

SOUTH GIPPSLAND SHIRE COUNCIL

Financial Performance Report for the period July 2022 to September 2022



*South Gippsland
Shire Council*

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Section 1- Financial Performance Statement

For the period 1 July 2022 to 30 September 2022

	Note	YTD ACTUAL \$'000	YTD FORECAST \$'000	YTD VARIANCE \$'000	PROPOSED ANNUAL FORECAST \$'000	ANNUAL ORIGINAL BUDGET ADJUSTED FOR CARRY FORWARDS \$'000	ANNUAL ORIGINAL BUDGET \$'000
INCOME	A1						
Rates and charges		12,147	12,058	89	48,107	48,108	48,108
Statutory fees and fines		300	271	29	1,138	1,138	1,138
User fees		814	1,080	(266)	4,035	4,025	4,025
Grants - operating		1,345	1,092	253	4,795	3,689	3,689
Grants - capital		0	0	0	9,153	9,165	10,553
Grants - capital - natural disasters		3,012	538	2,474	6,313	6,299	0
Contributions							
- monetary		0	364	(364)	2,044	1,438	1,438
Contributions							
- non monetary		0	105	(105)	422	422	422
Net gain on disposal of PIPE		(1)	(144)	143	(598)	867	761
Other income		450	394	56	1,220	1,186	1,186
Total Income		18,067	15,758	2,309	76,629	76,337	71,320
EXPENSES	A2						
Employee costs		6,996	6,993	(3)	28,788	28,544	28,544
Materials and consumables		6,322	7,758	1,436	27,966	26,118	23,768
Natural disasters		90	0	(90)	0	0	0
Depreciation		3,041	3,250	209	12,166	12,871	12,871
Borrowing costs		14	18	4	84	73	73
Other expenses		1,092	1,007	(85)	3,208	3,215	3,195
Total Expenses		17,555	19,026	1,471	72,212	70,821	68,451
Net Surplus / (Deficit)		512	(3,268)	3,780	4,417	5,516	2,869

1.1 Overview

The surplus as at 30 September 2022 is favourable to forecast by \$3.78M.

The favourable variance is largely due to a favourable variance in capital natural disaster grants (\$2.47M) and materials and consumables (\$1.44M) largely as a result of timing and further phasing adjustments required.

Capital works expenditure is tracking at \$4.49M as compared to the year to date forecast of \$5.63M.

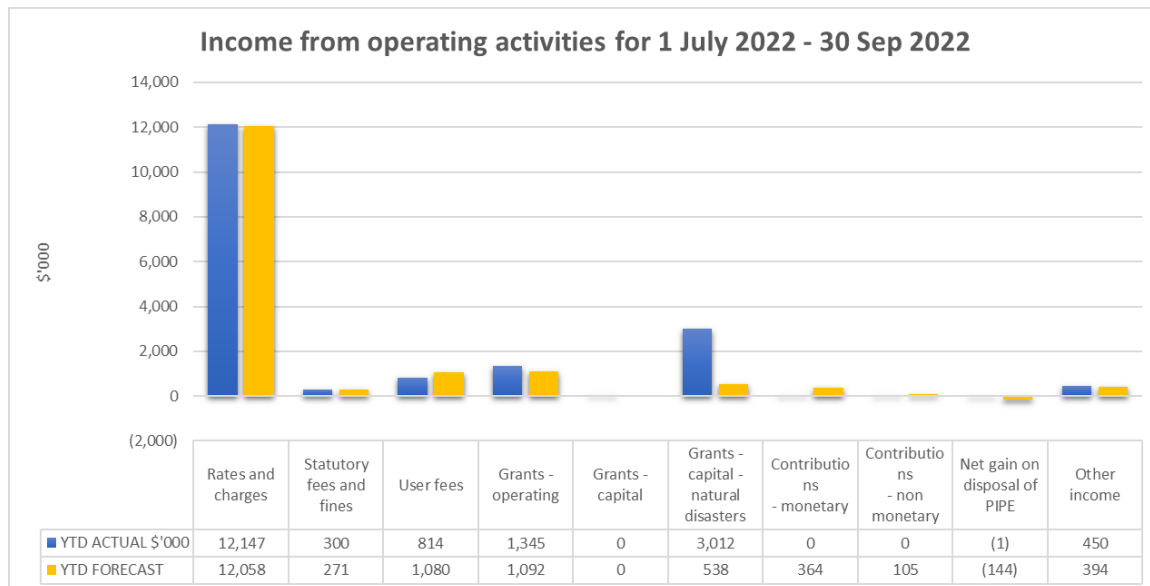
1.2 Budget Information

- The Annual Original Budget referred to in the report is the budget adopted by Council at the meeting on 29 June 2022.
- The Proposed Annual Forecast includes any adjustments identified as at the end of September 2022.
- The Year to Date Forecast represents the phased Annual Original Budget adjusted for Carry Forwards to 31 August 2022.

1.3 Notes to the Financial Performance Statement

A1. Operating Income

The chart below shows the categories of operating income against their respective year to date forecasts.

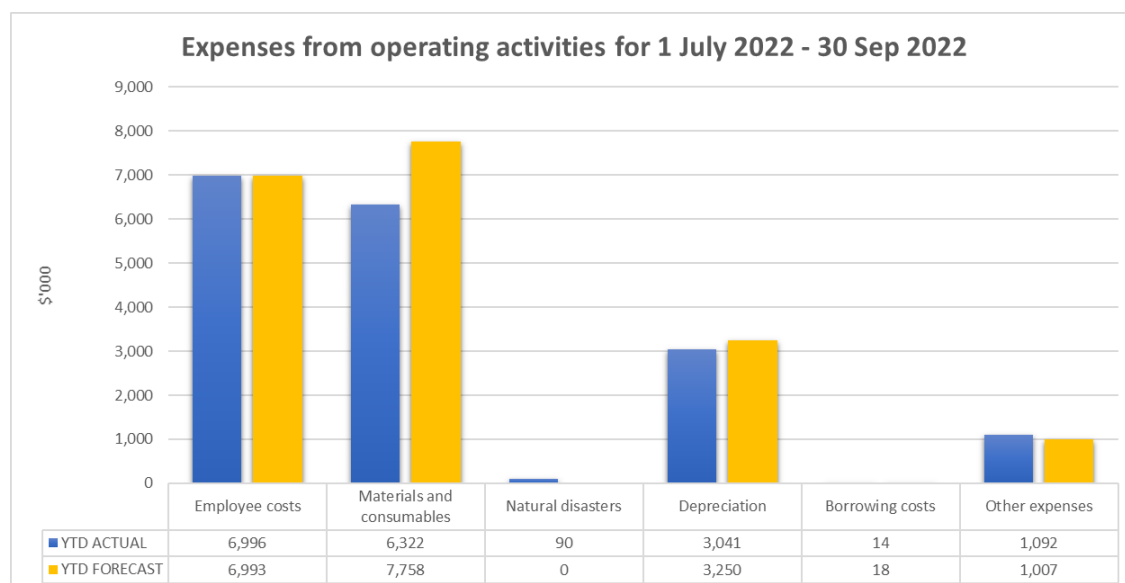


Income for the period ended 30 September 2022 is favourable against the budget. This is primarily due to the following:

- **Unfavourable – User fees \$(266K):** Due to further phasing adjustments required in Local Laws.
- **Favourable – Grants – operating \$253K:** Due to additional funding received for Economic Development Business Support (\$84K), Municipal Emergency Resourcing Program (\$60K) and HACC Assessment (\$102K) over the original budget.
- **Favourable – Grants – capital – natural disasters \$2.5M:** Due to grant funding received for the August 2019 Flood Event in September that was phased to be received in October.
- **Unfavourable – Contributions – monetary (\$364K):** Due to no open space or developer contributions received yet as of 30 September 2022.
- **Unfavourable – Contributions – non-monetary (\$105K):** Due to no non-monetary contributions recorded up to the end of September 2022.

A.2 Operating Expenses

The chart below shows the categories of operating expenses against their respective year to date forecasts.



Operating expenses for the period ended 31 August 2022 is favourable against the budget. This is primarily due to the following:

- **Favourable – Materials and consumables \$1.4M:** Due to timing delays for Resheets (\$239K) due to weather and supply issues and Swimming Pools (\$129K) due to delayed invoicing. Also due to further phasing adjustments required in Information Technology (\$261K), Economic Development (\$219K), Economy Community & Investment Management (\$121K) and Maternal and Child Health (\$120K).
- **Favourable – Depreciation \$209K:** Due to budget adjustments required, decrease in depreciation budget included in Quarter 1 proposed forecast.

1.4 Capital Works Statement

As at 30 September 2022

	Note	YTD ACTUAL \$'000	YTD FORECAST \$'000	YTD Variance \$'000	PROPOSED ANNUAL FORECAST \$'000	ANNUAL ORIGINAL BUDGET ADJUSTED FOR CARRY FORWARDS \$'000	ANNUAL ORIGINAL BUDGET \$'000
Property	B1						
Buildings		2,182	2,083	(99)	13,514	12,467	8,505
Total Property		2,182	2,083	(99)	13,514	12,467	8,505
Plant and equipment	B2						
Plant, machinery and equipment		32	14	(18)	2,713	2,731	2,367
Computers and telecommunications		77	806	729	1,156	1,156	467
Total Plant and Equipment		109	820	711	3,869	3,887	2,834
Infrastructure	B3						
Roads		541	848	307	12,673	12,686	9,964
Bridges		0	0	0	253	253	253
Major culverts		1	0	(1)	184	184	67
Footpaths and cycleways		410	385	(25)	2,514	2,514	1,522
Drainage		0	0	0	85	85	0
Car parks		286	228	(58)	1,894	449	0
Land stabilisation		6	0	(6)	0	0	0
Waste		0	0	0	747	686	528
Other infrastructure		958	1,264	306	8,971	10,500	7,793
Total Infrastructure		2,202	2,725	523	27,321	27,357	20,127
Total Capital Works Expenditure		4,493	5,628	1,135	44,704	43,711	31,466

Notes to the Capital Works Statement:

B1 Property

No significant variances to note.

B2 Plant and equipment

- **Under budget – Computers and telecommunications \$729K:** Due to phasing required for projects carried forward from 2021/22.

B3 Infrastructure

- **Under budget – Roads \$307K:** Due to the Reseal Preparation (\$165K) and Federal Blackspot Program (\$111K) behind schedule due to weather.
- **Under budget – Other infrastructure \$306K:** Due to phasing adjustments required for Coal Creek (\$82K) and Yanakie Caravan Park (\$200K).

1.5 Treasury

1.5.1 Cash Position

Cash and investment holdings total \$39.2M as of 30 September 2022, a decrease of \$5.9M from the 30 June 2022 balance of \$45.1M. Total cash flows for the period ended 30 September 2022 was a positive result of \$3.1M.

Total cash and investment holdings are made up of operating cash of \$16.2M and restricted cash of \$23.0M.

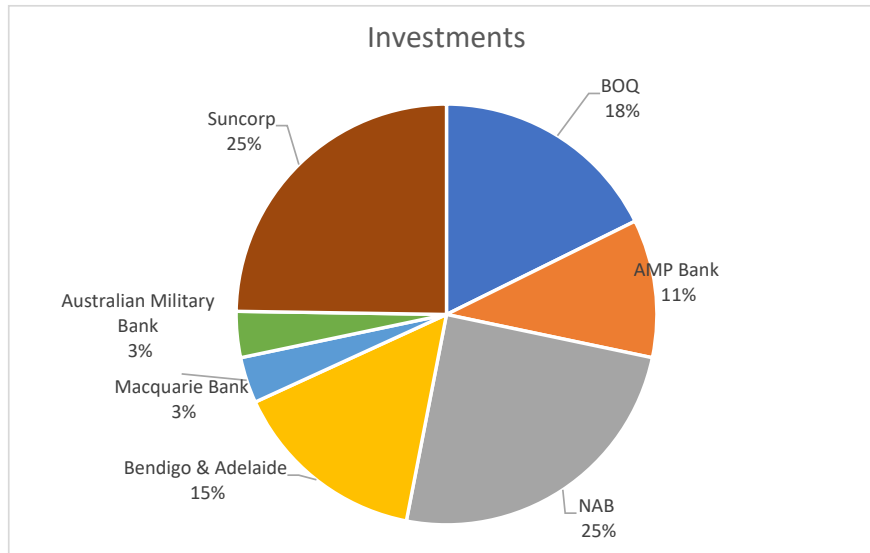
Restricted cash includes:

- Carry forward projects \$21.07M

- Trust funds and deposits \$0.89M
- Reserves \$1.08M

The average current interest rate on the term-deposits held is 1.83%.

Refer to Appendix 3 for the Investment Report as of 30 September 2022.

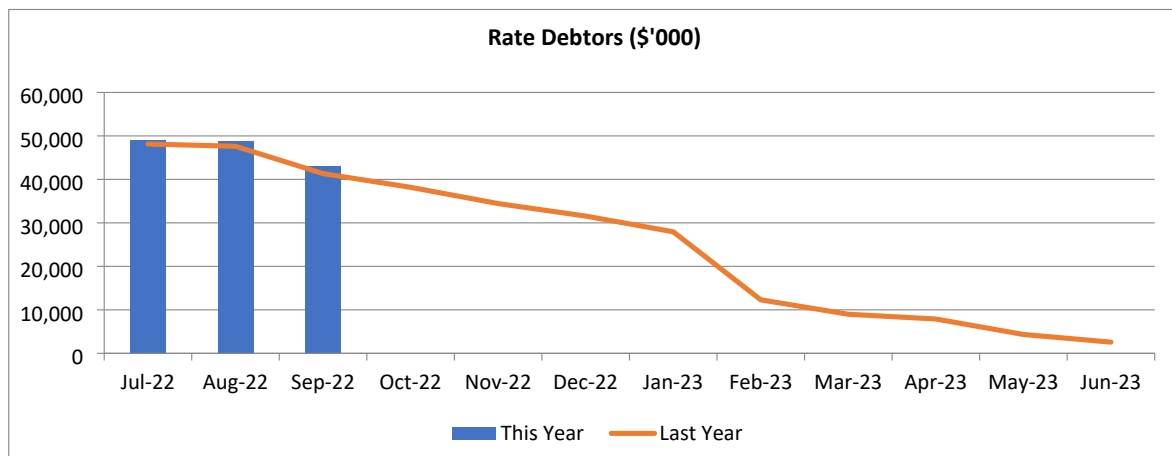


1.5.2 Debtors

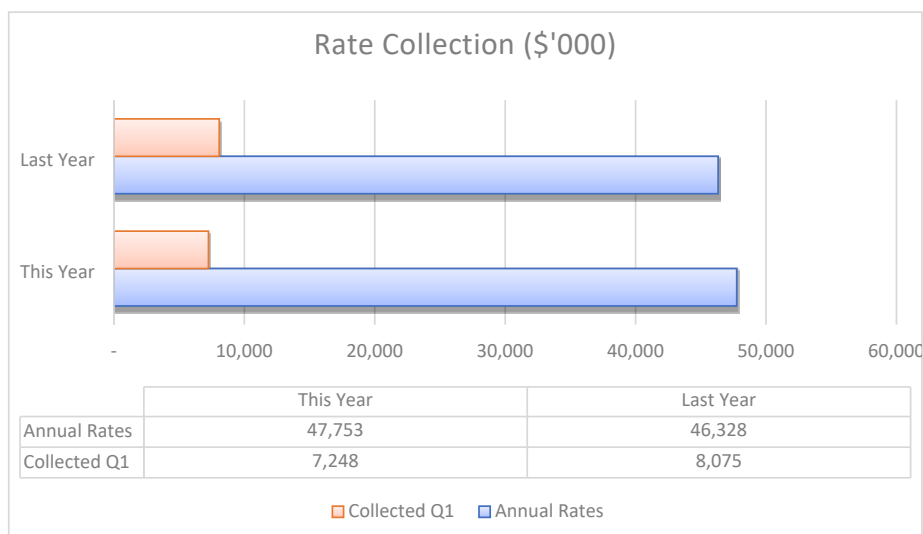
Rates Debtors

The outstanding rates balance as at 30 September 2022 is \$43.1M, compared to \$41.3M as at 30 September 2021.

The outstanding rates balance has increased by \$1.8M (4.4%) from the same period last year. The slight increase is consistent with rates raised for 2021/22.



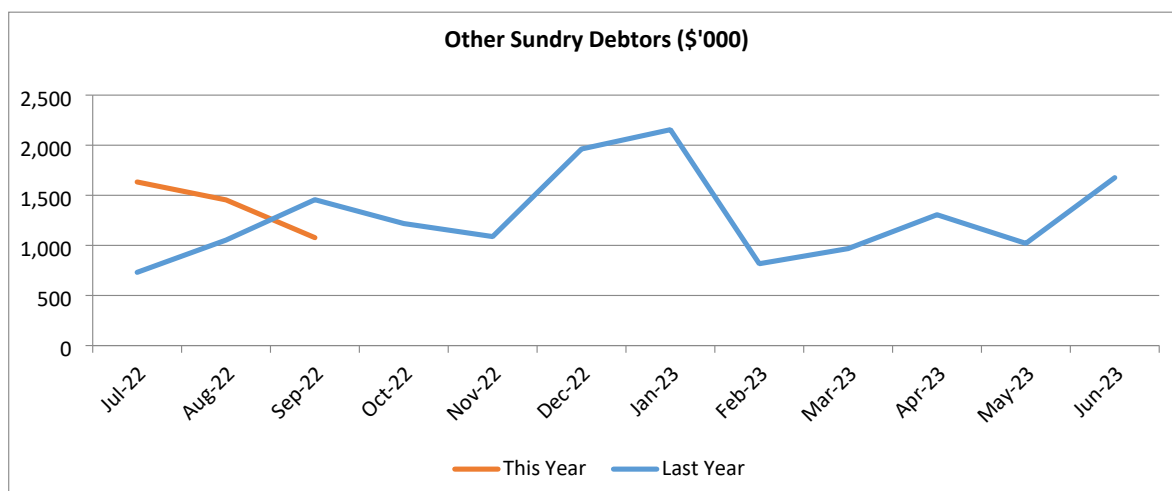
The amount collected during Quarter 1 was \$7.2M (15.18% of total rates raised in 2022/23), the amount collected in Quarter 1 last year was \$8.1M (17.43% of total rates raised in 2021/22)



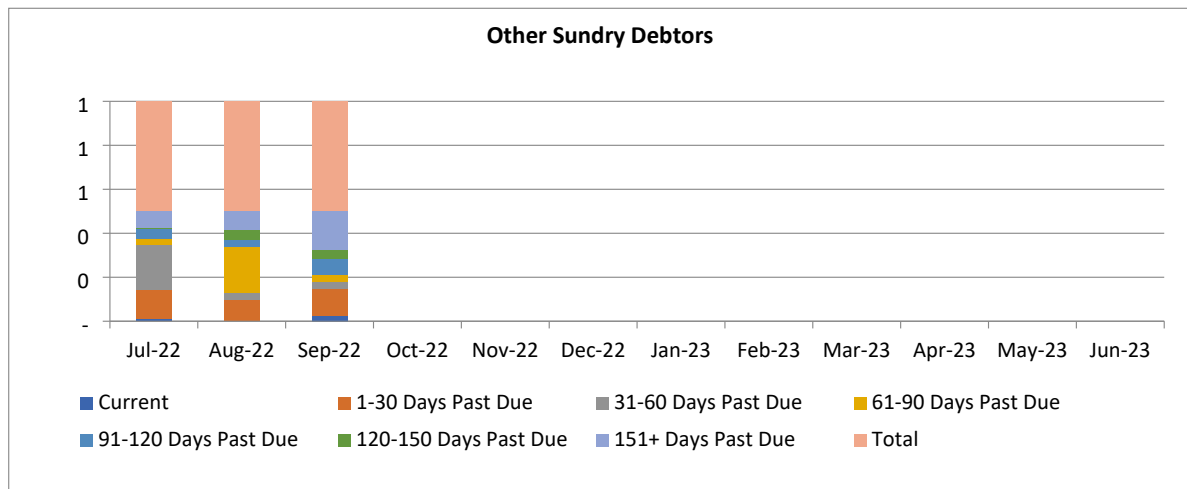
Other Sundry Debtors

The outstanding other sundry debtors balance as at 30 September 2022 is \$1.1M, compared to \$1.5M as at 30 September 2021.

The outstanding other sundry debtors balance has remained consistent with the same period last year.



Approximately 29% of other sundry debtors outstanding are current or less than 30 Days Past Due. \$373K of other sundry debtors have been outstanding greater than 151 Days Past Due. Large invoices outstanding greater than 151 Days Past Due include \$29K from Ausnet Electrical Services relating to the Leongatha Business Precinct Project, \$110K from Department of Jobs, Precincts and Regions relating to the GSRT Extension project and \$25K from PHN Gippsland for a Vaccine Helpers Grant.



Section 2 – Financial Statements

2.1 Balance Sheet as at 30 September 2022

	Notes	YTD Actual Sep 2022	YTD Actual Sep 2021	Year over Year Variance		Original Budget June 2023	Proposed Annual Forecast June 2023
		\$'000	\$'000	\$'000	%	\$'000	\$'000
Current Assets	C1						
Cash and cash equivalents		10,973	5,390	5,583	103.6%	10,550	7,563
Trade and other receivables		50,331	48,019	2,312	4.8%	5,265	5,767
Other financial assets		28,271	29,279	(1,008)	-3.4%	17,000	19,000
Inventories		188	185	3	1.6%	210	176
Non-current assets classified as held for sale		0	1,691	(1,691)	-100.0%	1,691	0
Other assets		20	40	(20)	-50.0%	240	348
Total Current Assets		89,783	84,604	5,179	6.1%	34,956	32,854
Non-Current Assets	C2						
Property, infrastructure, plant and equipment		662,042	588,405	73,637	12.5%	630,015	690,600
Right-of-use-assets		431	62	369	595.2%	0	362
Investment property		727	615	112	18.2%	615	727
Intangible asset		0	234	(234)	-100.0%	0	0
Total Non-Current Assets		663,200	589,316	73,884	12.5%	630,630	691,689
TOTAL ASSETS		752,983	673,920	79,063	11.7%	665,586	724,543
Current Liabilities	C3						
Trade and other payables		7,592	6,753	(839)	-12.4%	5,649	6,102
Unearned income		4,922	4,951	29	0.6%	3,000	4,922
Trust funds and deposits		887	764	(123)	-16.1%	1,527	1,552
Provisions		6,679	6,938	259	3.7%	6,534	6,684
Interest-bearing loans and borrowings		514	349	(165)	-47.3%	1,049	1,122
Lease liabilities		67	71	4	6%	0	91
Unearned rates revenue		35,814	34,723	(1,091)	-3.1%	0	0
Total Current Liabilities		56,475	54,549	(1,926)	-3.5%	17,759	20,473
Non-Current Liabilities	C4						
Provisions		6,141	4,766	(1,375)	-29%	4,728	6,141
Interest-bearing loans and borrowings		5,994	2,991	(3,003)	-100%	9,447	9,743
Lease liabilities		364	0	(364)	-100%	0	273
Total Non-Current Liabilities		12,499	7,757	(4,742)	-61.1%	14,175	16,157
TOTAL LIABILITIES		68,974	62,306	(6,668)	-10.7%	31,934	36,630
NET ASSETS		684,009	611,614	72,395	11.8%	633,652	687,913
Equity	C5						
Accumulated Surplus		252,256	239,887	12,369	5.2%	260,925	256,161
Asset Revaluation Reserve		430,672	371,184	59,488	16.0%	371,182	430,671
Other Reserves		1,081	543	538	99.1%	1,545	1,081
TOTAL EQUITY		684,009	611,614	72,395	11.8%	633,652	687,913

2.2 Statement of Cash flows for the period 1 July 2022 to 30 September 2022

	Notes	YTD Actual \$'000	Proposed Annual Forecast \$'000	Annual Original Budget \$'000	Full Year Forecast Variance \$'000	%
CASH FLOWS FROM OPERATING ACTIVITIES	D1					
Rates and charges		7,280	48,824	47,061	1,763	4%
Statutory fees and fines		300	1,155	1,117	38	3%
User fees		1,237	4,095	3,953	142	4%
Grants - operating		1,345	4,865	3,623	1,242	34%
Grants - capital		3,012	15,697	10,364	5,333	51%
Contributions - monetary		0	2,044	1,438	606	42%
Interest received		73	150	150	0	0%
Other receipts		302	1,116	1,176	(60)	-5%
Employee costs		(6,993)	(28,797)	(27,778)	(1,019)	4%
Materials and services		(8,387)	(27,973)	(23,131)	(4,842)	21%
Other payments		(1,092)	(3,209)	(3,109)	(100)	3%
Net cash provided by (used in) operating activities		(2,923)	17,967	14,864	3,103	21%
CASH FLOWS FROM INVESTING ACTIVITIES	D2					
Payments for property, infrastructure, plant & equipment		(4,493)	(44,704)	(31,467)	(13,237)	42%
Proceeds from sale of property, infrastructure, plant & equipment		6	2,427	3,787	(1,360)	-36%
Payments for / from Other Financial Assets		8,999	18,270	0	18,270	100%
Net cash provided by (used in) investing activities		4,512	(24,007)	(27,680)	3,673	-13%
CASHFLOWS FROM FINANCING ACTIVITIES	D3					
Finance costs		(12)	(77)	(73)	(4)	5%
Proceeds from borrowings		1,700	6,600	4,000	2,600	65%
Repayment of borrowings		(128)	(671)	(870)	199	-23%
Repayment of leases		(22)	(96)	0	(96)	-100%
Net cash provided by (used in) financing activities		1,538	5,756	3,057	2,699	88%
Net increase (decrease) in cash and cash equivalents		3,127	(284)	(9,759)	9,475	-97%
Cash and cash equivalents at the beginning of the financial year	D4	7,846	7,847	20,309	(12,462)	-61%
Cash and cash equivalents at the end of the period		10,973	7,563	10,550	(2,987)	-28%

2.3 Notes to the Financial Statements

Balance Sheet

Council's net assets are valued at \$684M as at the end of September 2022

Year over Year variances**C1 Current Assets**

- **Favourable – Cash and cash equivalents \$5.6M:** Due to less surplus cash invested as at the end of September 2022 compared to September 2021.
- **Unfavourable – Non-current assets classified as held for sale \$(1.7M):** Due to the wind-up of West Gippsland Regional Library Corporation and assets gifted to My Community Library as of 30 June 2022.

C2 Non-Current Assets

- **Favourable – Property, infrastructure, plant and equipment \$73.6M:** Due to an increase in the revaluation of land and buildings by \$59.8M as of 30 June 2022.
- **Favourable – Right-of-use-assets \$369K:** Due to recognition of new right-of-use asset upon lease renewal of the Leongatha Library in June 2022.
- **Favourable – Investment property \$112K:** Due to fair value adjustment for the investment property recognized as of 30 June 2022.
- **Unfavourable – Intangible asset (\$234K):** Due to recognizing amortisation for the period since 30 September 2021.

C3 Current Liabilities

- **Unfavourable – Trade and other payables (\$839K):** Due to timing of invoices as a result of a higher pending invoices balance where purchase orders have receipted but no invoice received yet.
- **Unfavourable – Trust funds and deposits (\$123K):** Due to additional deposits and retention amounts received since 30 September 2021.
- **Unfavourable – Interest-bearing loans and borrowings (\$165K):** Due to addition of current portion of \$1.9M loan for the Korumburra Community Hub.

C4 Non-Current Liabilities

- **Unfavourable – Provisions (\$1.4M):** Due to increase in landfill provision as of 30 June 2022 by \$1.8M as a result of an increase in index and discount rates.
- **Unfavourable – Non-current Interest-bearing loans and borrowings (\$3M):** Due to \$3.6M drawings on the TCV loan for the Korumburra Community Hub. This is net of payment of the Mirboo North Pool loan over the period up to 31 August 2022.
- **Unfavourable – Lease liabilities (\$364K):** Due to recognition of lease liability upon lease renewal of the Leongatha Library in June 2022.

C5 Equity

- **Favourable – Accumulated Surplus \$12.4M:** Due to surplus recognized since 30 September 2021.
- **Favourable – Asset Revaluation Reserve \$59.5M:** Due to an increase in the revaluation of land and buildings by \$59.8M as of 30 June 2022.
- **Favourable – Other Reserves \$538K:** Due to an increase in the Public Open Space reserve recognized as of 30 June 2022.

Cash flow Statement**Forecast variances to budget****D1 Cash flows from operating activities**

- **Favourable \$3.1M:** Due to an increase in operating and capital grants of \$6.6M, offset by an increase in materials and consumables of \$4.8M.

D2 Cash flows from investing activities

- **Favourable \$3.7M:** Due to an increase in proposed redemptions of Other Financial Assets by \$18.3M to fund the capital asset program. This is offset by an increase in the capital works program by \$13.2M due to carry forwards from 2021/22.

D3 Cash flows from financing activities:

- **Favourable \$2.7M:** Due to an increase in proceeds from borrowings expected of \$2.6M as a result of not being drawn-down prior to 30 June 2022.

D4 Cash and cash equivalents at the beginning of the financial year

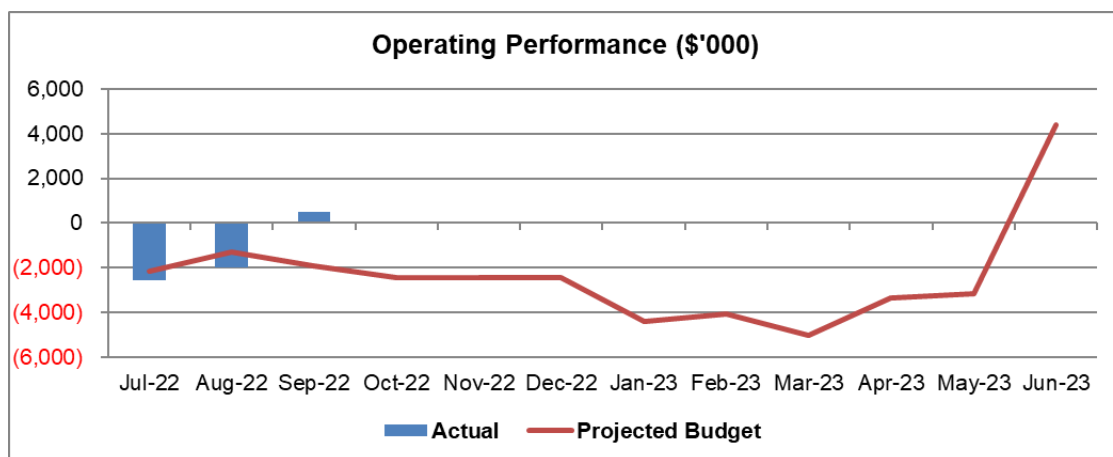
- **Unfavourable (\$12.5M):** Due to updating the forecast based on the actual cash and cash equivalents balance as of 30 June 2022. This was due to not redeeming as much Other Financial Assets as originally expected in 2021/22 as cash flows were sufficient to fund operating and capital works.

Section 3 - 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.

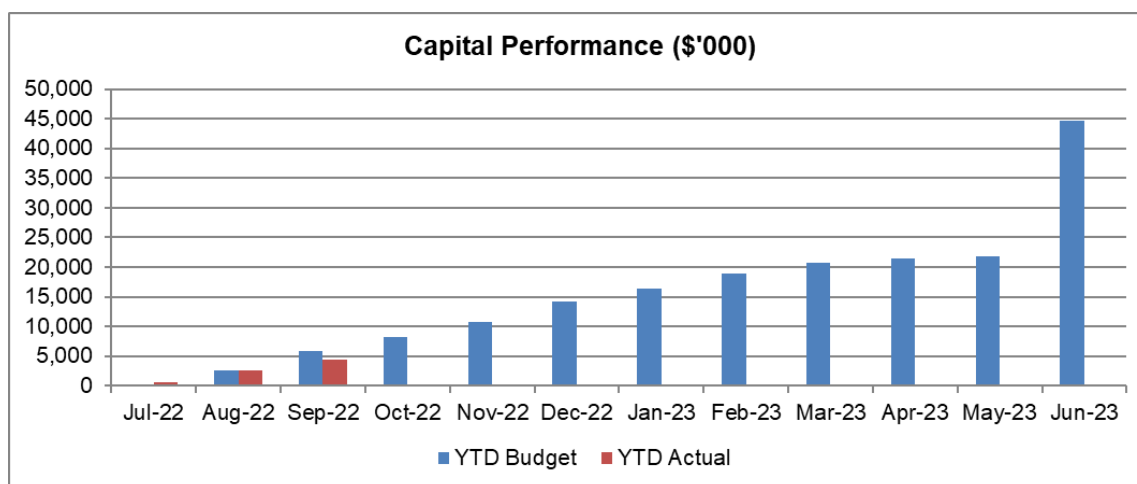
3.1 Operating Performance

The operating result is a \$0.5M surplus for the period July 2022 to September 2022. This is a favourable variation of \$2.4M compared to the forecast deficit of \$1.9 for the period July 2022 to September 2022. Further detail can be found on the Income Statement for the period ended 30 September 2022.



3.2 Capital Performance

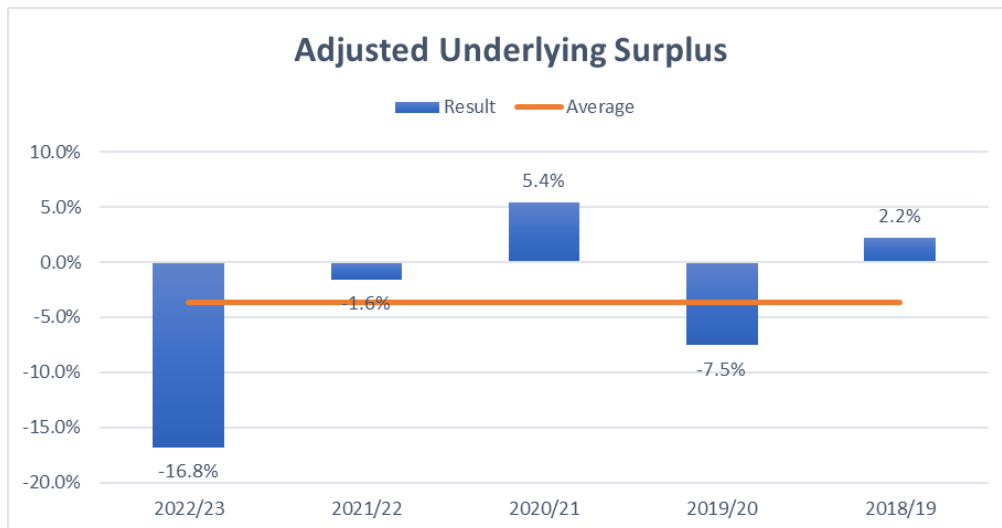
The capital expenditure is \$4.5M for the period July 2022 to September 2022. This is \$1.1M behind the forecast of \$5.6M for the period July 2022 to September 2022. Further detail can be found on the Statement of Capital Works for the period ended 30 September 2022.



3.3 Financial Ratios

Operating position

Council proposed forecast result is an \$10.4M adjusted underlying deficit for the year ended 30 June 2023.

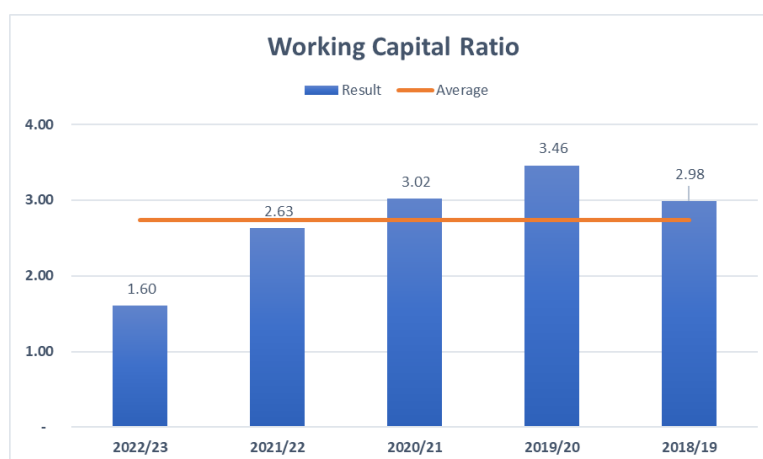


The proposed deficit of \$10.4M is largely due to 75% of the Financial Assistance allocation for 2022/23 being paid in advance during 2021/22 (\$8.8M). The adjusted underlying result demonstrates Council's ability to generate a surplus in its ordinary course of business, excluding non-recurrent capital grants, non-monetary asset contributions and other contributions to fund capital works from its net result. A surplus or increasing surplus suggest an improvement in operations.

Liquidity

The Working Capital Ratio, which assesses Council's ability to meet current commitments, is calculated by measuring Council's current assets as a percentage of current liabilities.

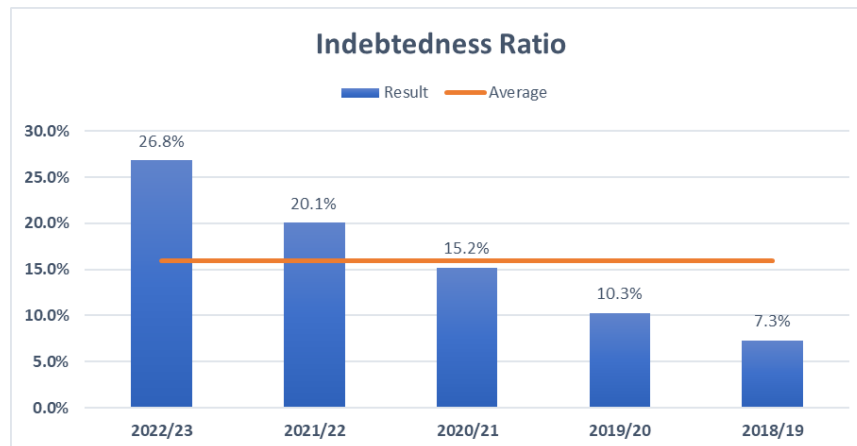
Council's proposed forecast as of 30 June 2023 has a Working Capital Ratio of 1.6. This is within the targeted range above 1.5. The decrease in the forecast compared to previous years is due to a decline in cash and cash equivalents and other financial assets (expected to be \$26.6M as of 30 June 2023), to fund the capital works program.



Obligations

The Indebtedness Ratio Percentage measures Council's ability to pay the principal and interest on borrowings when they are due from the funds it generates. Own-sourced revenue is used in the calculation, not including any grants or contributions.

Council's proposed forecast Indebtedness Ratio as of 30 June 2023 is 26.8%, and is well within the target of 40% or lower. The increase over the previous years is due to additional construction drawdown facilities through TCV during 2022/23.



Asset Renewal

Council aims to ensure that it is able to maintain its infrastructure assets at the expected levels, while at the same time continuing to deliver the services needed by the community. The investment in asset renewal for the 2022/23 year is forecasted to be \$34.2M.

The Capital Replacement Ratio compares the total rate of spending on new infrastructure, property, plant and equipment with its depreciation. Ratios of higher than 1:1 indicate that spending is faster than the depreciation rate.

Council's proposed forecast Capital Replacement Ratio of 3.67 for the year ending 30 June 2023, which is well above the target of 1.5.

