

Financial Performance Report – November 2016

The Financial Performance Report covers the five month period from July 2016 to November 2016.

Overview

Income Statement

Annual year-to-date performance:

- Operating result: \$1.576m surplus which is \$2.884m favourable compared to the year-to-date budget projection of a \$1.308m 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)

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.

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

	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	16,645	16,651	(6)		39,962	39,962	0	
Statutory fees and fines	243	240	3		606	606	0	
User fees	1,490	1,517	(27)		4,015	4,015	0	
Grants - Operating	5,991	5,922	69		13,106	13,168	62	
Grants - Capital	1,941	1	1,940	1	7,660	7,540	(120)	A
Contributions - monetary	133	120	13		218	417	199	B
Contributions - non monetary	0	0	0		379	379	0	
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	496	212	284	2	81	168	87	
Other income	810	933	(123)		2,309	2,309	0	
TOTAL INCOME	27,749	25,596	2,153		68,336	68,564	228	
EXPENSES								
Employee costs	10,120	10,338	218	3	23,837	23,879	(42)	
Materials and consumables	9,829	9,928	99		23,797	24,681	(884)	C
Bad and doubtful debts	5	0	(5)		1	1	0	
Depreciation	4,577	4,915	338	4	11,797	11,797	0	
Borrowing costs	72	52	(20)		142	142	0	
Other expenses	1,570	1,671	101		3,102	3,253	(151)	D
TOTAL EXPENSES	26,173	26,904	731		62,676	63,753	(1,077)	
SURPLUS / (DEFICIT)	1,576	(1,308)	2,884		5,660	4,811	(849)	

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

Note 1 Income: Grants – Capital - \$1.94 million ahead

- \$1.46 million grant for Roads to Recovery projects received in advance.
- \$480,000 received in advance for Korumburra Child Care Hub project.

Note 2 Income: Net gain / (loss) on disposal of property, infrastructure, plant and equipment - \$265,000 ahead

- \$284,000 variation to year-to-date budgets in income received and actual book value of assets sold. Budget profile will be reviewed to match asset sale program.

Note 3 Expenditure: Employee Costs - \$218,000 behind

- \$218,000 variation to year-to-date budgets in employee costs across a number of services. Variation is due to a combination of unfilled positions and timing impacts caused by staff taking annual leave.

Note 4 Expenditure: Depreciation - \$338,000 behind

- Actual depreciation costed for asset infrastructure and plant varied by \$338,000 to the year-to-date budget. Variation of depreciation costs is impacted by the timing of construction, purchases and sales of assets.

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

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

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

Note B 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 C 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 Aged & Disability services 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 D 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 30 November 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	15,021	9,121	7,164	(1,957)	A
Trade and other receivables	34,984	3,815	4,203	388	
Other financial assets		4,312	6,896	2,584	B
Inventories	165	292	195	(97)	
Other assets	0	303	227	(76)	
	50,170	17,843	18,685	842	
NON CURRENT ASSETS					
Investments in associates and joint ventures	991	752	991	239	
Property, infrastructure, plant and equipment	523,768	525,751	532,141	6,390	C
Investment property	729	716	729	13	
	525,488	527,219	533,861	6,642	
TOTAL ASSETS	575,658	545,062	552,546	7,484	
<u>LIABILITIES</u>					
CURRENT LIABILITIES					
Trade and other payables	6,598	2,531	2,978	447	
Prepaid Income	24,720		0	0	
Trust funds and deposits	534	1,065	873	(192)	
Provisions	5,706	5,238	5,045	(193)	
Interest bearing loans and borrowings	0	0	0	0	
	37,558	8,834	8,896	62	
NON CURRENT LIABILITIES					
Provisions	3,350	1,527	2,313	786	
Interest bearing loans and borrowings	3,350	3,350	3,350	0	
	6,700	4,877	5,663	786	
TOTAL LIABILITIES	44,258	13,711	14,559	848	
NET ASSETS	531,400	531,351	537,987	6,636	
<u>REPRESENTED BY</u>					
Accumulated Surplus	202,973	204,195	205,258	1,063	
Reserves	331,777	327,156	332,729	5,573	
TOTAL EQUITY	534,750	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 is 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 2015/16 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 30 November 2016

	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
CASHFLOWS FROM OPERATING ACTIVITIES					
Rates and charges	17,324	39,962	39,962	0	
Statutory fees & fines	243	606	606	0	
User fees	1,336	4,015	4,015	0	
Grants - operating	5,991	13,106	13,168	62	
Grants - capital	1,941	7,660	7,540	(120)	A
Contributions- monetary	133	218	417	199	B
Interest received	283	602	602	0	
Other receipts	623	1,707	1,707	0	
Employee costs	(10,116)	(23,736)	(23,778)	(42)	
Materials and services	(14,575)	(23,797)	(24,682)	(885)	C
Other payments	(1,570)	(3,102)	(3,253)	(151)	D
Net cash provided by (used in) operating activities	1,613	17,241	16,304	(937)	
CASHFLOWS FROM INVESTING ACTIVITIES					
Payments for property, infrastructure, plant & equipment	(5,263)	(20,813)	(21,841)	(1,028)	E
Proceeds from sale of property, infrastructure, plant and equipment	496	1,487	1,655	168	F
Trust Funds and deposits	0	0	0	0	
Payments for / from Other Financial Assets	15,314		8,255	8,255	G
Net cash provided by (used in) investing activities	10,547	(19,326)	(11,931)	7,395	
CASHFLOWS FROM FINANCING ACTIVITIES					
Finance costs	(72)	(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	(72)	(142)	(142)	0	
Net increase (decrease) in cash and cash equivalents	12,088	(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)	H
Cash and cash equivalents at the end of the period	15,021	9,122	7,164	(1,958)	

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

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

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

Note B 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 C 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 Aged & Disability Services 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 D Cash outflows from operations: Other payments \$151,000 increase

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

Note E Cash outflows from Investing Activities: Payment for property, infrastructure plant and equipment \$1.028 million increase

- \$1.028 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.

- \$50,000 less on community Infrastructure projects and \$272,000 less on capital land sale related project costs.
- Additional \$20,000 on Councillor laptops, \$120,000 on the Fish Creek School Crossing construction projects

Note F Cash inflows from Investing Activities: Proceeds from sale of property, infrastructure plant and equipment \$168,000 increase

- \$168,000 net gain on fleet, land and cabin sales carried forward from last financial year.

Note G Cash inflows from Investing Activities: Payments for / from other financial assets \$8.255 million increase

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

Note H 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'.

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.

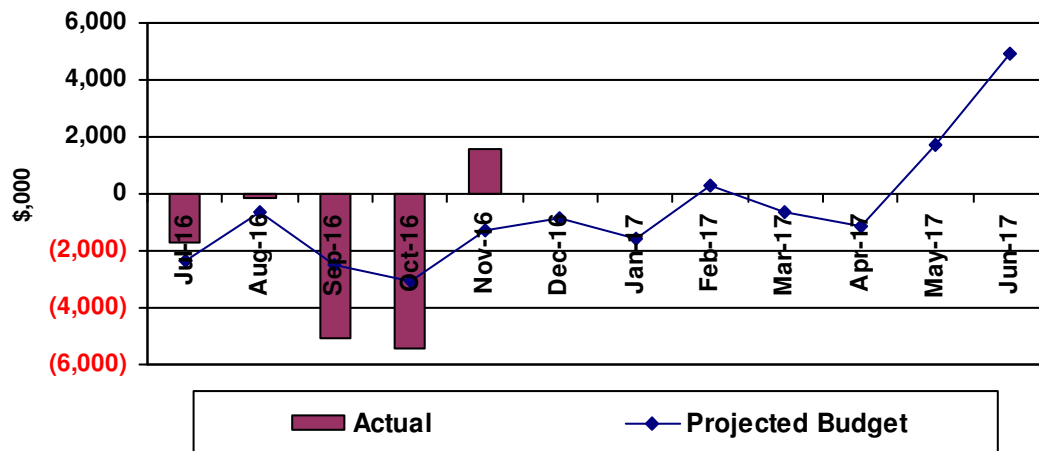
Operating Performance

Operating Budget \$ 1.58 million Surplus for the period Jul-16 to Nov-16

Operating Result \$ 1.31 million Deficit for the period Jul-16 to Nov-16

The operational result varies by \$2.89 million to the projected year to date budget. This variation is due to timing of actual costs to year to date budgets, and is predominantly impacted by receiving \$1.94 million capital grants in advance.

Operating Performance (\$'000)



Capital Performance

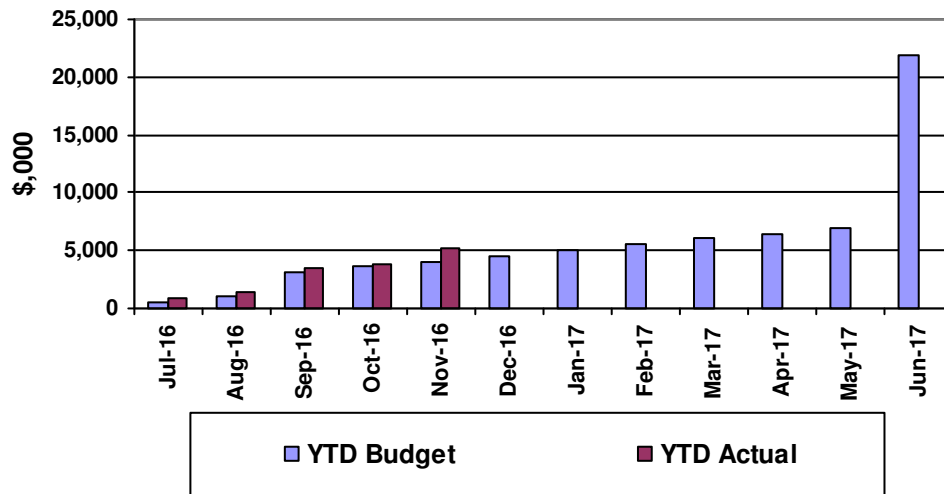
Capital Budget \$4.05 million for the period Jul-16 to Nov-16

Actual Expenditure \$5.26 million for the period Jul-16 to Nov-16

Capital Expenditure \$1.21 million ahead of year to date budgets

The Capital Works Program is running ahead of year to date budgets.

Capital Performance (\$'000)



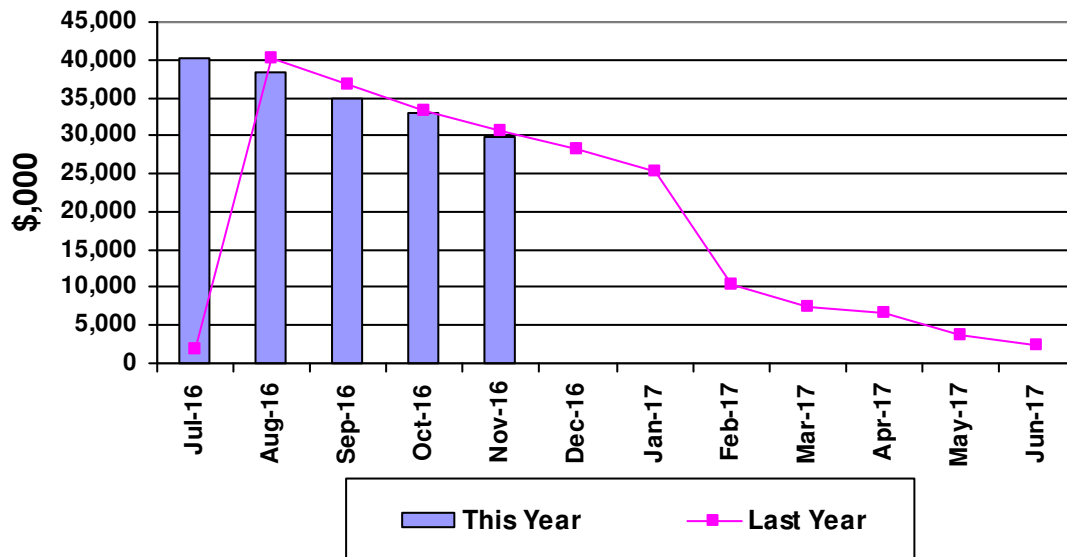
Rate Debtors

Outstanding 16/17 \$29.74 million as at Nov-16

Outstanding 15/16 \$30.57 million as at Nov-15

The outstanding rates as at 30 Nov 2016 has parity to last year.

Rate Debtors (\$,000)



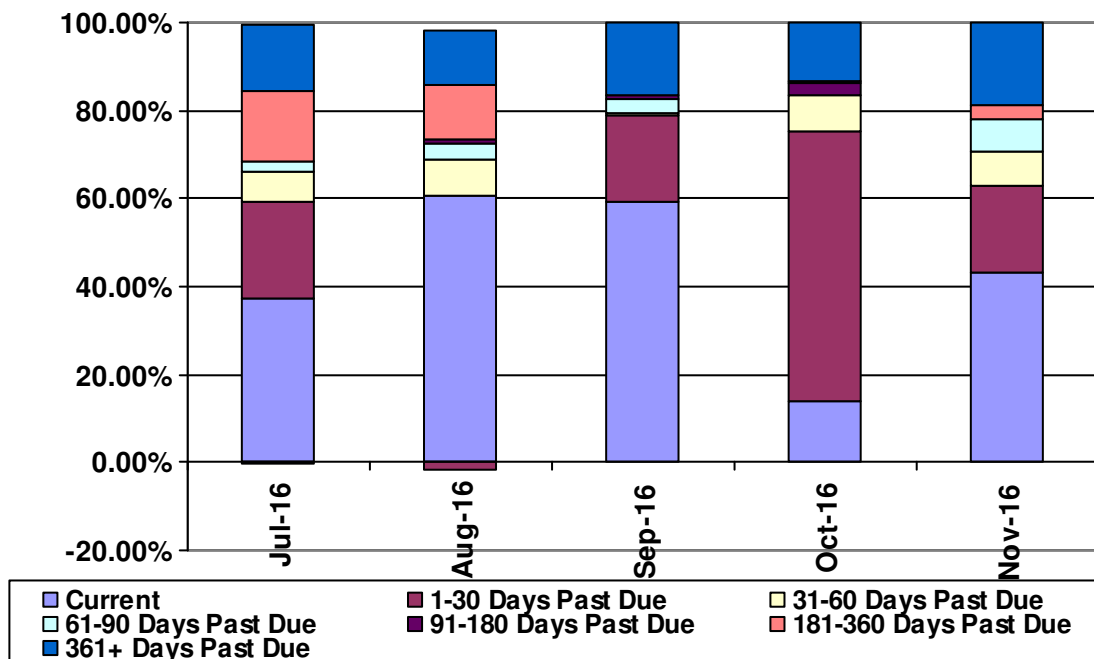
Other Sundry Debtors

Outstanding 16/17 \$ 0.96 million as at Nov-16

Outstanding 15/16 \$ 0.98 million as at Nov-15

The Current and 1-30 Days Past Due make up approx. 63% of total debtors outstanding. Caravan Park holders whose annual payment was due on the 30th September but have entered into payment arrangements make up a large proportion of the remaining outstanding.

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 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).

In November Council began preparing a draft 2017/18 Budget / Long Term Financial Plan. The November Financial Performance Report does not include the 1st Draft 2017/18 Budget and forward budgets that are currently being considered by Council. They are very preliminary costings subject to change.

The lines in the following graphs are as follows:

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

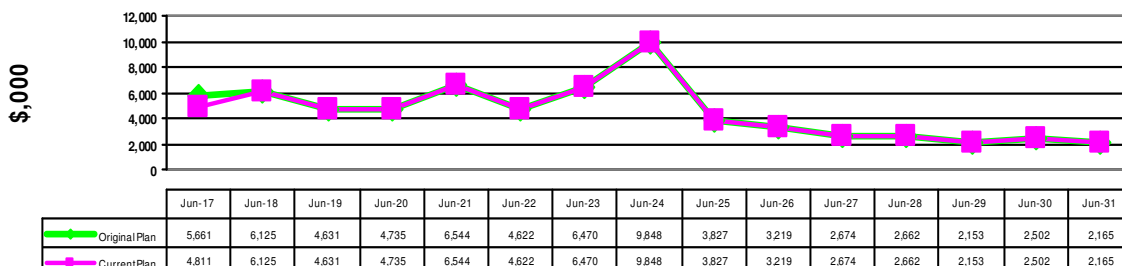
Operating Result (including gain /loss on asset disposals)

The current plan’s projected operating results correlate 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)

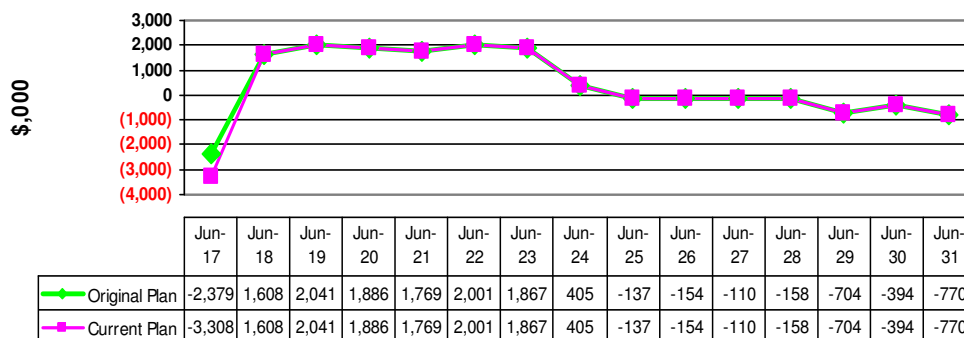


Operating Result before Capital Funding

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 Council's recurrent operating activities. The current plan underlying result of a longer term downward trend mirrors the operating result outcomes discussed immediately above.

Operating Result before Capital Funding (\$,000)

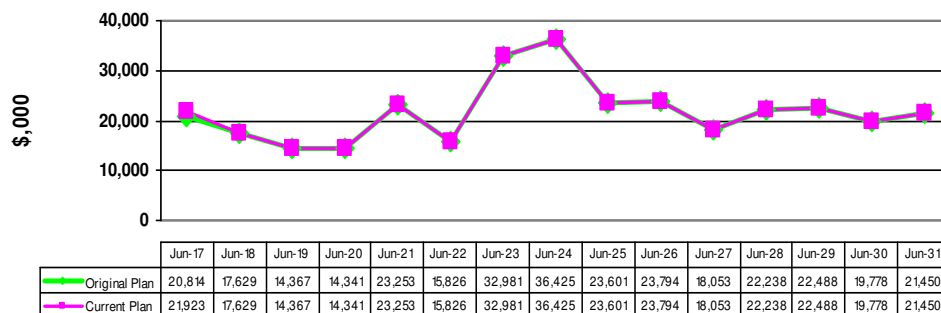


Capital Expenditure

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 was 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).

The current plan's projected capital works program correlates closely with the original plan.

Capital Expenditure (\$,000)

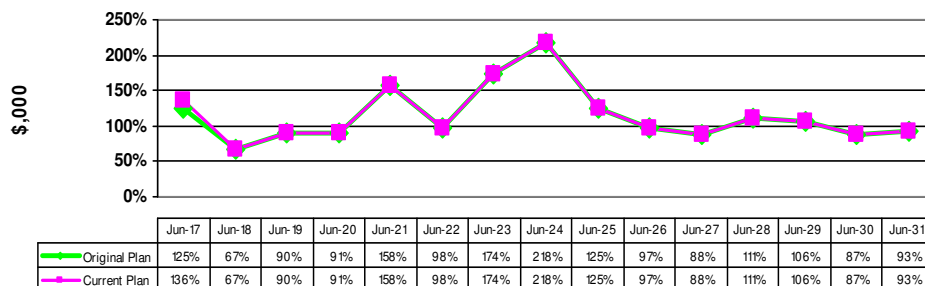


Sustainability Index for Capital Assets

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.

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 renewal funding gaps for all major classes of asset in the current plan.

Sustainability Index

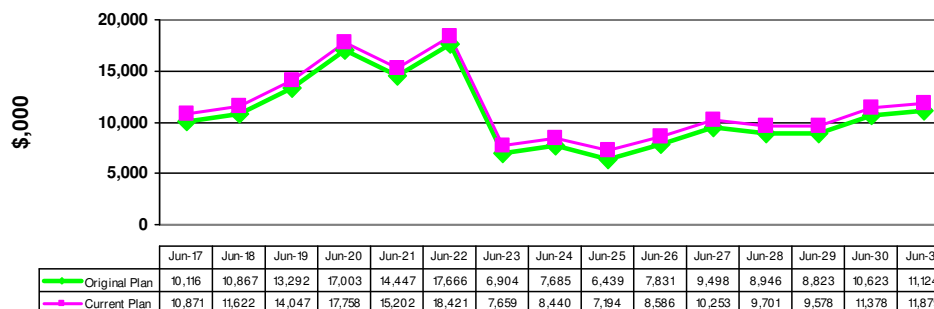


Underlying Liquidity

The current plan's forecast underlying cash position is marginally stronger than the original plan. This 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 relative to budget forecasts.

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

Underlying Liquidity (\$,000)

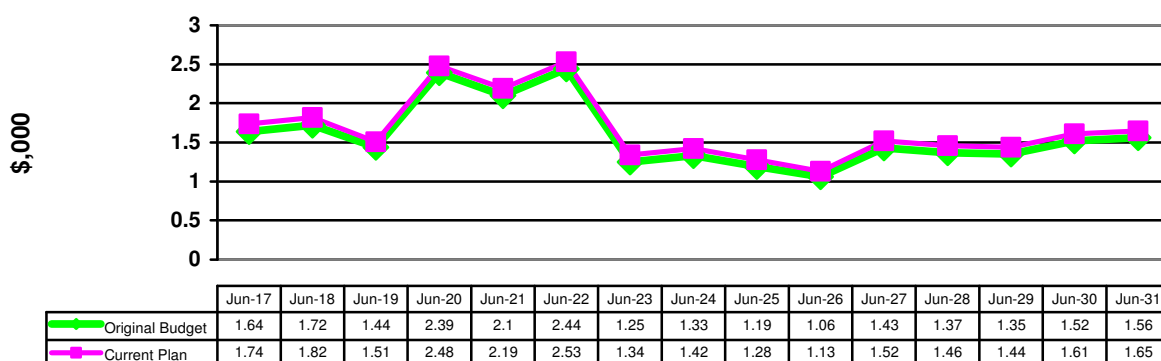


Underlying Working Capital Ratio

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. 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 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.

Current 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%	88%	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 in those years Council has the financial capacity to accommodate unforeseen strategic opportunities or unavoidable cost events that may arise in that 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 should be allowed to flow through to the bottom line so as to 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 Department of Treasury and Finance estimate provided in May 2016. It was based on their estimate of inflation. The actual inflation rate has been significantly less. The budget update issued in December 2016 has forecast inflation to be 2.00% for 2017/18.

The Minister for Local Government has since reduced the rate cap for 2017/18 to 2.00% and forward rises will be flat-lined at 2%.

This means that Council will receive \$186,000 less for 2017/18, \$12.3 million less over 10 years and \$25.4 million less over 14 years.

The reduced rate income will have a significant detrimental impact on both the underlying operating result and Council's working capital position in coming years as shown in the table immediately below.

2% Rate Cap 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	2031/32
Financial performance																
Underlying result	-5.47%	2.38%	2.70%	2.06%	1.48%	1.44%	0.84%	-1.65%	-2.74%	-3.10%	-3.36%	-3.40%	-4.77%	-4.70%	-5.50%	-4.16%
Underlying Working Capital	1.74	1.80	1.47	2.35	1.97	2.20	0.87	0.78	0.45	0.29	0.27	(0.04)	(0.37)	(0.53)	(0.86)	(0.88)
Current budget																
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%	0.35%
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	2.00
Variation of 2% Rate Cap to Current Budget																
Financial performance																
Underlying result	0.00%	-0.30%	-0.60%	-0.92%	-1.23%	-1.54%	-1.85%	-2.22%	-2.56%	-2.90%	-3.22%	-3.20%	-3.92%	-4.24%	-4.62%	-4.52%
Underlying Working Capital	-	(0.02)	(0.05)	(0.13)	(0.22)	(0.33)	(0.47)	(0.64)	(0.84)	(0.84)	(1.26)	(1.50)	(1.80)	(2.14)	(2.50)	(2.88)

This situation will need to be strategically managed in developing the forthcoming 2017/18 Annual Budget / LTFP.