	11,042	321		62,676	63,753	(1,077)	
SURPLUS / (DEFICIT)	(85)	(672)	587		5,660	4,810	(850)	

NOTES: MATERIAL VARIATIONS IN YEAR-TO-DATE FINANCIAL PERFORMANCE

Note 1 Income: Net gain / (loss) on disposal of property, infrastructure, plant and equipment - \$265,000 ahead

- \$634,000 variation to year-to-date budgets in actual book value of assets sold. Budget profile will be reviewed to match asset sale program.
- \$375,000 income variation sales to year-to-date budgets from land and building sales.

Note 2 Expenditure: Materials and consumables - \$269,000 behind

- To facilitate the upgrading of the finance system to the Cloud, no changes to budget profiles were permitted in August. This has created some timing variations between actual costs and year-to-date budgets across a number of services. The key variations are listed below:-
- Year-to-date expenditure is ahead of year-to-date budgets for Information technology (\$165,000), Regulatory services (\$114,000) and Maintenance of civil infrastructure (\$400,000).
- Year-to-date expenditure is behind of year-to-date budgets for Aged and disability services (\$59,000), caravan parks (\$79,000), Economic development and tourism (\$74,000), Strategic planning (\$79,000), Executive Services (\$152,000), Parks and Gardens (\$251,000) and Property (\$167,000).

Note 3 Depreciation - \$132,000 behind

- Actual depreciation costed for asset infrastructure and plant way by \$132,000 to the year-to-date budget. Variation of depreciation costs is impacted by the timing of construction, purchases and sales of assets.

Note 3 Other expenses - \$146,000 ahead

- Grants, contributions and discretionary funds expenditure is \$112,000 ahead of year-to-date budgets.
- Allowances expenditure is \$41,000 ahead of year-to-date budgets.

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

Note A Income: Grants- Operating - \$62,000 favourable

- Grants of \$60,000 for Leongatha Skate Park and \$2,000 for recreation facilities carried forward from previous financial year.

Note B Income: Grants- Capital - \$120,000 unfavourable

- Less \$120,000 grant for Poowong pool, which was received in advance in the previous financial year.

Note C Income: Contributions - monetary - \$199,000 favourable

- Contributions of \$100,000 for Korumburra Child Care Hub and \$99,000 for Spencers Road Leongatha North guardrails carried forward from previous financial year.

Note D Income: Net gain / (loss) on disposal of property, infrastructure, plant and equipment - \$86,000 favourable

- \$86,000 net gain on fleet and cabin sales carried forward from last financial year.

Note E Expenditure: Employee costs - \$42,000 unfavourable

- \$42,000 for implementation of the Paperless Permit Processing project carried forward from last financial year.

Note F Expenditure: Materials and consumables - \$884,000 unfavourable

- \$884,000 cost carried forward from the previous financial year for a range of projects that were not completed by 30 June 2016. The more material costs include \$21,000 Coal Creek Education program, \$53,000 Foster Depot masterplan, \$29,000 Paperless Planning Permit project, \$102,000 for Strategic Planning projects, \$196,000 costs associated with a storm event that occurred in May 2016, \$21,000 Community Register project, \$163,000 for HACC Aged & Disability project, \$20,000 Lower Tarwin Communities projects, \$26,000 Great Southern Rail Trail, \$43,000 Leongatha Skate Park and \$90,000 Rural Cricket Facilities project.

Note G Expenditure: Other expenses - \$151,000 unfavourable

- \$151,000 for grants and contributions expenses carried forward from last financial year.

South Gippsland Shire Council
BALANCE SHEET
For the Period Ending 31 August 2016

	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
<u>ASSETS</u>					
CURRENT ASSETS					
Cash and cash equivalents	14,550	9,121	7,164	(1,957)	A
Trade and other receivables	44,584	3,815	4,203	388	
Other financial assets		4,312	6,896	2,584	B
Inventories	222	292	195	(97)	
Other assets	0	303	227	(76)	
	59,356	17,843	18,685	842	
NON CURRENT ASSETS					
Investments in associates and joint ventures	991	752	991	239	
Property, infrastructure, plant and equipment	522,561	525,751	532,141	6,390	C
Investment property	729	716	729	13	
	524,281	527,219	533,861	6,642	
TOTAL ASSETS	583,637	545,062	552,546	7,484	
<u>LIABILITIES</u>					
CURRENT LIABILITIES					
Trade and other payables	6,481	2,531	2,978	447	
Trust funds and deposits	490	1,065	873	(192)	
Provisions	5,674	5,238	5,045	(193)	
Interest bearing loans and borrowings	0	0	0	0	
	45,701	8,834	8,896	62	
NON CURRENT LIABILITIES					
Provisions	1,581	1,527	2,313	786	
Interest bearing loans and borrowings	3,350	3,350	3,350	0	
	4,931	4,877	5,663	786	
TOTAL LIABILITIES	50,632	13,711	14,559	848	
NET ASSETS	533,005	531,351	537,987	6,636	
<u>REPRESENTED BY</u>					
Accumulated Surplus	201,227	204,195	205,258	1,063	
Reserves	331,777	327,156	332,729	5,573	
TOTAL EQUITY	533,004	531,351	537,987	6,636	

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

Note A Current Assets: Cash and cash equivalents \$1.957 million

- Variation impacted by investments with maturity above three months being reclassified as 'other financial assets'. The cash is also impacted by levels of accounts payable and receivable at year end that vary to budgeted year end projections.

Note B Current Assets: Other financial Assets \$2.584 million

- \$2.584 million investments with maturity above three months reclassified as 'other financial assets'.

Note C Non-Current Assets: Property, infrastructure, plant and equipment \$6.390 million

- \$6.390 million variance projection predominantly due to asset closing position for previous 2015/16 year being greater than originally anticipated. Infrastructure asset revaluations, particularly for bridges, were significantly increased.

South Gippsland Shire Council
CASH FLOW STATEMENT
For the Period Ending 31 August 2016

	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
CASHFLOWS FROM OPERATING ACTIVITIES					
Rates and charges	8,613	39,962	39,962	0	
Statutory fees & fines	88	606	606	0	
User fees	573	4,015	4,015	0	
Grants - operating	2,800	13,106	13,168	62	A
Grants - capital	0	7,660	7,540	(120)	B
Contributions- monetary	11	218	417	199	C
Interest received	109	602	602	0	
Other receipts	242	1,707	1,707	0	
Employee costs	(3,987)	(23,736)	(23,778)	(42)	D
Materials and services	(9,948)	(23,797)	(24,682)	(885)	E
Other payments	(1,033)	(3,102)	(3,253)	(151)	F
Net cash provided by (used in) operating activities	(2,532)	17,241	16,304	(937)	
CASHFLOWS FROM INVESTING ACTIVITIES					
Payments for property, infrastructure, plant & equipment	(1,436)	(20,813)	(21,922)	(1,109)	G
Proceeds from sale of property, infrastructure, plant and equipment	289	1,487	1,573	86	H
Trust Funds and deposits	(19)	0	0	0	
Payments for / from Other Financial Assets	15,315		8,418	8,418	I
Net cash provided by (used in) investing activities	14,149	(19,326)	(11,931)	7,395	
CASHFLOWS FROM FINANCING ACTIVITIES					
Finance costs	0	(142)	(142)	0	
Proceeds from borrowing	0	0	0	0	
Repayment of borrowings	0	0	0	0	
Net cash provided by (used in) financing activities	0	(142)	(142)	0	
Net increase (decrease) in cash and cash equivalents	11,617	(2,227)	4,231	6,458	
Cash and cash equivalents at the beginning of the financial year	2,933	11,349	2,933	(8,416)	J
Cash and cash equivalents at the end of the period	14,550	9,122	7,164	(1,958)	

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

Note A Cash inflows from operations: Grants operating \$62,000 increase

- Grants of \$60,000 for Leongatha Skate Park and \$2,000 for recreation facilities carried forward from previous financial year.

Note B Cash inflows from operations: Grants capital \$120,000 decrease

- Less \$120,000 grant for Poowong pool. It was received in advance in the previous financial year.

Note C Cash inflows from operations: Contributions - monetary \$199,000 increase

- Contributions of \$100,000 for Korumburra Child Care Hub and \$99,000 for Spencers Road Leongatha North guardrails carried forward from previous financial year.

Note D Cash outflows from operations: Employee costs \$42,000 increase

- \$42,000 costs for implementation of Paperless Permit Processing project carried forward from last financial year.

Note E Cash outflows from operations: Materials and Services \$885,000 increase

- \$885,000 cost carried forward from the previous financial year for a range of projects that were not completed by 30 June 2016. The more material costs include \$21,000 Coal Creek Education program, \$53,000 Foster Depot masterplan, \$29,000 Paperless Planning Permit project, \$102,000 for Strategic Planning projects, \$196,000 costs associated with a storm event that occurred in May 2016, \$21,000 Community Register project, \$163,000 for HACC Aged & Disability project, \$20,000 Lower Tarwin Communities projects, \$26,000 Great Southern Rail Trail, \$43,000 Leongatha Skate Park and \$90,000 Rural Cricket Facilities project.

Note F Cash outflows from operations: Other payments \$151,000 increase

- \$151,000 grants and contributions expenses carried forward from last financial year.

Note G Cash outflows from Investing Activities: Payment for property, infrastructure plant and equipment \$1.109 million increase

- \$1.109 million net cost carried forward from the previous financial year for a range of projects that were not completed by 30 June 2016. This includes

\$66,000 Coal Creek projects, \$127,000 Long Jetty Caravan Park, \$494,000 Information Technology projects, \$45,000 Princess Street Korumburra, \$56,000 Landfill Cells, \$20,000 Leachate Evaporation, \$403,000 Reseal and Reseal preparation works, \$28,000 Footpath extension program, \$32,000 North Poowong Road, \$53,000 Public Toilet- Waratah Bay, \$24,000 Bridge Rehabilitation program, \$39,000 Guard Rail replacement program as well as \$278,000 budget for the Korumburra Child Care Hub reduced as a result of works being completed in advance in the previous financial year.

Note H Cash inflows from Investing Activities: Proceeds from sale of property, infrastructure plant and equipment \$86,000 increase

- \$86,000 net gain on fleet and cabin sales carried forward from last financial year.

Note I Cash inflows from Investing Activities: Payments for / from other financial assets \$8.814 million increase

- Net movement in payments for / from 'other financial assets' to 'cash and cash equivalents'.

Note J Cash and cash equivalents at the beginning of the financial year \$8.416 million decrease

- The majority of this reduction is attributable to 'cash and cash equivalents' that are expected to have a maturity above 3 months being reclassified as 'other financial assets'.

FINANCIAL CARRY FORWARDS

Financial carry forwards from 2015/16 to 2016/17 are listed below:

Recurrent Income

Cost Centre	Cost Centre Name	Activity Name	Account Name	\$
3310	Recreation Facilities	Strategic Plans	State Government Grant (non recurrent)	2,000
3461	Long Jetty Caravan Park Capital	Cabin Replacement	General Land and Building Sales	10,000
8040	Fleet - Fleet Purchases	General	Vehicle Sales	76,349
9425	Buildings - Child Care Hub - Korumburra	General	Contributions to Capital	100,000
9471	Pools - Renewal Program	Poowong Swimming Pool	Capital - State Government Grant (non recurrent)	(120,000)
9578	Recreation - Leongatha Skate Park	General	State Government Grant (non recurrent)	60,000
9825	Guard Rails - Replacement Program	Spencers Road, Leongatha North	Contributions to Capital	99,000

Recurrent Expenses

Cost Centre	Cost Centre Name	Activity Name	Account Name	\$
1603	Tramway	Bush Tramway(34)	Materials	7,851
1655	Education Programs	Strategic Partnership Program Grant	Printing and Stationery	3,779
1655	Education Programs	Strategic Partnership Program Grant	Contractors	11,842
1655	Education Programs	Strategic Partnership Program Grant	Materials	5,358
2110	Grants / Emergency Management	General	Grants and Contributions	121,965
2110	Grants / Emergency Management	General	Grants and Contributions	22,220
2115	Sustainability Services	Sustainability Wiki	Contractors	1,886
2370	Property Coordination	Master planning of the Foster Depot	Contractors	52,719
2405	Planning Management	Paperless Planning Permit Processing	Casual Labour - Payroll Use Only	37,107

Cost Centre	Cost Centre Name	Activity Name	Account Name	\$
2405	Planning Management	Paperless Planning Permit Processing	Casual Staff Oncosts - Payroll Use Only	4,868
2405	Planning Management	Paperless Planning Permit Processing	Training and Professional Development	3,000
2405	Planning Management	Paperless Planning Permit Processing	Software Purchases and Enhancements	10,000
2405	Planning Management	Paperless Planning Permit Processing	Hardware	16,000
2410	Strategic Planning	Housing and Settlement Strategy	Consultancies	2,551
2410	Strategic Planning	Korumburra Streetscape Master Plan	Consultancies	32,523
2410	Strategic Planning	Korumburra Streetscape Master Plan	Contractors	5,728
2410	Strategic Planning	Port Welshpool Master Plan	Contractors	5,534
2410	Strategic Planning	Turtons Creek Environmental Significance Overlay	Materials	9,970
2410	Strategic Planning	Mirboo North Structure Plan	Consultancies	35,000
2410	Strategic Planning	Earth Worm Mapping - Giant Gippsland Earthworm	Legal Fees	11,000
2468	Storm Event - 1 - 3 May 2016	Response	Contractors	196,366
3210	Access and Inclusion Program	Disability Inclusive Businesses	Grants, Contributions and Discretionary Funds	2,243
3210	Access and Inclusion Program	South Coast Access Alliance	Contractors	3,144
3210	Access and Inclusion Program	Respectful Relationships	Contractors	2,756
3213	Community Register Project	General	Printing and Stationery	21,266
3275	Building Inclusive Communities	Rural Access Program	Contractors	14,094
3290	Aged and Disability Services Management	General	Minor Furniture, Plant and Equipment	30,125
3290	Aged and Disability Services Management	Minor Capital	Minor Furniture, Plant and Equipment	162,974
3310	Recreation Facilities	Strategic Plans	Consultancies	2,968

Cost Centre	Cost Centre Name	Activity Name	Account Name	\$
3315	Youth Development	Learner Driver Project	Minor Furniture, Plant and Equipment	18,889
3315	Youth Development	Leongatha Skate Park	Grants, Contributions and Discretionary Funds	5,000
3315	Youth Development	Youth Project - FreeZZa (3 years)	Contractors	3,131
3350	Arts and Culture	Gippsland Network Creative Gippsland	Contractors	5,780
3360	Supported Playgroups	General	Contractors	7,508
3375	Community Building	Volunteer Development Project	Contractors	1,948
3375	Community Building	Lower Tarwin Communities Project	Contractors	19,529
4110	Communications	General	Marketing, Advertising and Promotion	11,700
8298	Dredging Toora Channel New Proposal	General	Contractors	4,395
8309	Bridge - Black Spur Bridge Investigation - Koonwarra	General	Contractors	4,255
8885	Corner Inlet Tourism - Great Southern Rail Trail	General	Contractors	25,742
9578	Recreation - Leongatha Skate Park	General	Contractors	42,932
9819	Recreation - South Gippsland Rural Cricket Facilities	General	Contractors	90,000

Capital Expenditure

Cost Centre	Cost Centre Name	Activity Name	Account Name	\$
1670	Coal Creek - Capital Projects	General	Contractors	66,256
3461	Long Jetty Caravan Park Capital	Power Head Replacement Program	Minor Furniture, Plant and Equipment	7,500
3461	Long Jetty Caravan Park Capital	Cabin Replacement	Contractors	79,203
3461	Long Jetty Caravan Park Capital	Recreation Room Refurbishment	Contractors	3,440
3461	Long Jetty Caravan Park Capital	Storage Shed	Contractors	37,054
8030	IT Capital Works	Integrated Platform	Software Purchases and Enhancements	- (67,500)
8030	IT Capital Works	Network Infrastructure	Hardware	341,064
8030	IT Capital Works	Governance Software	Software Purchases and Enhancements	42,000
8030	IT Capital Works	Online Induction Software	Software Purchases and Enhancements	28,500
8030	IT Capital Works	Council Website	Software Purchases and Enhancements	11,038
8030	IT Capital Works	Unified Comms	Software Purchases and Enhancements	103,089
8030	IT Capital Works	GIS System Replacement	Software Purchases and Enhancements	11,095
8030	IT Capital Works	Aerial Photography	Contractors	- (1,041)
8030	IT Capital Works	GPS Tracking	Contractors	5,555
8030	IT Capital Works	Conquest 3 Upgrade	Software Purchases and Enhancements	6,500
8030	IT Capital Works	Win Vaccs Upgrade	Software Purchases and Enhancements	14,025
8279	Roads - Princes Street - Korumburra	General	Contractors	114,764
8279	Roads - Princes Street - Korumburra	General	Contractors	- (70,000)
8567	Waste - Landfills	Cell Construction	Contractors	6,146
8567	Waste - Landfills	Design - Rehabilitation	Contractors	50,000
8610	Waste - Leachate Evaporation System	General	Contractors	20,000
8772	Roads - Reseals (Partially funded R2R)	General	Contractors	300,654

Cost Centre	Cost Centre Name	Activity Name	Account Name	\$
8774	Roads - Reseal Preparation	General	Contractors	101,662
8876	Footpaths - Extension - Walkerville Road - Tarwin Lower	General	Contractors	28,367
9081	Roads - North Poowong Road, Poowong	General	Contractors	31,806
9425	Buildings - Child Care Hub - Korumburra	General	Contractors	- (278,394)
9550	Buildings - Public Toilet Renewal	Public Toilets, Waratah Bay	Contractors	93,537
9550	Buildings - Public Toilet Renewal	Public Toilets, Waratah Bay	Contractors	- (40,000)
9657	Bridge - Rehabilitation Program	General	Contractors	23,783
9825	Guard Rails - Replacement Program	Spencers Road, Leongatha North	Contractors	38,673

This translated to a net \$850,000 decrease in the projected operating result.

Similarly the capital expenditure budget has been increased by \$1.109 million to account for capital works that were budgeted to be completed by 30 June but were not completed.

SECTION 2 – 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 normally compares the current 2016/17 Budget and Long Term Financial Plan forecasts to the original plan (the Annual Budget & Long Term Financial Plan was adopted for 2016/17 on 22 June 2016).

The lines in the following graphs are as follows

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

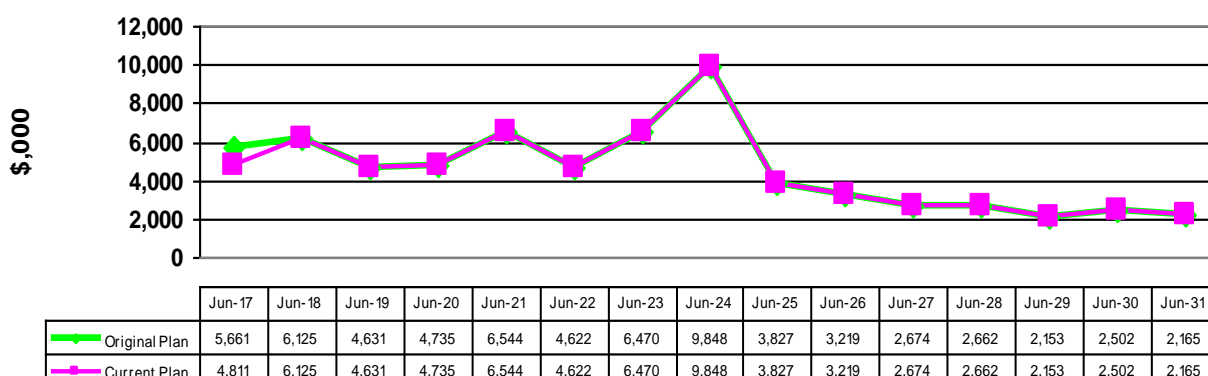
Operating Result (including gain /loss on asset disposals)

As expected so early in the new financial year, the current plan’s projected operating results correlates closely with the original plan. The reduction in the operating result for 2016/17 is attributable to the financial budgets for uncompleted grant funded projects being carried forward from 2015/16.

The projected operating results in the forward budget remain relatively stable for a number of years. The spike in 2023/24 is attributable to the Council receiving \$6.76 million Special Charge income for a major roads and drainage project in Nyora.

In the later years of the plan the projected 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.

Operating Result (\$,000)

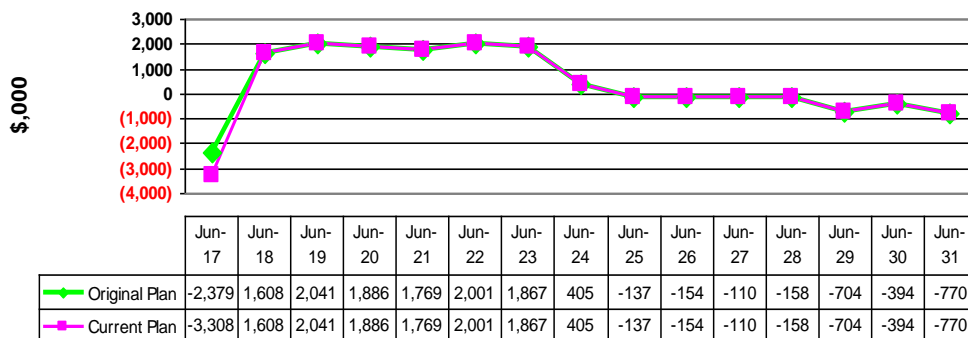


Operating Result before Capital Funding

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 longer term downward trend mirrors the operating result outcomes discussed immediately above.

Operating Result before Capital Funding (\$,000)

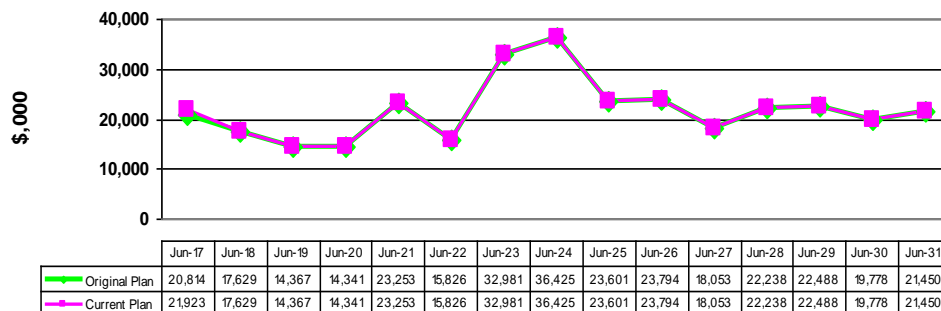


Capital Expenditure

The 2016/17 budget was adjusted to take into account the financial ramifications of carrying forward funds for projects that were not completed by 30 June 2016. In total, \$2.54 million funds were carried forward from 2015/16 (this includes \$1.43 million identified during the 2016/17 budget development process and an additional \$1.11 million identified at financial year end).

As expected so early in the new financial year, the current plan's projected capital works program correlates closely with the original plan.

Capital Expenditure (\$,000)

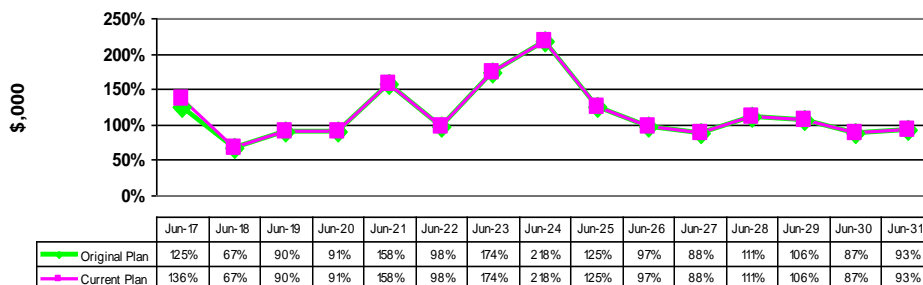


Sustainability Index for Capital Assets

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 ratio marginally trends up in 2016/17 to account for the carrying forward of capital renewal expenditure from 2015/16 to the following financial year.

As expected so early in the financial year, 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

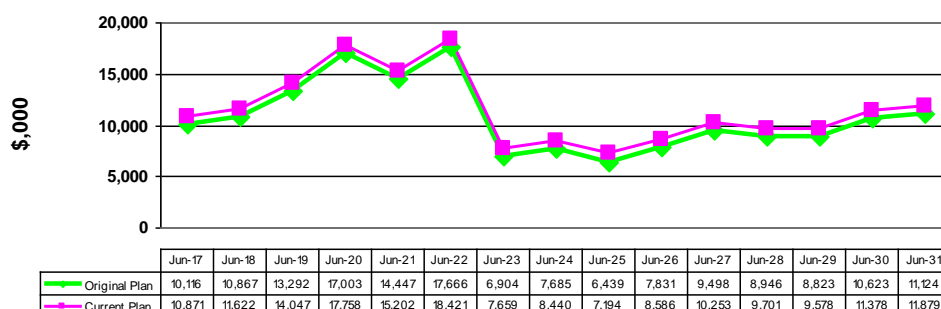


Underlying Liquidity

The current plan's forecast underlying cash position is marginally stronger than the original plan. The reason is due to a combination of actual financial outcome for 2015/16 being marginally favourable to the forecasted results and the change of mix of accounts receivables and accounts payable at financial year end to budget forecasts.

Due to the inherent volatility of debtors and creditors on cash position at any point in time the underlying cash is always assessed in conjunction with the underlying working capital ratio.

Underlying Liquidity (\$,000)

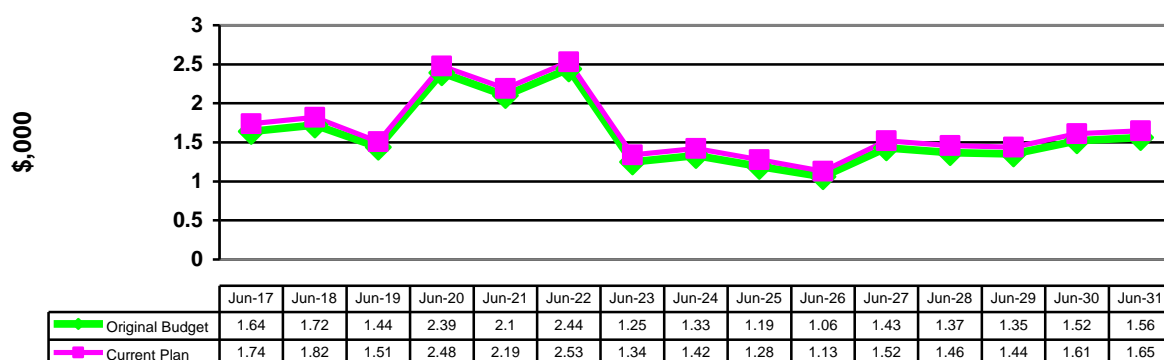


Underlying Working Capital Ratio

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 so early in the new financial year the underlying working capital ratio in the current plan correlates closely to the original plan.

The underlying working capital ratio shows a gradual downward trend in the mid to later years of the forward budget.

Underlying Working Capital Ratio



Conclusion

The table below shows several key financial performance indicators targets set when the 2016/17 Budget and Long Term Financial Plan were adopted. Ratios coloured green denote low risk, yellow medium risk and red indicate either short term / immediate sustainability concerns.

2016/17 Original Budget	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
Financial performance															
Underlying result	-3.95%	2.68%	3.30%	2.98%	2.70%	2.97%	2.68%	0.57%	-0.19%	-0.20%	-0.14%	-0.20%	-0.85%	-0.46%	-0.88%
Underlying Working Capital	1.64	1.72	1.44	2.39	2.10	2.44	1.25	1.33	1.19	1.06	1.43	1.37	1.35	1.52	1.56
Funding capacity															
Self-financing	25.37%	28.25%	26.91%	26.96%	29.07%	27.08%	29.05%	27.16%	28.67%	28.15%	27.67%	27.63%	27.32%	26.52%	26.30%
Sustainability Index	125%	67%	90%	91%	158%	98%	174%	218%	125%	97%	88%	111%	106%	87%	93%
Borrowing capacity															
Indebtedness	10.38%	8.51%	1.68%	1.76%	1.85%	1.92%	2.01%	22.77%	24.82%	20.36%	19.18%	18.03%	16.90%	15.78%	14.69%
Total Debt as a % of Rate revenue	8.38%	8.13%	7.88%	0.00%	0.00%	0.00%	0.00%	24.13%	26.59%	25.78%	20.58%	19.13%	17.71%	16.32%	14.95%
Debt servicing costs as a % of Total revenue	0.21%	0.22%	0.22%	0.08%	0.00%	0.00%	0.00%	0.84%	0.88%	0.86%	0.65%	0.66%	0.61%	0.57%	0.53%

The table on the following page shows the current status of key financial indicators. The majority of indicators remain within strategic thresholds targets. It is marginally stronger than the original plan.

Proposed Budget	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
Financial performance															
Underlying result	-5.47%	2.68%	3.30%	2.98%	2.70%	2.97%	2.68%	0.57%	-0.19%	-0.20%	-0.14%	-0.20%	-0.85%	-0.46%	-0.88%
Underlying Working Capital	1.74	1.82	1.51	2.48	2.19	2.53	1.34	1.42	1.28	1.13	1.52	1.46	1.44	1.61	1.65
Funding capacity															
Self-financing	36.26%	28.25%	26.91%	26.96%	29.07%	27.08%	29.05%	27.16%	28.67%	28.15%	27.67%	27.63%	27.32%	26.52%	26.30%
Sustainability Index	136%	67%	90%	91%	158%	98%	174%	218%	125%	97%	68%	111%	106%	87%	93%
Borrowing capacity															
Indebtedness	12.03%	10.14%	3.25%	3.29%	3.33%	3.36%	3.40%	23.98%	26.13%	21.63%	20.42%	19.23%	18.06%	16.91%	15.79%
Total Debt as a % of Rate revenue	8.38%	8.13%	7.88%	0.00%	0.00%	0.00%	0.00%	24.13%	26.59%	25.78%	20.58%	19.13%	17.71%	16.32%	14.95%
Debt servicing costs as a % of Total revenue	0.21%	0.22%	0.22%	0.08%	0.00%	0.00%	0.00%	0.84%	0.88%	0.86%	0.65%	0.66%	0.61%	0.57%	0.53%

The underlying working capital ratio in the immediate years indicates that Council in those years has financial capacity to accommodate unforeseen strategic opportunities or unavoidable cost events that may arise in that period of time.

The immediate forward years also project a series of stable underlying surpluses. In the middle to 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.

To address the longer term downward trend in projected underlying operating results, any net favourable productivity gains identified in the mid to later years of the Long Term Financial Plan be allowed to flow through to the bottom line so as to strategically begin addressing the downward trend in the forecast underlying operating results.

The forward budget rate rises are currently modelled at 2.5%, this being the Victorian Treasury estimate provided in December 2015. It is based on their estimate of inflation (2.5% being the mid-point CPI projection of RBA). The actual inflation rate has been significantly less.

There is a real possibility that the Minister for Local Government may reduce the rate cap for 2017/18 and in future years. If the rate rise was reduced from 2.5% to 1.5%, for example, in 2017/18 (one financial year) this would mean that Council would receive \$360,000 less for 2017/18, \$4.2 million less over 10 years and \$6.8 million over 15 years. Similar reductions could also occur for any inflation indexed recurrent grants that Council has in its LTFP.

This situation will need to be monitored and strategically managed as part of the development of the forthcoming 2017/18 Annual Budget / LTFP.