

13 DIRECTOR CORPORATE REPORTS

COR.1	QUARTERLY FINANCIAL REPORT - OCTOBER TO DECEMBER 2023 AND MID YEAR BUDGET REVIEW 31 DECEMBER 2023
Officer:	Travis Harling, Manager Finance and Reporting
Council Plan relationship:	4. Delivering strong and reliable government
Attachments:	Nil

Summary

The purpose of this report is to provide Council and the community with a report on the financial position of the Macedon Ranges Shire Council to 31 December 2023 for the 2023/2024 financial year (Quarter 2), in accordance with the requirements of the *Local Government Act 2020*.

Recommendation**That Council:**

- 1. receives the Quarterly Financial report as at 31 December 2023, in accordance with the requirements of the Local Government Act 2020; and**
- 2. adopts the budget changes identified as part of the mid-year budget review.**

Background

This report on Council's financial performance against budget has been prepared in accordance with Section 97 of the *Local Government Act 2020*, which states "as soon as practicable after the end of each quarter of the financial year, the Chief Executive Officer must ensure that a quarterly budget report is presented to the Council at a Council meeting which is open to the public."

Council is seeking to streamline the way we report to Council and the public, and the second Quarterly Financial Report for the 2023/24 financial year is in a simpler format, that allows a quick interpretation of key information related to council's financial performance.

In January each year, a review of the actual financial performance for the first half of the year is undertaken and variances to the annual budget are identified. Generally, there will be a range of budget variances both favourable and unfavourable as the budget is based on assumptions made prior to the commencement of the financial year.

Discussion

The Finance and Capital Management Report to 31 December 2023 provides an update on financial performance against the 2023/2024 budget, including the mid-year budget review.

The Income Statement reports an operating surplus of \$63.76m for the six months to 31 December 2023 compared to the budget of \$47.95m. In accordance with accounting standards, all rates income is recognised at the start of the financial year when the rates are struck. This results in Council reporting a large surplus at the start of the year which reduces as the year progresses, as expenditure is incurred evenly throughout the year.

Council's Income Statement as at 31 December 2023 is provided below with analysis of year-to-date material variances.

INCOME STATEMENT

6 months ended 31 December 2023

	2023/24 Dec YTD Adj. Budget* \$'000	2023/24 Dec YTD Actuals \$'000	2023/24 Dec YTD Variance \$'000
Income			
Rates and charges	61,609	61,459	(150)
Statutory fees and fines	1,555	1,333	(222)
User fees	3,545	3,432	(113)
Grants - operating	6,209	6,649	440
Grants - capital	17,562	16,529	(1,033)
Contributions - monetary	1,477	1,412	(65)
Other income	1,187	7,819	6,632
		-	
Total income	93,144	98,633	5,489
Expenses			
Employee costs	22,112	22,006	106
Materials and services	16,938	22,139	(5,201)
Depreciation and amortisation	8,532	8,220	312
Borrowing costs	133	116	17
Other expenses	1,736	1,849	(113)
Total expenses	49,451	54,330	(4,879)
Surplus/(deficit) Ex other adjustments	43,693	44,303	610
Other adjustments			
Contributions - non monetary	3,960	21,534	17,574
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	300	20	(280)
Writing off capital projects	-	(2,095)	(2,095)
Total surplus/(deficit)	47,953	63,762	15,809

The Income Statement includes all sources of Council revenue and expenditure incurred in its day-to-day operations. It should be noted that expenditure listed in the Income Statement does not include the cost of asset purchases or sales, loan repayments, capital works expenditure or reserve funds. It does however, include depreciation as an expense.

Overall the operating surplus of \$63.7m is \$15.8m favourable to budget. The financial summary provides an explanation of key variances to budget.

* This column represents the adjusted budget which is the 2023/24 adopted budget adjusted for the 2022/23 carry forward budgets and any Council approved budget changes during 2023/24.

Income Statement - Year-to-Date (YTD) Key Actual vs Budget Variances

Operational Revenue

Grants Capital: The \$1.0m unfavourable income in operating grants is mostly due to the increase in Financial Assistance Grants and the timing of grants received by key programs in the Community Directorate.

Other Income: Actual income is \$7.8m, this is \$6.6m favourable, due to unbudgeted income generated from timber processing as a result of the June 2021 storm.

Operational Expenditure

Materials and services: Actual expenditure of \$22.1m is unfavourable to budget by \$5.2m for the six months to 31 December 2023 mainly due to timber processing from the June 2021 storm. These costs are reimbursed by the contractor and offset as other income above.

Capital Works

YTD Capital Works Statement reports \$19.3M of works delivered to 31 December 2023 where the total budget including carry forwards for the 12-month period is \$70.4M. Infrastructure expenditure of \$17.2m is lower than budget of \$25.6m due to delayed construction. Three projects contribute a significant amount to this variance. They are the Macedon Ranges Shared Trail Project, Kettlewells Road rehabilitation and the Macedon Ranges Regional Sports Precinct.

CAPITAL WORKS STATEMENT				
As at 31 December 2023				
	2023/24 Annual	2023/24 December	2023/24 December	2023/24 December
	Budget \$'000	Budget \$'000	Actuals \$'000	Variance \$'000
Property				
Land and land improvements	1,060	0	0	0
Buildings and building improvements	7,099	3,058	1,612	1,445
Total property	8,159	3,058	1,612	1,445
Plant and equipment				
Plant, machinery and equipment	2,542	911	418	493
Fixtures, fittings and furniture	0	0	0	0
Computers and telecommunications	311	119	114	5
Total plant and equipment	2,853	1,030	532	498
Infrastructure				
Roads	15,504	6,637	5,133	1,505
Bridges	1,933	688	215	473
Footpaths and Cycleways	12,002	5,259	552	4,707
Drainage	736	422	334	88
Recreational, leisure and community facilities	26,059	11,507	10,441	1,066
Parks, open space and streetscapes	810	339	313	26
Other infrastructure	2,311	704	184	520
Total infrastructure	59,354	25,557	17,171	8,386
Total capital works expenditure	70,366	29,644	19,316	10,328

Investments

Investments held at 31 December total \$35.3M. Investments are earning adequate interest, with 51% of investments held with institutions that do not lend to organisations linked with

fossil fuel, compliant with the Investment policy requirement for at least 20%. Interest rates are expected to remain steady for the remainder of the financial year.

Storm Reports

The cost to Council for the June 2021 Storm is forecast to be \$5.4M. Costs incurred by Council to decommission pumps and rehabilitating the Ashbourne Road site have now concluded.

The Kettlewell's timber processing site continues to operate and the early financial arrangements for this site contribute considerably to reducing the cost to Council for storm clean up and recovery works. After considering the Kettlewell's site result, cost to Council is reduced to \$1.8M. These calculations have been made at 31 December and will continue to change until all claims are finalised and paid. It is forecast that material will cease being processed at the site during February 2024.

Loans

Budgeted loans have not yet been drawn down. As part of the mid-year budget review process it was decided to extend the draw down period out to April 2024. The timing of project delivery and current cash holdings has permitted the extension to the draw down date of the budgeted loan.

Mid-year Budget Review

The 2023/24 Mid-Year Budget Review (MYBR) has evaluated a number of variations that have occurred in the first 6 months, and those forecast to occur in the second half of the financial year.

- Increased revenue from investment interest due to higher interest rates
- Confirmation of Grants Commission funding, resulting in a higher amount to be received
- Revised draw down dates for budgeted new borrowings in line with project progress and forecast cash holdings
- Salary savings from vacant positions throughout the year
- The shortage of skilled arborists leading to an increase in the need to engage contractors to undertake work across the shire
- Increased contractor costs in line with annual increases of CPI
- Increase expenditure for staff as Aquatic services return to pre covid levels

Councillors have been briefed in detail on variances in the Operating and Capital budgets.

The MYBR Cash result after Capital expenditure, Reserve Transfers and Loan adjustments reports a cash deficit of \$197,393. Council staff will continue to work diligently during the remaining months of the financial year to improve the forecast cash position and reduce the forecast cash deficit of \$197,393.

In addition to the mid year forecast deficit, the carry forward deficit from the 2021/22 financial year \$4,776,744 continues to be monitored outside of the 2023/24 adopted budget process. The claims relating to the storm and is ending, this will enable a final position to be reported by 30 June 2024.

Mid Year Budget Review Summary Key Variances to budget identified in December 2023 Review:			
<u>Additional Income/Expense Savings:</u>			
Interest Revenue	(1)	\$900,000	
Loan Drawdown	(2)	\$548,000	
Grants Commission grants	(3)	\$415,284	
Council Support Fund grant	(4)	\$237,400	
Debt collection	(5)	\$140,000	
			\$2,240,684
<u>Additional Expenses/Income Reduction:</u>			
Arboriculture	(6)	-\$749,286	
Rates Income	(7)	-\$558,808	
Cleaning contract	(8)	-\$345,498	
Aquatics positions	(9)	-\$263,770	
Corporate review	(10)	-\$188,000	
Economic impact assessment	(11)	-\$120,000	
			-\$2,225,362
Net other budget variances below \$100,000 identified in rev	(20)		-\$17,715
Transfer from financial reserves			\$0
Net Budget Variance identified in mid-year review			-\$2,393
Remaining budget deficit from 2022/23 (estimate due to storm recovery)			-\$195,000
Forecast Cash surplus/(deficit) for the 2023/24 budget			-\$197,393
Notes:			
(1) Additional interest revenue due to higher interest rates			
(2) Loan repayments lower than required as new loans deferred			
(3) Additional Commonwealth Government grants through the Grants Commission			
(4) Council Support Fund grant carried forward but not tied to expenditure			
(5) Changes to debt collection have resulted in the deferral of contractor costs.			
(6) Storms have contributed to additional works required			
(7) Reduction in municipal charge income for 2023/24			
(8) Increase in contracts for cleaning of facilities			
(9) Aquatics budgets were lower than required post Covid lockdowns			
(10) Funding required for corporate review			
(11) Report required for the economic impact of poker machines			

Consultation and engagement

Officers from across Council have contributed to the preparation of the Quarterly Financial Report.

Collaboration

Collaboration with other councils, governments and/or statutory bodies was not required.

Innovation and continuous improvement

The Quarterly Financial Report forms part of a legislative requirement, which assists Council to deliver on its priority of strong and reliable government, whilst achieving its vision by following good governance processes and providing transparency to the community. The Quarterly Financial Report is reviewed by the Executive and incorporates feedback from various levels of management to enhance readability and allow for continuous improvement.

This includes streamlining the content of the report considerably, and providing the updates on performance against the Council Plan at half-yearly intervals, consistent with the Local Government Act and transparency principles.

Relevant law

This report has been prepared in accordance with Section 97 of the *Local Government Act 2020* (Vic) and is compliant with the requirements. The financial statements have been prepared in accordance with Australian Accounting Standards.

There are no human rights implications resulting from the completion of the Quarterly Report.

In accordance with the *Gender Equality Act 2020*, a Gender Impact Assessment was not required in relation to the subject matter of this report.

Relevant regional, state and national plans and policies

There are no regional, state or national plans or policies to be considered in relation to the subject matter of this report.

Relevant Council plans and policies

Macedon Ranges Shire Council Financial Plan 2021-2031

Macedon Ranges Council Budget 2023/24

Financial viability

The Quarterly Financial Report provides information on Council's operating and financial performance for the quarter ending 30 September 2023. The financial statements within the report indicate that Council remains in a sound financial position.

Sustainability implications

In terms of financial sustainability, the financial statements within the report indicate that Council remains in a sound financial position.

Officer declaration of conflicts of interest

All officers involved in the preparation of this report have declared that they do not have a conflict of interest in relation to the subject matter.