

3.1 2018/2019 FINANCIAL MANAGEMENT AND CAPITAL WORKS PROGRESS REPORT – FIRST QUARTER 30 SEPTEMBER 2018

(FIN1: SW:YN)

Responsible Director: Danny Wain

RECOMMENDATION*That Council:*

1. *Notes the Quarterly Financial Management, Annual Plan and Capital Works Progress Report for the period ending 30 September 2018, presented in accordance with Section 138 of the Local Government Act 1989.*
2. *Approves the variations contained therein.*

BACKGROUND

A Financial Management Report is prepared and distributed to Councillors for information each month, with Quarterly Statements prepared for formal presentation to the Council in accordance with Section 138 of the *Local Government Act 1989* (the Act).

The Quarterly Financial Statements include a comparison of year-to-date (YTD) actual revenue and expenditure with budgeted (YTD and forecast end-of-year) revenue and expenditure for the current financial year.

Council's 2018/19 Adopted Budget included four financial statements (refer Appendix A):

- Comprehensive Income Statement;
- Balance Sheet;
- Statement of Cash Flows; and
- Statement of Capital Works.

This report also provides a review of the 2018/19 Capital Works Program. In particular the Capital Works Progress report aims to:

- inform Council of funding changes to the program as a result of extra monies received from external sources; and
- quantify the transfer of funds from projects with surplus to projects with shortfalls.

ANALYSIS**COMPREHENSIVE INCOME STATEMENT****Year-to-date Summary**

As at 30 September 2018, the YTD net surplus from ordinary operations was \$94.98M, representing a 1.2% (\$1.15M) favourable variance against YTD budget (\$93.83M). The full Income Statement is included in Appendix A - Financial Statements & Indicators.

	YTD Actual \$'000	YTD Mgmt Budget \$'000	YTD Variance \$'000	YTD Variance %		Full Year Budget 2018/19 \$'000	Full Year Forecast 2018/19 \$'000	Forecast Variance	
								\$'000	%
Total income	138,246	136,963	1,282	0.9%	●	185,195	186,440	1,244	0.7%
Employee Costs	17,277	17,024	(253)	(1.5%)	●	74,595	75,000	(405)	(0.5%)
Materials, Services & Contracts	18,704	18,829	125	0.7%	●	67,288	67,830	(542)	(0.8%)
Depreciation & Other Expenses	7,281	7,279	(2)	(0.0%)	●	29,425	29,478	(54)	(0.2%)
Total expenses	43,262	43,132	(131)	(0.3%)	●	171,308	172,309	(1,001)	(0.6%)
Surplus (deficit) for the year	94,984	93,832	1,152	1.2%	●	13,888	14,131	246	1.7%
Less Capital Income (non-recurrent)	(164)	(164)	(0)	0.0%	●	(4,211)	(2,995)	(1,215)	40.6%
Adjusted underlying surplus/ (deficit)	94,820	93,668	1,152	1.2%	●	9,678	11,137	1,460	13.1%

This result is mainly due to favourable income variance (\$1.28M) with revenue exceeding budgets in Contributions (public open space contributions (\$365K); User Fees (\$256K) mostly due to recoup of income from State Revenue Office for valuation works undertaken; Operating Grants (\$244K) due to unbudgeted operational funding (MC&H and Early Years); and Statutory Fees and fines of \$180K (parking infringements \$85K and asset protection fees \$84K). Forecasts have been adjusted to reflect these changes.

Total expenditure year-to-date is over budget by \$131K, comprising of employee costs higher than budget (\$253K), which is predominantly attributable to the Home and Community Care service as hours delivered for general home care is exceeding target level. This is partially offset by a favourable variance in Materials, Services and Contractors (\$125K).

Forecast Summary

As at September 2018, the full year (2018/19) forecast net operating surplus is \$14.1M compared to budgeted surplus of \$13.89M, representing a projected favourable variance of \$246K.

This favourable variance of \$246K is primarily made up of:

- **Grants operating - \$408K favourable variance** – most of this favourable variance is due to unbudgeted grant funding. Specifically relevant to the Children's and Family Services with 2 year funding approved for the Integrated Family Services program (\$82K) and in Community Wellbeing for Clubs grant (\$70K) and Playing Fair-Free from Violence grant (\$90K). In addition to increased funding for General Home Care due to increased demand for the service (\$200K).
- **User fees - \$814K favourable variance** – due to recoup of cost from SRO for valuation works (\$297K), works undertaken for LXRA project (\$549K) and unbudgeted recoup of

funds for Galbally Reserve Playspace Oakleigh (\$150K). These are partially offset by a decrease in green fees at the golf courses due to contract variation approved by Council (\$200K).

These favourable variances are partially offset by:

- **Employee costs - \$405K unfavourable variance** - as a result of service levels expanding in the Children's and Family Service area (\$147K), this is offset by grant funding; and additional staffing required in the City Planning area due to current workload demands, however this is partially offset by savings in salaries as a result of staff vacancies (\$67K). Higher than budgeted salary costs in General Home Care is expected by year's end due to the increased demand for domestic services, however this is somewhat offset by reduced service levels for Personal Care.
- **Materials & Services - \$542K unfavourable variance** - as a result of;
 - a. expenditure approved by Council outside of the budget process, which relate to Moonlight festival, Indian film festival and Greek National Day (\$116K);
 - b. activities expenditure associated with the grant funding received for Clubs and Playing Fair-Free from Violence (\$170K);
 - c. Contractors Other in the areas of Building Services (\$180K) which is for the administration of Combustible Cladding Audits and payments for after-hours telephone service (\$64K); and
 - d. partially offset by savings in the cash collection contract for the council civic centre (\$20K).
- **Other Expenses - \$54K unfavourable variance** – this is the result of increases to lease payments for equipment at MARC, CACH and ORC.

BALANCE SHEET

The Working Capital ratio (WCR) as at 30 September 2018 is 480.2% or 480.2:1. This comprises current assets of \$195.5M and current liabilities totalling \$40.7M. The budgeted figure for 30 June 2019 is a WCR of 241.1% (Appendix A).

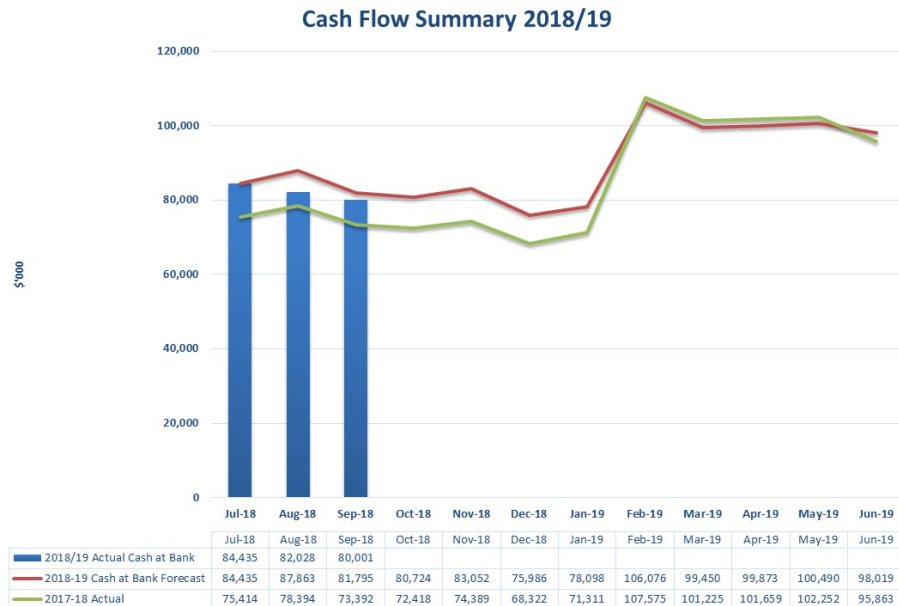
The unrestricted cash position at 30 September 2018 was 136.4% or 136.4:1. This comprises restricted cash required by legislation of \$10.1M (\$6.9M drainage and \$3.2M parking reserves) in addition to funds reserved by Council resolution (\$7M development reserve & \$4.5M Superannuation reserve). The actual unrestricted cash and cash equivalents are \$55.5M in addition to current liabilities of \$40.7M and non-current liabilities for LSL \$1.1M. The budgeted figure for 30 June 2019 is 168.5% (Appendix A).

The forecasted variance of \$288.4M in Net Assets is mostly attributable to the revaluation of Council assets (Land) at 30 June 2018.

STATEMENT OF CASH FLOWS

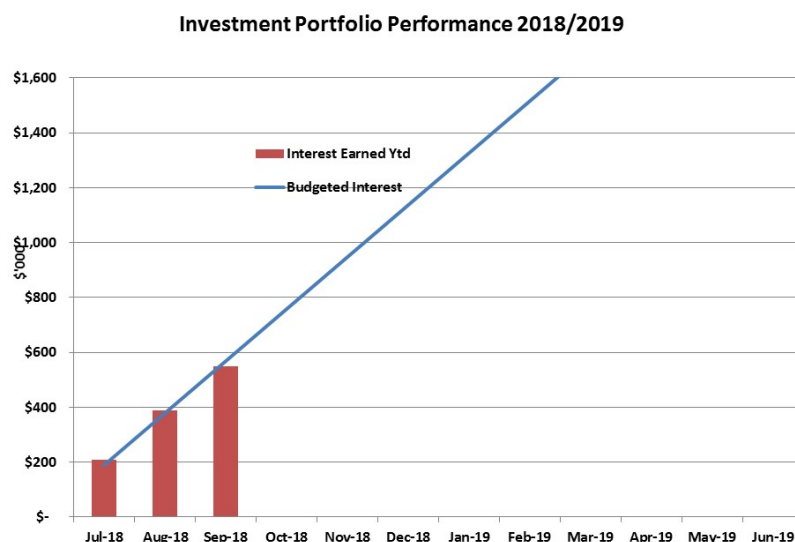
The Cash Flow Statement shows Council's cash position at the end of September 2018 at \$80M, an increase of \$12.4M above the year-to-date budget of \$67.6M. This is primarily due to a higher

cash balance at 30 June 2018, resulting from higher than budgeted income from growth in supplementary rates, additional public open space and parking contributions as well as positive cash flows from operating activities such as operating grants, user fees, other revenue and a delay in the delivery of capital works program.



Investment Interest Performance

The graph below highlights the interest performance on total cash invested. Interest performance is not as high as anticipated due to the interest rates being lower than budgeted.



Liquidity of Investments

Type of investments	Term	Amount Invested
Call accounts	At Call	-
Term deposits	30 days or less	7,000,000.00
Term deposits	31 to 60 days	-
Term deposits	61 days to 90 days	-
Term deposits	91 days to 120 days	3,000,000.00
Term deposits	121 days to 365 days	62,000,000.00
Term deposits	365 days +	-
	Total funds invested	72,000,000.00

STATEMENT OF CAPITAL WORKS

The Statement of Capital Works presents Council's performance against the Adopted 2018/19 Capital Works Budget. As at 30 September 2018, Council has expended \$5.58M of its Adopted Capital Works Budget of \$43.36M.

The Annual Plan target is to achieve a minimum of 90% expenditure of the agreed Capital Works Budget, adjusted to \$43.76M as detailed below. As at 30 September 2018, Council has achieved 12.75% (\$5.58M/\$43.76M) against this target. It is anticipated that the Business Plan target of 90% spend from the Agreed Capital works budget in 2018/19 will be achieved.

Adjustments to the Capital Works Expenditure Budget

Table 1 summarises funding adjustments that have been made to the Adopted 2018/19 Capital Works Budget.

The Adopted 2018/19 Capital Budget of \$43,358,794 has been adjusted to an Agreed Management Budget of \$43,758,210 as at 30 September 2018, taking account of new projects with external income, and additional funds required for completion of the existing program.

Table 1: Summary of Adjustments to the 2018/19 Capital Works Budget – at 30/09/2018

Description	30/09/2018 \$
Adopted Capital Works Budget 26/06/2018	43,358,794
Additional funding for new/existing projects NOTE A	399,416
Agreed Capital Works Budget at 30 September 2018	43,758,210

The details of these adjustments to the Capital Works budget are outlined below:

A. Additional Capital Income

Additions to budgeted income for the September quarter in 2018/19 are:

• LXRA – New Bus Shelters at Railway Stations	\$113,377
• LXRA – Galbally Reserve Playspace Upgrade	\$150,000
• Drainage at 1558 Dandenong Roads – from DCP Reserve Oakleigh MD	\$131,465
• Gladeswood Reserve Tennis Club contribution to Building works	\$4,574
Total Additional Capital Income 1/07/2018 – 30/09/2018	\$399,416

Adjustments within Capital Works Project Budgets

Table 2 summarises funding adjustments that have been made to the Capital Works program since the Budget Adoption, either through new projects commencing or accounting for surplus or deficits identified throughout the program to date. The nett result is that \$280,243 of funding is required to be found from various Council funding sources.

Table 2: Summary of Adjustments to 2018/19 Capital Works Projects - at 30/09/2018

Changes within the 2018/19 Capital Works Program	Reason	Result
Gladeswood Reserve Tennis Club – matching Council funds	New project	\$4,573
Galbally Reserve Playspace Upgrade – Council funding required as per Report 24/04/2018.	New project	\$250,000
Equitable Access MGA Stage 2 – Surplus on completion	2017/18 project	-\$46,488
Mulgrave Reserve Sportsground – additional funds required	2017/18 project	\$48,210
Waverley Rail Trail Missing Link Railway Parade South – additional funds required	2017/18 project	\$23,948
Nett funding Adjustments at 30/09/2018		\$280,243

Projected Surplus (Deficit) Funds (\$280,243)

At 30/09/2018 the funds required are \$280,243 and Table 3 details funding options available to Council to balance the Capital Works budget for 2018/19.

Table 3: Funding Sources for 2018/19 Capital Works Projects - at 30/09/2018

Deficit details by Category	Amount \$	Suggested Funding
Projects that continued from 2017/18 without Carry Forward Funding – offset by surplus on MGA Equitable Access Stage 2 works	\$25,670	From Council's retained earnings
Galbally Reserve Play space Renewal	\$250,000	From a re-prioritising of the Play space renewal program and a corresponding reduction in the 2019/20 play space budget.
Gladeswood Reserve Tennis Club Bi-fold Doors	\$4,573	From additional contributions in Public Open Space Reserve
Total Funding Solutions for Program 30/09/2018	\$280,243	

CONCLUSION

Council's financial position reflects an overall positive performance against budget, made up of a number of variances, both favourable and unfavourable across the breadth of Council services. These variances will continue to be monitored for the remainder of the financial year.

The Capital Works budget deficit of \$280,243 at 30 September 2018 will be funded from additional contributions received in Public Open Space Reserve; a re-prioritising of Play space budgets from 2019/20; and the balance from Council's retained earnings.

APPENDIX A – Financial Statements and Indicators**Comprehensive Income Statement**

Comprehensive Income Statement for the period ending 30 September 2018							
	YTD Actual \$'000	YTD Budget \$'000	YTD Variance \$'000	2018/19 Adopted Budget \$'000	2018/19 Forecast \$'000	Forecast Var \$	Forecast Var %
Revenue from Ordinary Activities							
Rates & Charges	120,591	120,498	92	121,323	121,323	-	0%
Statutory Fees & Fines	2,622	2,442	180	10,273	10,292	19	0%
User Fees	7,402	7,147	256	25,688	26,503	814	3%
Contributions - cash	1,710	1,296	414	6,597	6,601	5	0%
Grants - Operating	4,846	4,602	244	15,323	15,730	408	3%
Grants - Capital	174	159	15	2,576	2,576	-	0%
Interest Revenue	548	568	(20)	2,529	2,529	-	0%
Other Revenue	261	251	10	886	886	-	0%
Profit from Sale of Assets	92	-	92	-	-	-	0%
Total Revenue	138,246	136,963	1,283	185,195	186,440	1,245	1%
Expenses from Ordinary Activities							
Employee Costs	17,277	17,024	(253)	74,595	75,000	(405)	(1%)
Materials, Services & Contracts	18,704	18,829	125	67,288	67,830	(542)	(1%)
Depreciation & Amortisation	7,000	7,001	1	27,981	27,981	-	0%
Other Expenses	281	278	(3)	1,444	1,497	(54)	(4%)
Total Expenses	43,262	43,132	(131)	171,310	172,309	(999)	(1%)
Net Surplus/(Deficit) from Ordinary Operations	94,984	93,832	1,152	13,886	14,131	246	2%
Transfer to Reserves	-	-	-	-	-	-	0%
Net Surplus/(Deficit) after Transfers to Reserves	94,984	93,832	1,152	13,886	14,131	246	2%

Balance Sheet

Balance Sheet as at 30 Sep 2018					
	30 Sep 2018 Actual \$'000	2018/19 Adopted Budget \$'000	2018/19 Annual Forecast \$'000	Forecast Var \$	Forecast Var %
ASSETS					
Current Assets					
Cash & Cash Equivalents	80,001	93,859	98,019	4,160	4%
Trade and Other Receivables	111,689	8,421	8,421	-	0%
Other Financial Assets	2	0	-	-	0%
Inventories	48	0	-	-	0%
Other Assets	3,767	1,506	1,506	-	0
Total Current Assets	195,507	103,787	107,946	4,160	4%
Non-Current Assets					
Property, Plant & Equipment	3,337,072	3,066,445	3,350,643	284,198	9%
Other Assets	1,171	1,267	1,267	-	0%
Total Non-Current Assets	3,338,243	3,067,712	3,351,910	284,198	9%
Total Assets	3,533,750	3,171,499	3,459,856	288,358	9%
LIABILITIES					
Current Liabilities					
Trade and Other Payables	10,110	16,260	16,260	-	0%
Trust Funds and Deposits	14,357	9,705	9,705	-	0%
Income in Advance	10	0	0	-	0%
Provision	16,236	17,080	17,080	-	0%
Total Current Liabilities	40,713	43,045	43,045	-	0%
Non-Current Liabilities					
Provision	1,157	1,941	1,941	-	0%
Other Liabilities	2,245	1,926	1,926	-	0%
Total Non-Current Liabilities	3,402	3,867	3,867	-	0%
Total Liabilities	44,115	46,912	46,912	-	0%
Net Assets	3,489,635	3,124,587	3,412,947	288,360	9%
EQUITY					
Accumulated Surplus	1,080,572	999,448	1,004,010	4,562	0%
Reserves	2,409,063	2,125,139	2,408,937	283,798	13%
Total Equity	3,489,635	3,124,587	3,412,947	288,360	9%

Statement of Cash Flows

Statement of Cash Flows for the period ending 30 September 2018							
	YTD Actual \$'000	YTD Budget \$'000	YTD Variance \$'000	2018/19 Adopted Budget \$'000	2018/19 Forecast \$'000	Forecast Var \$	Forecast Var %
	Inflows (Outflows)	Inflows (Outflows)	Fav (Unfav)	Inflows (Outflows)	Inflows (Outflows)	Fav (Unfav)	Fav (Unfav)
Cash Flows from Operating Activities							
Receipts							
Rates & Charges	18,300	18,189	110	121,323	121,323	-	0%
Fire Services Levy	2,776	2,523	253	-	-	-	0%
Statutory Fees & Fines	2,622	2,420	202	10,273	10,292	19	0%
User Fees	5,884	6,851	(967)	27,487	28,301	814	3%
Contributions - cash	1,710	1,475	235	6,596	6,601	5	0%
Grants - Operating	4,651	3,921	730	15,323	15,731	408	3%
Grants - Capital	164	207	(43)	2,576	2,576	-	0%
Interest Revenue	698	467	231	2,529	2,529	-	0%
GST reimbursed by Australian Tax Office	1,338	1,967	(629)	10,087	10,087	-	0%
Other Revenue	222	257	(35)	880	880	-	0%
Employee Costs	(17,954)	(17,744)	(210)	(73,945)	(74,350)	(405)	1%
Materials, Services and Contracts	(20,429)	(21,124)	695	(72,739)	(73,281)	(542)	1%
Other Expenses	(281)	(312)	31	(1,798)	(1,852)	(54)	3%
GST paid to Australian Tax Office	(146)	(326)	180	(1,454)	(1,454)	-	0%
Total Cash Inflow (outflow) provided by Operating Activities	(444)	(1,229)	785	47,138	47,382	244	1%
Cash Flows from Investing Activities							
Payments for Property, Plant and Equipment	(9,874)	(9,487)	(387)	(47,261)	(47,661)	(400)	(1%)
(Payments for) / Proceeds from Investment(Net)	-	-	-	-	-	-	-
Proceeds from Sale of Property, Plant and	350	441	(91)	8,433	8,433	-	0%
Net Cash Inflow (Outflow) provided by Investing Activities	(9,524)	(9,047)	(477)	(38,828)	(39,228)	(400)	(1%)
Cash Flows from Financing Activities							
Trusts and Refundable Deposits	106	-	106	-	-	-	0%
Net Cash Inflow (outflow) provided by Financing Activities	106	-	106	-	-	-	0%
Net increase (decrease) in cash and cash	(9,862)	(10,276)	413	8,310	8,153	(157)	-2%
Cash and cash equivalents at the beginning of the financial year	89,863	77,913	11,950	85,549	89,865	4,316	5%
Cash and cash equivalents at the end of the period	80,001	67,637	12,363	93,859	98,019	4,160	4%

Statement of Capital Works

Statement of Capital Works for the period ending 30 September 2018						
	YTD Actual \$'000	2018/19 Budget \$'000	% Complete	FORECAST		
				2018/19 Management Budget \$'000	Variance to Adopted Budget	
				Var \$	Var %	
Property						
Land	-	30	0.0%	30	-	100.0%
Land Improvements	-	-	0.0%	-	-	0.0%
Total land	-	30	0.0%	30	-	100.0%
Buildings and Building Improvements	1,789	16,028	11.2%	15,710	318	98.0%
Total buildings and building Improvements	1,789	16,028	11.2%	15,710	318	98.0%
Total property	1,789	16,058	11.1%	15,740	318	98.0%
Plant & Equipment						
Plant, machinery and equipment	455	2,875	15.8%	2,875	-	100.0%
Fixtures, fittings and furniture	101	489	20.8%	489	-	100.0%
Computers and telecommunications	336	3,530	9.5%	3,530	-	100.0%
Library books	246	1,284	19.1%	1,284	-	100.0%
Total plant and equipment	1,137	8,178	13.9%	8,178	-	100.0%
Infrastructure						
Roads	547	5,642	9.7%	5,642	-	100.0%
Bridges	5	393	1.2%	393	-	100.0%
Footpaths and cycleways	824	4,522	18.2%	4,546	(24)	100.5%
Drainage	115	2,077	5.5%	2,208	(131)	106.3%
Recreational, leisure and community facilities	776	3,071	25.3%	3,119	(48)	101.6%
Waste management	1	131	0.9%	131	-	100.0%
Parks, open space and streetscapes	371	2,955	12.6%	3,468	(513)	117.4%
Aerodromes	-	-	0.0%	-	-	0.0%
Off street car parks	13	213	6.0%	213	-	100.0%
Other infrastructure	1	120	0.7%	120	-	100.0%
Total Infrastructure	2,653	19,123	13.9%	19,840	(717)	103.7%
Total capital works expenditure	5,579	43,359	12.9%	43,758	(400)	100.9%
Represented by:						
New Asset expenditure	107	833	12.9%	841	(7)	100.9%
Asset renewal expenditure	3,986	30,973	12.9%	31,258	(285)	100.9%
Asset expansion expenditure	342	2,656	12.9%	2,680	(24)	100.9%
Asset upgrade expenditure	1,145	8,897	12.9%	8,979	(82)	100.9%
	5,579	43,359	12.9%	43,758	(400)	100.9%
Funding sources represented by:						
Grants	174	2,576	6.8%	2,576	-	100.0%
Contributions	33	437	7.6%	442	5	101.0%
Council cash	5,372	40,346	13.3%	40,741	395	101.0%
Borrowings	-	-	0.0%	-	-	0.0%
Total capital works expenditure	5,579	43,359	12.9%	43,758	400	100.9%

Financial Indicators

Indicator	Measure	YTD Actual 2018/19	Full Year Budget 2018/19
<i>Operating position</i>			
Adjusted Underlying result	Adjusted underlying surplus (deficit) / Adjusted underlying revenue	68.7%	6.0%
<i>Liquidity</i>			
Working Capital	Current assets / current liabilities	480.2%	241.1%
Unrestricted cash	Unrestricted cash / current liabilities	136.36%	168.5%
<i>Obligations</i>			
Loans and borrowings	Interest bearing loans and borrowings / rate	0.00%	0.00%
Loans and borrowings	Interest and principal repayments / rate revenue	0.00%	0.00%
Indebtedness	Non-current liabilities / own source revenue	2.6%	2.4%
Asset renewal	Asset renewal expenditure / depreciation	56.9%	110.7%
<i>Stability</i>			
Rates concentration	Rate revenue / adjusted underlying revenue	87.3%	67.0%
Rates effort	Rate revenue / CIV of rateable properties in the municipality	0.0%	0.1%
<i>Efficiency</i>			
Expenditure level	Total expenses / No. of property assessments	\$548	\$2,168
Revenue level	Residential rate revenue/No. of residential assessments	\$1,437	\$1,414
Workforce turnover	No. of permanent staff resignations & terminations / average no. of permanent staff for the financial year	3.5%	11.0%