

Financial Performance Report – February 2017

The Financial Performance Report covers the seven month period from July 2016 to February 2017.

Overview

Income Statement

Annual year-to-date performance:

- Operating result: \$4.790m surplus which is \$4.397m favourable compared to the year-to-date budget projection of a \$393,000 surplus.

Balance Sheet

Projected year end result:

- Underlying working capital ratio 1.94 to 1 (original budget 1.64 to 1)

Cash Flow Statement

Projected year end result:

- Cash assets: \$9.037 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

South Gippsland Shire Council								
INCOME STATEMENT								
For the Period Ending 28 February 2017								
	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	26,580	26,639	(59)		39,962	39,962	0	
Statutory fees and fines	427	404	23		606	607	1	
User fees	2,452	2,558	(106)		4,015	4,042	27	
Grants - Operating	8,990	9,479	(489)	1	13,106	12,826	(280)	A
Grants - Capital	2,661	1	2,660	2	7,660	9,914	2,254	B
Contributions - monetary	260	245	15		218	462	244	C
Contributions - non monetary	0	253	(253)	3	379	379	0	
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	786	(74)	860	4	81	104	23	
Other income	1,357	1,494	(137)		2,309	2,437	128	
TOTAL INCOME	43,513	40,999	2,514		68,336	70,733	2,397	
EXPENSES								
Employee costs	15,501	15,704	203	5	23,837	23,897	(60)	
Materials and consumables	13,619	14,981	1,362	6	23,797	23,958	(161)	D
Bad and doubtful debts	6	0	(6)		1	1	0	
Depreciation	7,303	7,471	168		11,797	11,208	589	
Borrowing costs	72	95	23		142	142	0	
Other expenses	2,222	2,355	133		3,102	3,213	(111)	E
TOTAL EXPENSES	38,723	40,606	1,883		62,676	62,419	257	
SURPLUS / (DEFICIT)	4,790	393	4,397		5,660	8,314	2,654	

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

Note 1 Income: Grants – Operating - \$489,000 behind

- \$333,000 grant for Great Southern Rail Trail not yet received.
- \$219,000 Storm Event grant not yet received.

Note 2 Income: Grants – Capital - \$2.66 million ahead

- \$1.46 million grant for Roads to Recovery projects received in advance.
- \$1.20 million grant received in advance for Korumburra Child Care Hub project.

Note 3 Income: Contributions – non monetary - \$253,000 behind

- Developer contribution of gifted assets running behind year to date budgets. Budget profile will be reviewed.

Note 4 Income: Net gain / (loss) on disposal of property, infrastructure, plant and equipment - \$860,000 ahead

- \$860,000 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 5 Expenditure: Employee Costs - \$203,000 behind

- \$203,000 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 6 Expenditure: Materials and Consumables - \$1.36 million behind

- Majority of variation is due to timing differences between actual costs and year to date budgets. The more significant cost centres that are tracking behind year to date budgets include: Long jetty Restoration (\$666,000), Plant operating costs (\$289,000), Black Spur investigation (\$234,000), Garbage and recycling collections (\$185,000), Strategic Planning (\$155,000) and Council Business operations (\$155,000). Cost centres expenditure ahead of year to date budgets include: Resheets (\$249,000) Gravel roads (163,000), Sealed Roads (\$117,000) and depot management (\$101,000).

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

Note A Income: Grants- Operating - \$280,000 unfavourable

- Grants of \$60,000 for Leongatha Skate Park and \$2,000 for recreation facilities carried forward from previous financial year.
- Additional \$11,000 grants for Victoria Grants commission Allocation, \$97,000 for Leongatha Golf Club, \$20,000 for Mirboo North, \$80,000 Sports Recreation Victoria project grants and \$25,000 for Seawall
- Less \$27,000 grant for State Emergency Services
- Grants of \$250,000 Toora Dredging, \$300,000 for Agnes Falls and \$50,000 Leongatha Rail Yards Landscape masterplan reduced in 2016/17 and carried forward to 2017/18
- Additional \$10,000 for Rural Cricket facilities,
- Additional \$12,000 for HACC services

Note B Income: Grants- Capital - \$2.25 million favourable

- Less \$120,000 grant for Poowong pool, which was received in advance in the previous financial year.
- Additional \$60,000 grant for Fish Creek School crossing construction project.
- Additional \$2.3m Federal Blackspot Grant.

Note C Income: Contributions - monetary - \$244,000 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.
- Reversal of 99,000 for guardrails carried forward in August
- Additional \$25,000 for Foster Streetscape project.
- Contributions of \$68,000 for South Gippsland Rural Cricket facility and \$51,000 for sealed roads rehabilitation program

Note D Expenditure: Materials and consumables - \$161,000 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.
- \$33,000 less of garbage and recycling services.
- Additional costs of 11,000 for risk and insurances, \$17,000 for corporate information management, \$220,000 for Leongatha Golf Club irrigation project, \$14,000 on Community buildings and \$8,000 on Arts & Culture.
- Costs reduced by \$554,000 for Toora Dredging, \$400,000 for Agnes Falls, and \$100,000 for Rail Yards masterplan and carried forward into 2017/18.

- Less \$271,000 for cost associated with land sales
- Additional \$107,000 for South Gippsland Rural Cricket facilities and \$43,000 for litter bins.
- Budget projection changes made in February as part of preparing a 2017/18 proposed budget include increases in costs for Long Jetty (\$61,000), Youth development (\$27,000), Minor works (\$21,000) and information technology (\$21,000) and decreased cost projections for Yanakie caravan park (\$55,000). Sustainable management (\$52,000) and litter bins (\$52,000).

Note E Expenditure: Other expenses - \$111,000 unfavourable

- \$151,000 for grants and contributions expenses carried forward from last financial year.
- \$28,000 less for Grants and Emergency management and \$11,000 less for internal audit costs

South Gippsland Shire Council					
BALANCE SHEET					
For the Period Ending 28 February 2017					
	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	27,567	9,121	9,037	(84)	
Trade and other receivables	12,365	3,815	4,203	388	
Other financial assets		4,312	6,896	2,584	A
Inventories	230	292	195	(97)	
Other assets	0	303	227	(76)	
	40,162	17,843	20,558	2,715	
NON CURRENT ASSETS					
Investments in associates and joint ventures	991	752	991	239	
Property, infrastructure, plant and equipment	526,903	525,751	533,771	8,020	B
Investment property	729	716	729	13	
	528,623	527,219	535,491	8,272	
TOTAL ASSETS	568,785	545,062	556,049	10,987	
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	6,302	2,531	2,978	447	
Prepaid Income	14,809		0	0	
Trust funds and deposits	510	1,065	873	(192)	
Provisions	5,850	5,238	5,045	(193)	
Interest bearing loans and borrowings	0	0	0	0	
	27,471	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	34,171	13,711	14,559	848	
NET ASSETS	534,614	531,351	541,490	10,139	
REPRESENTED BY					
Accumulated Surplus	206,186	204,195	208,639	4,444	
Reserves	331,777	327,156	332,851	5,695	
TOTAL EQUITY	537,963	531,351	541,490	10,139	

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

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

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

Note B Non-Current Assets: Property, infrastructure, plant and equipment \$8.02 million

- \$8.02 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 28 February 2017

	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
CASHFLOWS FROM OPERATING ACTIVITIES					
Rates and charges	39,356	39,962	39,962	0	
Statutory fees & fines	427	606	607	1	
User fees	2,423	4,015	4,042	27	
Grants - operating	8,990	13,106	12,826	(280)	
Grants - capital	2,661	7,660	9,915	2,255	A
Contributions- monetary	260	218	462	244	
Interest received	394	602	602	0	
Other receipts	1,081	1,707	1,835	128	
Employee costs	(15,356)	(23,736)	(23,796)	(60)	
Materials and services	(18,245)	(23,797)	(23,959)	(162)	
Other payments	(2,222)	(3,102)	(3,213)	(111)	
Net cash provided by (used in) operating activities	19,769	17,241	19,283	2,042	
CASHFLOWS FROM INVESTING ACTIVITIES					
Payments for property, infrastructure, plant & equipment	(11,662)	(20,813)	(22,965)	(2,152)	B
Proceeds from sale of property, infrastructure, plant and equipment	1,284	1,487	1,510	23	
Trust Funds and deposits	0	0	0	0	
Payments for / from Other Financial Assets	15,315		8,418	8,418	C
Net cash provided by (used in) investing activities	4,937	(19,326)	(13,037)	6,289	
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	24,634	(2,227)	6,104	8,331	
Cash and cash equivalents at the beginning of the financial year	2,933	11,349	2,933	(8,416)	D
Cash and cash equivalents at the end of the period	27,567	9,122	9,037	(85)	

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET

Note A Cash inflows from operations: Grants capital \$2.25 million increase

- Less \$120,000 grant for Poowong pool, which was received in advance in the previous financial year.
- Additional \$60,000 grant for Fish Creek School crossing construction project.
- Additional \$2.30m Federal Blackspot Grant.

Note B Cash outflows from Investing Activities: Payment for property, infrastructure plant and equipment \$2.15 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.
- \$50,000 less on community Infrastructure projects and \$272,000 less on capital land sale related project costs.
- Additional \$20,000 on Council laptops, \$120,000 on the Fish Creek School Crossing construction projects.
- Additional \$30,000 for landfills.
- Less \$10,000 for playgrounds replacement program and \$35,000 less for plant purchases.
- Costs reduced by \$431,000 for Leachate evaporation system, \$136,000 for Walkerville North Road and Retaining Wall protection program and \$1.15m for Hudson's Road Korumburra and carried forward into 2017/18.
- Budget projection changes made in February as part of preparing a 2017/18 proposed budget include increases in costs for Sealed rehabilitation program (\$600,000), drainage rehabilitation program (\$50,000), Franklin River reserve (\$40,000), plant purchases (\$20,000) and Information Technology (\$20,000) and decreased cost projections for Anderson Street Town entrance (\$600,000), Building renewal program (\$122,000) and pools renewal program (\$59,000).

Note C 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 D 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.

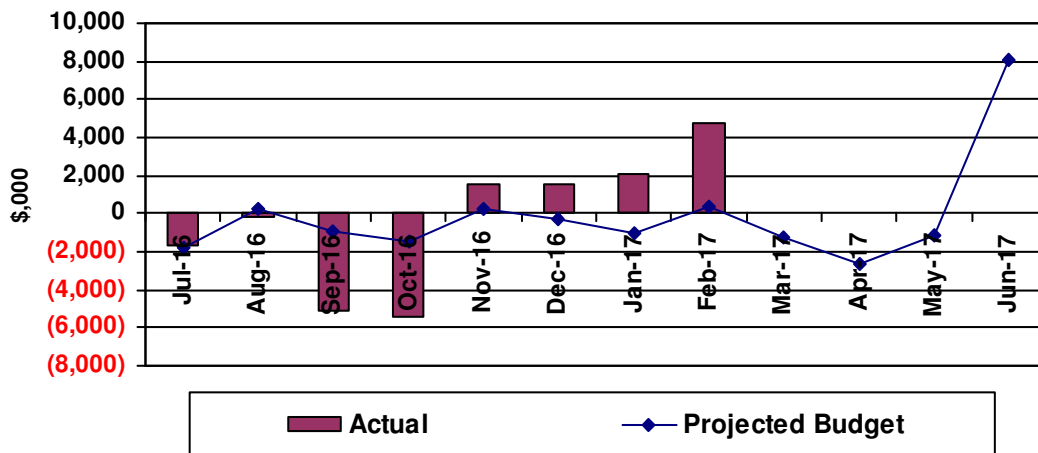
Operating Performance

Operating Budget \$ 4.79 million Surplus for the period Jul-16 to Feb-17

Operating Result \$ 0.39 million Deficit for the period Jul-16 to Feb-17

The operational result varies by \$4.40 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 \$2.66 million capital grants in advance.

Operating Performance (\$'000)



Capital Performance

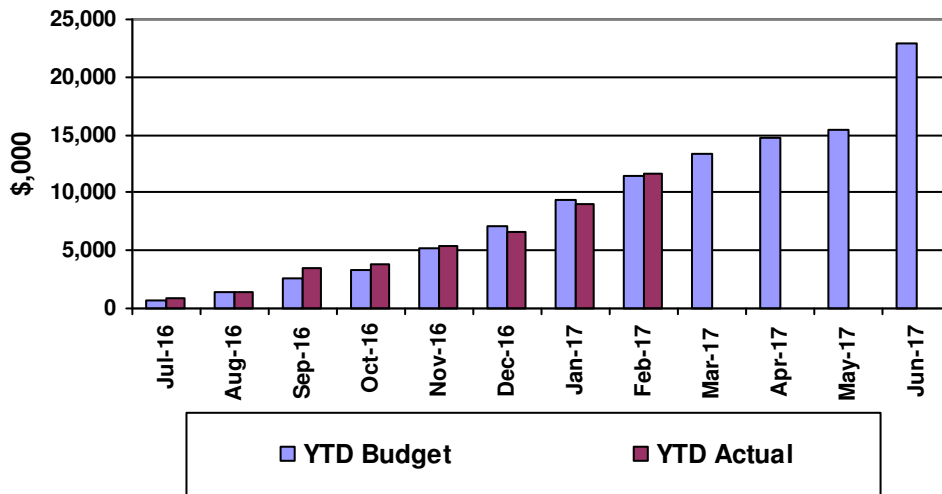
Capital Budget \$11.43 million for the period Jul-16 to Feb-17

Actual Expenditure \$11.66 million for the period Jul-16 to Feb-17

Capital Expenditure \$0.23 million ahead of year to date budgets

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

Capital Performance (\$'000)



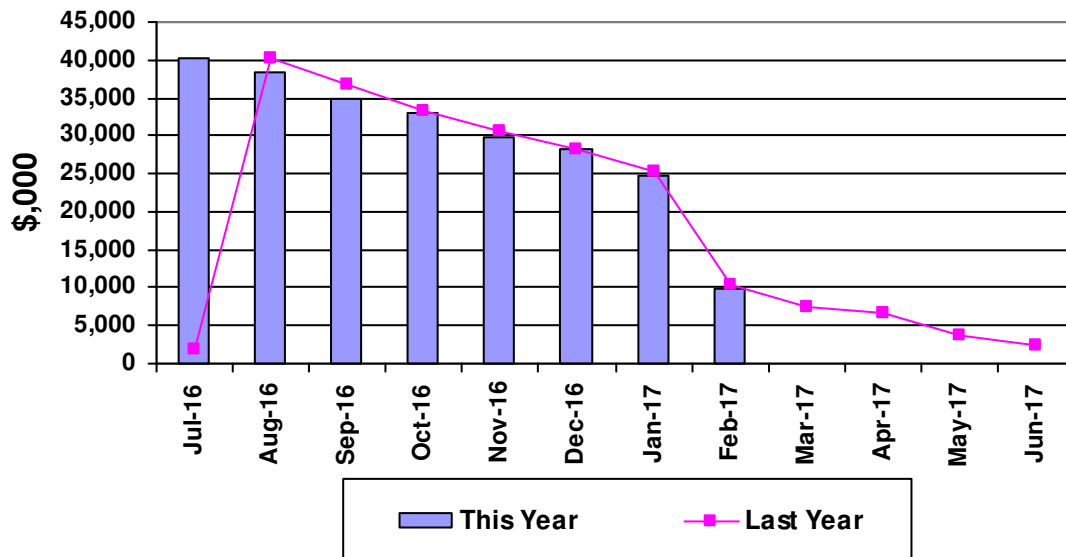
Rate Debtors

Outstanding 16/17 \$ 9.77 million as at Feb-17

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

The outstanding rates as at 28 Feb 2017 has parity to last year.

Rate Debtors (\$,000)



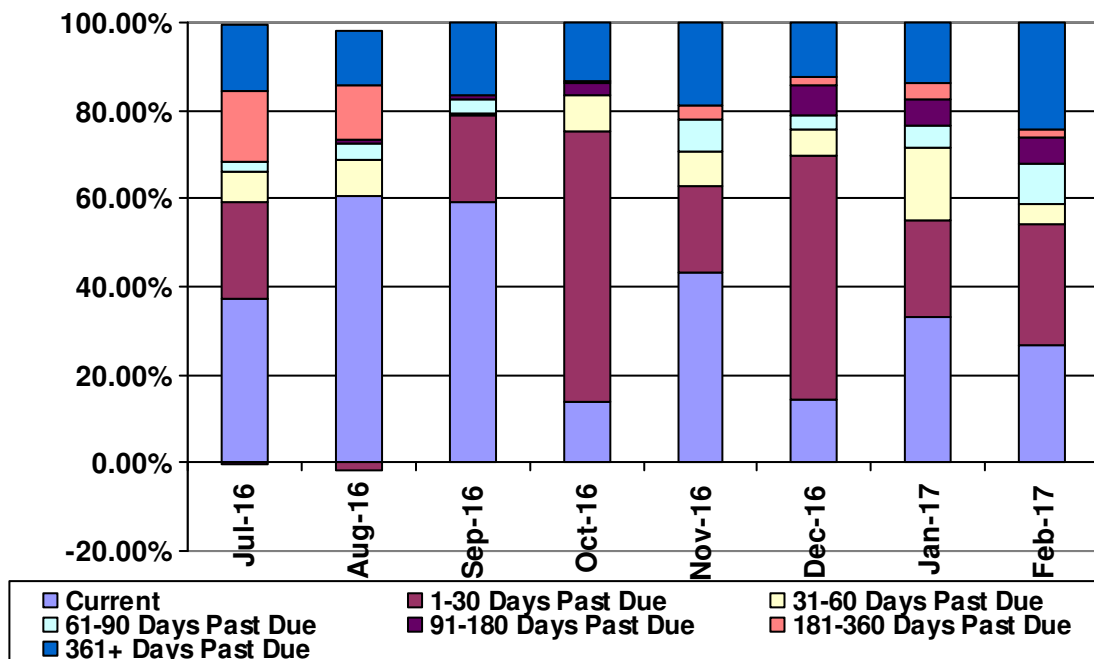
Other Sundry Debtors

Outstanding 16/17 \$ 1.04 million as at Feb-17

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

The Current and 1-30 Days Past Due make up approx. 54% 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).

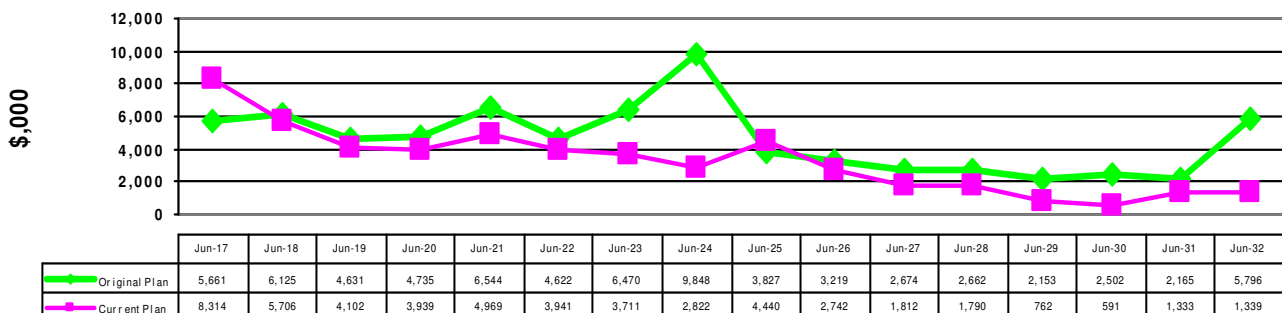
In November Council began preparing a draft 2017/18 Budget / Long Term Financial Plan. The February Financial Performance Report does includes the Proposed 2017/18 Budget and forward budgets that will be considered by Council at the 22 March Council meeting.

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 - 2017/18 Proposed Budget and Long Term Financial Plan

Operating Result (including gain /loss on asset disposals)

The projected operating results in the forward budget have a gradual downward trend. This is due to the longer term impact of less rates revenue being generated as a result of rate capping.



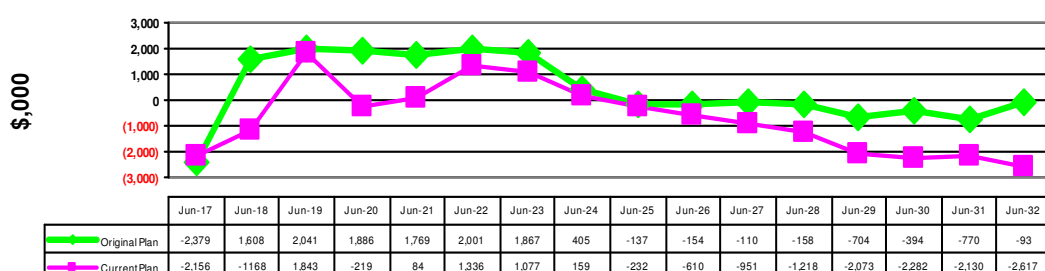
Operating Result (\$,000)

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's underlying result projection of a longer term downward trend mirrors the operating result outcomes discussed immediately above.

Operating Result before Capital Funding (\$,000)

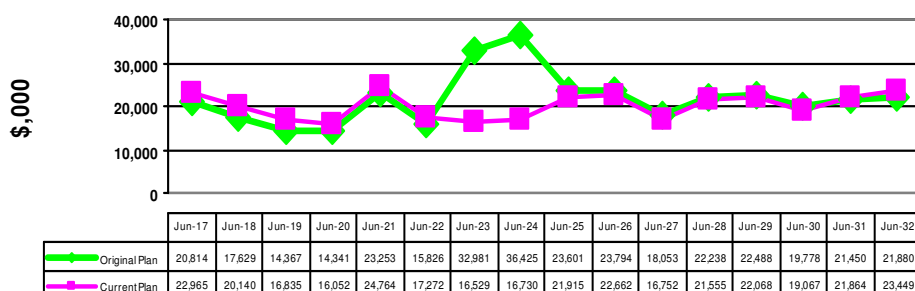


Capital Expenditure

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 varies from the previous plan in two key areas, the first being the removing of the \$24.72m municipal precinct, library and community centre project from the 2022/23 and 2023/24 forward budget. Secondly, some of this financial capacity created by removing the municipal precinct, library and community centre project was reallocated to other project initiatives that have been included in the earlier years of the Long Term Financial Plan.

Capital Expenditure (\$,000)

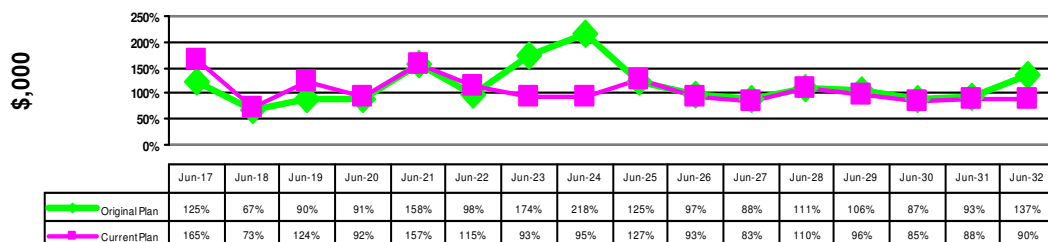


Sustainability Index for Capital Assets

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

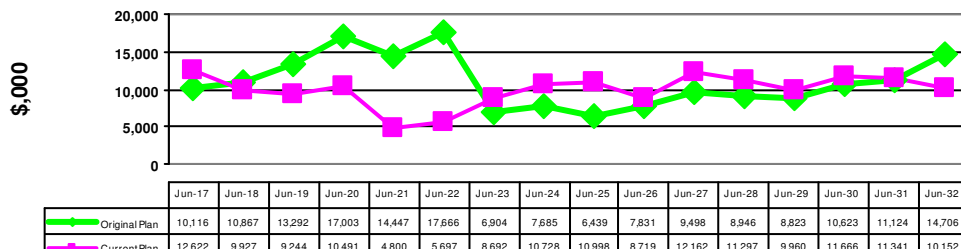


Underlying Liquidity

The current plan's forecast underlying cash position trends weaker than the original plan. In the earlier years there is an increased expenditure outlays on the capital works program. This is as a result of financial capacity created by removing the municipal precinct, library and community centre project from 2022/23 and 2023/23, some of which was reallocated to other project initiatives that have been included in the earlier years of the Long Term Financial Plan.

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)

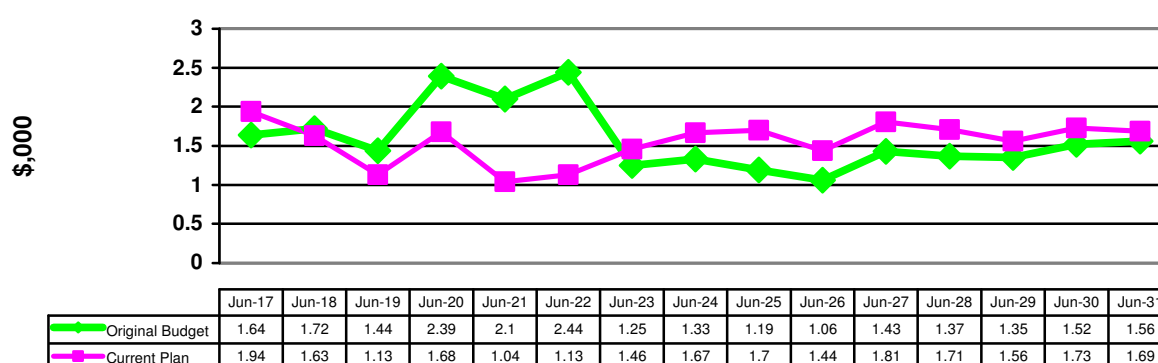


Underlying Working Capital Ratio

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 shows a gradual downward trend in the early years of the forward budget as a result removing the municipal precinct, library and community centre project from 2022/23 and 2023/23, some of which was reallocated to other project initiatives that have been included in the earlier years of the Long Term Financial Plan.

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 below shows the current status of key financial indicators of the 2017/18 Proposed Budget / Long Term Financial Plan. The majority of indicators remain within strategic thresholds targets. It is marginally weaker than the original plan.

2017/18 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	2031/32
Financial performance																
Underlying result	-3.58%	-1.95%	3.01%	-0.33%	0.13%	2.03%	1.59%	0.23%	-0.33%	-0.84%	-1.27%	-1.59%	-2.64%	-2.84%	-2.58%	-3.10%
Underlying Working Capital	1.94	1.63	1.13	1.68	1.04	1.13	1.46	1.67	1.70	1.44	1.81	1.71	1.56	1.73	1.69	1.56
Funding capacity																
Self-financing	27.41%	26.64%	26.52%	24.67%	26.81%	26.90%	27.17%	26.55%	28.43%	26.93%	26.30%	26.35%	25.78%	25.72%	26.18%	25.96%
Sustainability Index	165%	73%	124%	92%	157%	115%	93%	95%	127%	93%	83%	110%	96%	86%	88%	90%
Borrowing capacity																
Indebtedness	12.01%	11.85%	3.25%	3.29%	3.34%	3.37%	3.41%	3.46%	3.51%	3.56%	3.61%	3.66%	3.71%	3.75%	3.77%	3.80%
Total Debt as a % of Rate revenue	8.38%	8.18%	7.97%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Debt servicing costs as a % of Total revenue	0.20%	0.21%	0.22%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The forward underlying result indicator is generally weaker in the 2017/18 Long Term Financial Plan when benchmarked against the 2016/17 plan. 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 operating results, any net favourable productivity gains identified in 2017/18 and future years will be allowed 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 ratio is marginally weaker in the immediate years and then stronger in the mid to later years in the 2017/18 Long Term Financial Plan when benchmarked against the 2016/17 plan. The improving ratio in the later years can largely be attributed to the removing of the \$24.72m municipal precinct, library and community centre project from the 2022/23 and 2023/24 forward budget.

Some of this financial capacity created by removing the municipal precinct, library and community centre project was reallocated to other project initiatives that have been included in the earlier years of the Long Term Financial Plan. This pushes the ratio into caution territory for some of those years indicating that Council will have somewhat restricted financial capacity to accommodate unforeseen strategic opportunities or unavoidable cost events that may arise.