

Financial Performance Report – August 2017

The Financial Performance Report covers the two month period from July 2017 to August 2017.

Overview

Income Statement

Annual year-to-date performance:

- Operating result: \$0.36m deficit which is \$0.18m favourable compared to the year-to-date budget projection of a \$0.54 deficit.

Balance Sheet

Projected year end result:

- Underlying working capital ratio 1.53 to 1 (original budget 1.65 to 1)

Cash Flow Statement

Projected year end result:

- Cash assets: \$9.94 million (original budget \$7.74 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 31 August 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	6,908	6,830	78		40,995	41,165	170	A
Statutory fees and fines	133	103	30		618	618	0	
User fees	452	529	(77)		4,183	4,261	78	
Grants - Operating	1,809	1,724	85		8,228	8,974	746	B
Grants - Capital	300	557	(257)	1	8,669	9,062	393	
Contributions - monetary	53	9	44		316	316	0	
Contributions - non monetary	0	17	(17)		479	479	0	
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	158	(194)	352		(329)	(329)	0	
Other income	354	356	(2)		2,388	2,222	(166)	C
TOTAL INCOME	10,167	9,931	236		65,547	66,768	1,221	
EXPENSES								
Employee costs	4,217	3,827	(390)	2	24,566	24,757	(191)	
Materials and consumables	3,395	3,653	258		24,079	24,550	(471)	D
Bad and doubtful debts	0	0	0		1	1	0	
Depreciation	2,034	1,980	(54)		11,883	11,776	107	
Borrowing costs	0	24	24		142	142	0	
Other expenses	881	984	103		3,120	3,254	(134)	
TOTAL EXPENSES	10,527	10,468	(59)		63,791	64,480	(689)	
SURPLUS / (DEFICIT)	(360)	(537)	177		1,756	2,288	532	

NOTES: MATERIAL VARIATIONS IN YEAR-TO-DATE FINANCIAL PERFORMANCE**Note 1 Income: Grants – Capital - \$0.26 million behind**

- Expected Roads to Recovery grant for August not yet received as at 31st August.

Note 2 Expenditure: Employee Costs

- This variance is caused by Council's work-cover premium expense being paid yearly in advance to take advantage of upfront payment savings. The budget however is currently based on an equal 12 monthly instalment plan.

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET**Note A Income: Rates and charges - \$0.17 million favourable**

- This variation has arisen as a result in legislative changes to the presentation of the Income Statement. Previously, interest on rates and charges was shown against the, "Other Income" line but now has to be shown as part of the, "Rates and charges" income line. The corresponding offset is a reduction in the, "Other income" line item.

Note B Income: Grants - Operating - \$0.77 million favourable

- This variation is due to grant funds for storm events that has been carried forward from the 16/17 financial year for \$0.92M
- A number of grants that were budgeted in 17/18 but recognised in 16/17 for \$0.36M.
- Council received advice of additional VGC funds of \$0.17M due to underpayment of grants in 16/17
- A new grant for TAC Road Safety Strategic Plan that was not confirmed at budget time has now been confirmed and included as part of the 17/18 budget. \$23,500

Note C Income: Other Income - \$0.17 million unfavourable

- This is the reverse of Note A where interest on rates and charges used to be classified as, "Other expenses" but has now been removed from this classification and included with the line item, "Rates and charges"

Note D Expenditure: Materials and consumables - \$0.47 million unfavourable

- \$680,000 of unspent budgets in 16/17 has been carried forward to form part of the 17/18 budget.
- Carry forward item recognised in August for Leongatha Recreation Reserve not identified as part of original carry forward process. \$86,752
- Long Jetty Restoration project has identified that \$199,725 of the 17/18 budget won't be spent until 18/19 and has been reduced accordingly in 17/18 and increased in 18/19.
- Temporary three month increase to a labour hire position has been allowed \$36,000
- Recognition of actual insurance premiums paid in 17/18 being higher than originally budgeted has added \$44,279 to the budget in 17/18.
- Transfer of funds from Black Spur Bridge operating to Black Spur Bridge Capital for Tompkins Road (\$330,212)
- Additional Community Building expenditure for TAC Road Safety Strategic Plan project, matched by corresponding grant (\$25,000)
- Youth Development FReeZA project, grant received in 16/17 but funds not carried forward into 17/18 (\$25,000)
- Garbage and Recycling Collections to now include Venus Bay 12 month service and reflect anticipated costs of service for 17/18 (\$35,833)
- Landfills Operations budget has been restructured to reflect actual costs from 2016/17 plus 2% increase to the levy rate. Landfill income is also being adjusted upwards which offsets this increase. (\$67,934)

South Gippsland Shire Council BALANCE SHEET For the Period Ending 31 August 2017				
	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	22,335	7,739	9,935	2,196
Trade and other receivables	45,849	4,203	4,459	256
Other financial assets		6,896	6,676	(220)
Inventories	297	195	304	109
Other assets	0	227	42	(185)
	68,481	19,260	21,416	2,156
NON CURRENT ASSETS				
Investments in associates and joint ventures	1,123	991	1,124	133
Property, infrastructure, plant and equipment	528,694	566,700	567,743	1,043
Investment property	729	729	729	0
	530,546	568,420	569,596	1,176
TOTAL ASSETS	599,027	587,680	591,012	3,332
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Trade and other payables	6,758	2,978	3,875	897
Prepaid Income	36,516		0	0
Trust funds and deposits	488	873	899	26
Provisions	6,101	5,085	6,150	1,065
Interest bearing loans and borrowings	0	0	0	0
	49,863	8,936	10,924	1,988
NON CURRENT LIABILITIES				
Provisions		2,313	2,604	291
Interest bearing loans and borrowings	3,350	3,350	3,350	0
	3,350	5,663	5,954	291
TOTAL LIABILITIES	53,213	14,599	16,878	2,279
NET ASSETS	545,814	573,081	574,134	1,053
<u>REPRESENTED BY</u>				
Accumulated Surplus	212,964	213,329	214,247	918
Reserves	332,850	359,752	359,887	135
TOTAL EQUITY	545,814	573,081	574,134	1,053

CASH FLOW STATEMENT					
For the Period Ending 31 August 2017					
	Y.T.D. Actual \$'000	Original Budget \$'000	Projected Budget \$'000	Projected Variance \$'000	Note
<u>CASHFLOWS FROM OPERATING ACTIVITIES</u>					
Rates and charges	3,515	40,995	40,995	0	
Statutory fees & fines	133	618	618	0	
User fees	545	4,183	4,261	78	
Grants - operating	1,809	8,228	8,974	746	A
Grants - capital	300	8,669	9,062	393	B
Contributions- monetary	53	316	316	0	
Interest received	109	602	602	0	
Other receipts	280	1,786	1,790	4	
Employee costs	(4,225)	(24,586)	(24,776)	(190)	
Materials and services	(5,104)	(24,079)	(24,550)	(471)	
Other payments	(881)	(3,120)	(3,254)	(134)	
Net cash provided by (used in) operating activities	(3,466)	13,612	14,038	426	
<u>CASHFLOWS FROM INVESTING ACTIVITIES</u>					
Payments for property, infrastructure, plant & equipment	(659)	(22,775)	(24,908)	(2,133)	C
Proceeds from sale of property, infrastructure, plant and equipment	158	1,150	1,150	0	
Trust Funds and deposits	0	0	0	0	
Payments for / from Other Financial Assets	16,581		10,076	10,076	D
Net cash provided by (used in) investing activities	16,080	(21,625)	(13,682)	7,943	
<u>CASHFLOWS FROM FINANCING ACTIVITIES</u>					
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	12,614	(8,155)	214	8,369	
Cash and cash equivalents at the beginning of the financial year	9,721	15,894	9,721	(6,173)	E
Cash and cash equivalents at the end of the period	22,335	7,739	9,935	2,196	

NOTES: MATERIAL VARIATIONS PROJECTED BUDGET TO ORIGINAL BUDGET**Cashflows from Operation Activities****Note A - Grants - Operating - \$0.77 million favourable**

- This variation is due to grant funds for storm events that has been carried forward from the 16/17 financial year for \$0.92M
- A number of grants that were budgeted in 17/18 but recognised in 16/17 for \$0.36M.
- Council received advice of additional VGC funds of \$0.17M due to underpayment of grants in 16/17
- A new grant for TAC Road Safety Strategic Plan that was not confirmed at budget time has now been confirmed and included as part of the 17/18 budget. \$23,500

Note B - Grants - Capital - \$0.39 million favourable

- Powneys Road bridge income budgeted in 17/18 was recognised in 16/17 \$118,000
- Federal Blackspot Program funding announced for Farmers Road Dumbalk \$360,726
- Federal Blackspot Program funding announced for Old Thorpdale Road, Mirboo North \$152,618

Cashflows from Investing Activities**Note C - Payments for property, infrastructure, plant and equipment - \$2.1 million unfavourable**

- Incomplete capital projects carried forward from 16/17 to 17/18 \$1,322,000
- Ogilvy Street footpath \$107,812
- Federal Blackspot Program funding announced for Farmers Road Dumbalk \$360,726
- Federal Blackspot Program funding announced for Old Thorpdale Road, Mirboo North \$152,618
- Transfer of funds from Black Spur Bridge operating to Black Spur Bridge Capital for Tompkins Road \$330,212 plus additional funding contributed \$70,000
- Reduction in reseal preparation capital works \$255,390

Note D - Payments for / from other financial assets \$10.08 million increase

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

Note E - Cash and cash equivalents at the beginning of the financial year \$6.17 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.

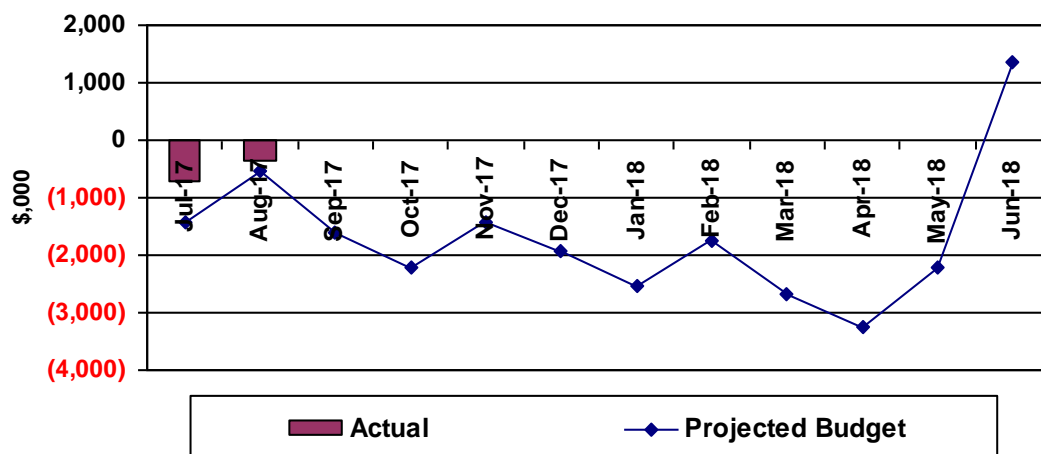
Operating Performance

Operating Budget \$ 0.54 million Deficit for the period Jul-17 to Aug-17

Operating Result \$ 0.36 million Deficit for the period Jul-17 to Aug-17

The operational result varies by \$0.18 million to the projected year to date budget. This variation is due to timing of actual costs to year to date budgets.

Operating Performance (\$'000)



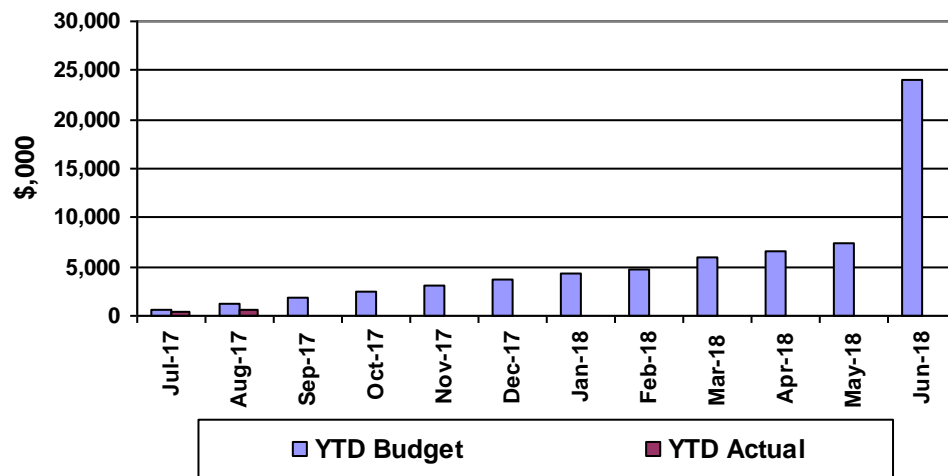
Capital Performance

Capital Budget \$ 1.19 million for the period Jul-17 to Aug-17

Actual Expenditure \$ 0.66 million for the period Jul-17 to Aug-17

Capital Expenditure \$ 0.53 million behind year to date budgets

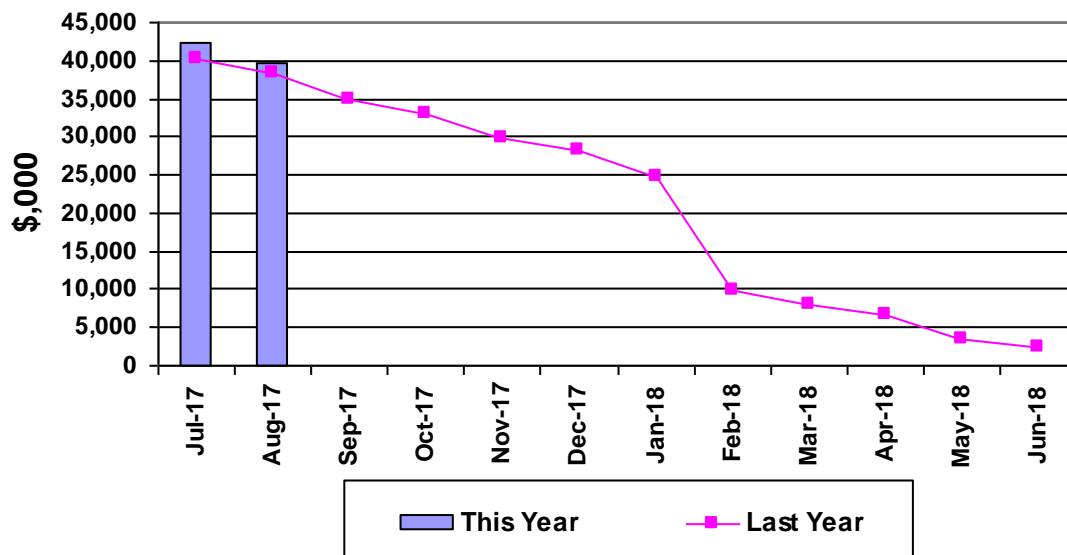
The Capital Works Program is running behind year to date budgets.

Capital Performance (\$'000)Rate Debtors

Outstanding 17/18 \$39.70 million as at Aug-17

Outstanding 16/17 \$38.47 million as at Aug-16

The outstanding rates as at 31 August 2017 has parity to last year.

Rate Debtors (\$,000)

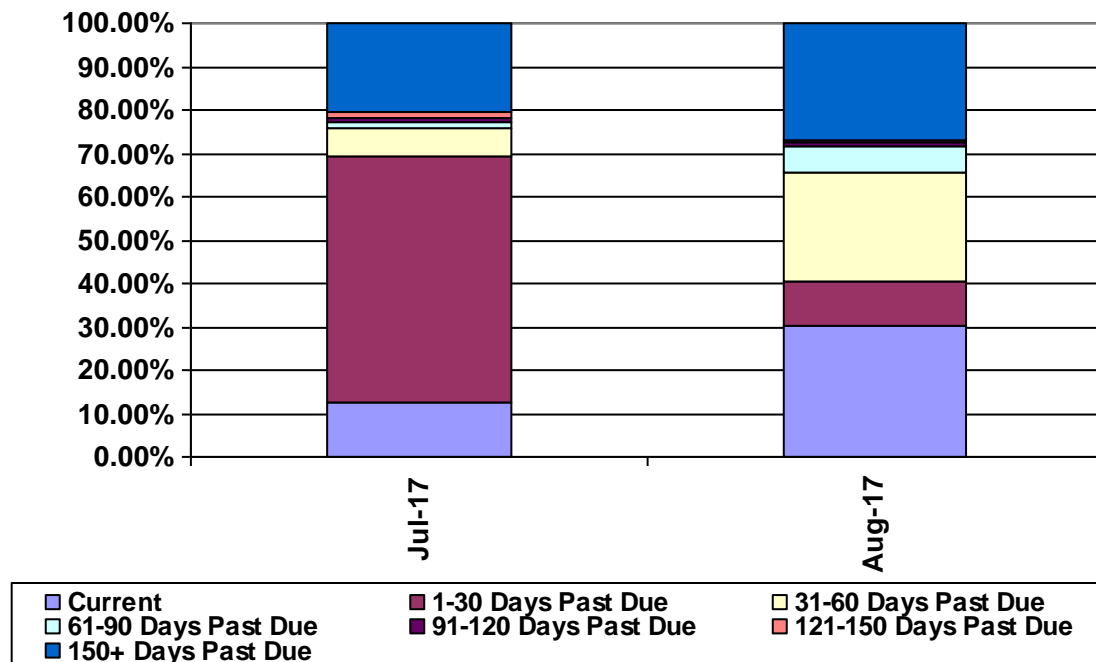
Other Sundry Debtors

Outstanding 17/18 \$ 0.88 Million as at Aug-17

Outstanding 16/17 \$ 0.81 Million as at Aug-16

The Current and 1-30 Days Past Due make up approx. 40% of total debtors outstanding. Caravan Park holders who 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 compares the current 2017/18 Budget and Long Term Financial Plan forecasts to the original plan. The Annual Budget & Long Term Financial Plan was adopted for 2017/18 on 28 June 2017.

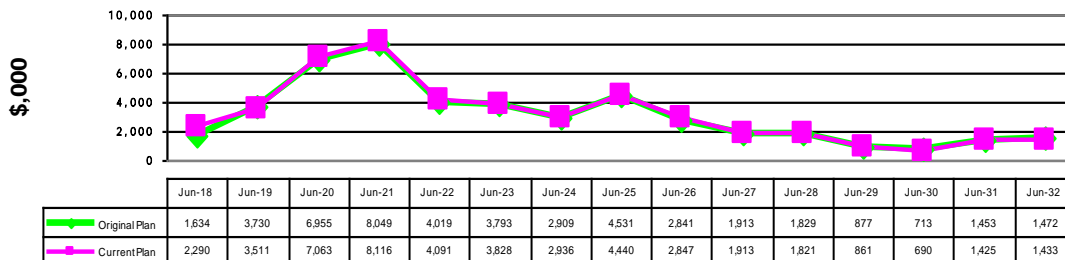
The lines in the following graphs are as follows:

- Original plan – Green line –Original 2017/18 Budget and Long Term Financial Plan
- Current Plan – Purple line - 2017/18 Draft 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)

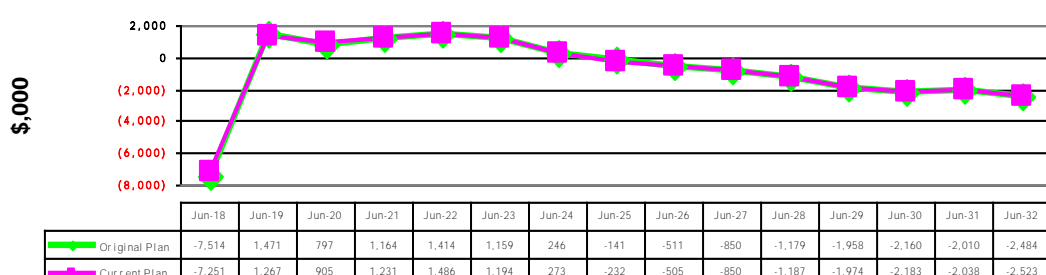


Operating Result before Capital Funding

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)



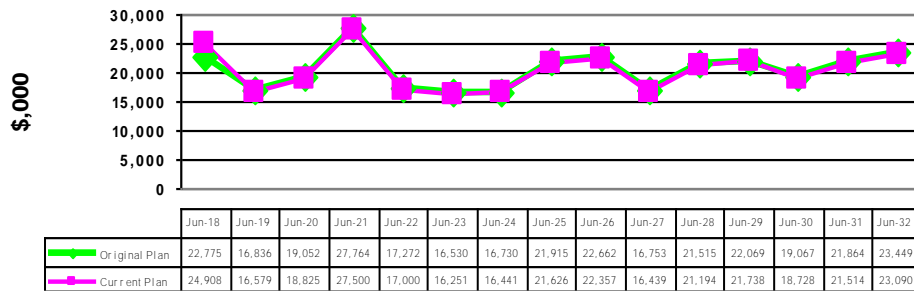
Capital Expenditure

The 2017/18 budget was adjusted to take into account the financial ramifications of carrying forward funds for projects that were not completed by 30 June 2017. In total, \$1.32 million was carried forward from 2016/17 identified at financial year end

The current plan's projected capital works program varies from the original plan due to the carry forward of capital expenditure from 16/17 for uncompleted projects plus and an additional \$0.81 million in capital recognised in the August budget period. These changes are summarised below

- Ogilvy Street footpath \$107,812
- Federal Blackspot Program funding announced for Farmers Road Dumbalk \$360,726
- Federal Blackspot Program funding announced for Old Thorpdale Road, Mirboo North \$152,618
- Transfer of funds from Black Spur Bridge operating to Black Spur Bridge Capital for Tompkins Road \$330,212 plus additional funding contributed \$70,000
- Reduction in reseat preparation capital works \$255,390

Capital Expenditure (\$,000)

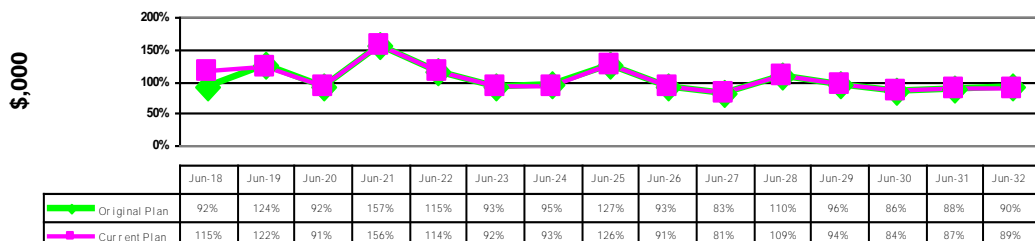


Sustainability Index for Capital Assets

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 2017/18 to account for the carrying forward of capital renewal expenditure from 2016/17.

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.

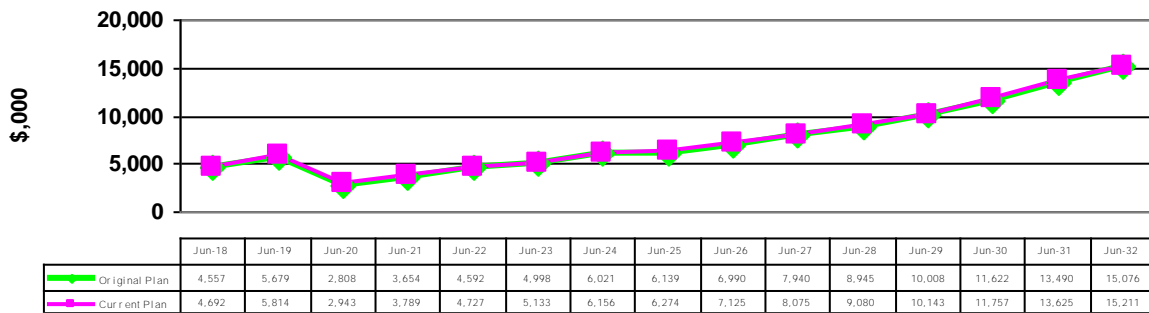
Sustainability Index



Underlying Liquidity

The current plan's forecast underlying cash position mirrors that of the the original plan. In the earlier years there is an increased expenditure outlays on the capital works program.

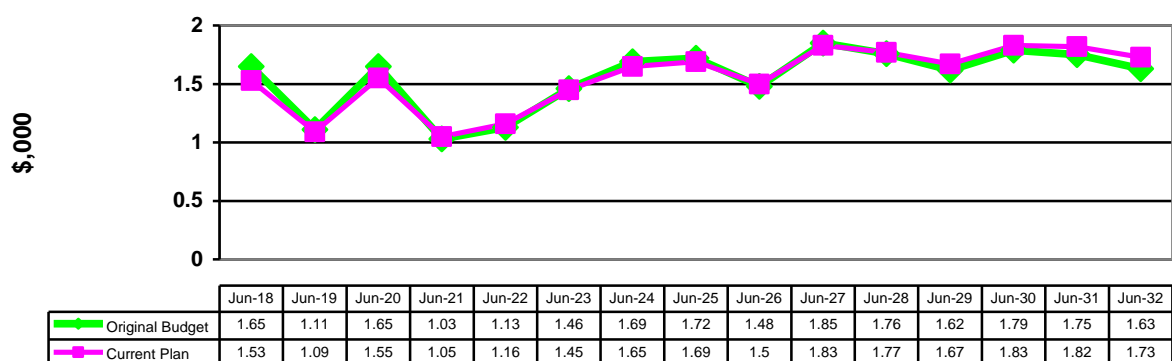
Due to the inherent volatility of debtors and creditors on the cash position at any point in time, the underlying cash is always assessed in conjunction with the underlying working capital ratio.

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 increase trend in the later years of the forward budget but is conversely, slightly weaker and front end of the plan.

The flat lining of the capital expenditure budgets requirements in the later years of the Long Term Financial Plan contribute to the gradual strengthening of the cash position. It would not be unreasonable to assume that in coming years there may be some upward rather than downward pressure on capital works program funding requirements

Underlying Working Capital Ratio

Conclusion

The table below shows several key financial performance indicators targets set when the 2017/18 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.

2017/18 Original Budget	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	-13.32%	2.40%	1.25%	1.81%	2.14%	1.71%	0.36%	-0.20%	-0.70%	-1.13%	-1.54%	-2.48%	-2.68%	-2.42%	-2.93%
Underlying Working Capital	1.65	1.11	1.65	1.03	1.13	1.46	1.69	1.72	1.48	1.85	1.76	1.62	1.79	1.75	1.63
Funding capacity															
Self-financing	20.92%	25.85%	28.95%	31.09%	26.94%	27.21%	26.60%	28.47%	26.99%	26.35%	26.33%	25.85%	25.80%	26.25%	26.04%
Sustainability Index	92%	124%	92%	157%	115%	93%	95%	127%	93%	83%	110%	96%	86%	88%	90%
Borrowing capacity															
Indebtedness	11.83%	3.24%	3.29%	3.33%	3.36%	3.41%	3.46%	3.50%	3.55%	3.60%	3.65%	3.70%	3.74%	3.76%	3.79%
Total Debt as a % of Rate revenue	8.17%	7.96%	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	0.22%	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 table below shows the current status of key financial indicators of the 2017/18 Draft Budget / Long Term Financial Plan. The majority of indicators remain within strategic thresholds targets. It is marginally weaker than the original plan.

Proposed Budget	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	-12.67%	2.06%	1.42%	1.91%	2.25%	1.75%	0.39%	-0.32%	-0.69%	-1.13%	-1.55%	-2.50%	-2.70%	-2.45%	-2.97%
Underlying Working Capital	1.53	1.09	1.55	1.05	1.16	1.45	1.65	1.69	1.50	1.83	1.77	1.67	1.83	1.82	1.73
Funding capacity															
Self-financing	36.38%	25.31%	28.89%	30.96%	26.82%	27.03%	26.42%	28.13%	26.78%	26.14%	26.11%	25.62%	25.57%	26.01%	25.79%
Sustainability Index	115%	122%	91%	156%	114%	92%	93%	126%	91%	81%	109%	94%	84%	87%	89%
Borrowing capacity															
Indebtedness	12.42%	3.83%	3.85%	3.89%	3.90%	3.93%	3.97%	4.00%	4.04%	4.08%	4.11%	4.15%	4.18%	4.19%	4.20%
Total Debt as a % of Rate revenue	8.14%	7.93%	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	0.21%	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 dip in underlying results in 2017/18 is largely attributable to having to bring to account \$4.54m Victoria Grants Commission allocation for 2017/18 in the prior financial year (2016/17) because it is required to be accounted in June 2017 when it was received. The forward underlying result indicator is generally weaker in the 2017/18 Long Term Financial Plan when benchmarked against the 2017/18 original plan.

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 and middle years and then slightly stronger in the later couple of years in the 2017/18 Long Term Financial Plan when benchmarked against the 2017/18 original plan. It would not be unreasonable to assume that in coming years there may be some upward rather than downward pressure on capital expenditure funding requirements that in turn will impact on the ratio.

The 'Sustainability Indicator' assesses asset renewal and upgrade expenditure spend effort over a period of time. In the forward years it generally fluctuates between the green and yellow zone and even dips into the red zone in 2026/27, 2029/30, 2030/31 and 2031/32. This does not present as a strategic concern. This is expected because the nature of capital renewal expenditure requirements tends to have a profile that varies over the years. The indicator in 17/18 shows a positive result when compared to the original budget due to a the carry forward of upgrade and renew capital expenditure works.