

### 3.9. STATEMENT OF ESTIMATED FINANCIAL POSITION 2018-2019

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**DEPARTMENT:** Finance, ICT and Procurement

#### RECOMMENDATIONS

1. Pursuant to section 205 of the *Local Government Regulation 2012*, the statement of the financial operations and financial position of the Council in respect of the 2018/19 financial year ("the Statement of Estimated Financial Position") be received and its contents noted.
  2. The Financial Report for the period ended 31 May 2019 be noted.
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#### EXECUTIVE SUMMARY

The attached Financial Report details the progress of the 2018/19 budget for the period ended 31 May 2019 and provides a "statement of estimated financial position" for the 2018/19 financial year. Key points to note include the following:

- operating revenue currently exceeds budget expectations by \$1.06m.
- operating expenditure exceeds budget by \$330k.
- the operating deficit is currently \$510k compared to a budgeted deficit of \$1.24m.

#### BACKGROUND

In accordance with section 204 of the *Local Government Regulation 2012* the Chief Executive Officer must present to Council a financial report which states the progress that has been made in relation to Council's budget for the financial year. This report must be presented to Council on a monthly basis and cover the period up to a day as near as practicable to the end of the preceding month.

Additionally, section 205 of the *Local Government Regulation 2012* requires the Chief Executive Officer to present to the annual budget meeting a statement of estimated financial position. Accordingly, the attached financial report also includes the estimated financial position for the financial year ending 30 June 2019 based on the budget adopted by Council in June 2018 and subsequently revised in November 2018.

#### COMMENT

The 2018/19 annual budget was adopted on 19 June 2018 and revised on 18 December 2018 and the attached financial report details progress against budget for the period ended 31 May 2019. The report is prepared on an accrual basis and includes revenue earned and expenditure incurred during this period.

The following information is provided to assist with interpreting the report and includes graphs which show both actual expenditure and committals relating to materials and services expenditure and capital expenditure.

## PROGRESS AGAINST BUDGET FOR THE PERIOD ENDING 31 MAY 2019

### Operating Revenue and Expenditure

#### Key points:

- *Council has received 93% of its annual budgeted operating revenue*
- *Year to date operating expenditure is currently over budget*

Overall year to date operating revenue is ahead of budget by \$1.06m, with a number of variations occurring within the various categories as follows:

- Net rates utility charges are \$18k under budget as a result of greater than anticipated Pensioner Remissions.
- Fees and charges are \$16k under budget due to the following variations:
  - Daintree Ferry revenue below budget \$70k due to monsoon event
  - Refuse tipping fees \$46k ahead of budget
  - Other fees and charges \$48k ahead of budget
  - Building and property related fees \$48k below budget
  - Licences and Other fees and charges \$18k below budget
  - Infringements \$24k ahead of budget
- Grants and subsidies are ahead of budget by \$920k. Council received NDRRA Emergent funding (pertaining to the March 2018 event) of \$550k. This funding was not budgeted until June 2019. Additional unbudgeted funding included a \$310k advance payment for NDRRA Emergent funding (from 2019 weather events) and \$114k for a Storm Tide Study.
- Interest received has exceeded budget expectations and is \$15k ahead of budget.
- Other recurrent income is \$160k ahead of budget primarily due to timing of Roads Maintenance Performance Contract works.

On the operating expenditure side, year to date expenditure exceeds budget by \$330k, variations are as follows:

- Employee benefits expenditure is \$180k under budget and can be impacted by various factors, such as staff vacancies, the amount and timing of leave taken and the allocation of costs to capital expenditure.
- Materials and Services expenditure exceeds budget by \$920k, which can be attributed to unbudgeted emergent works due to weather events. This is now at 97% of the annual Materials Service Budget with only \$545k remaining in this budget line.

While committals currently equal \$2.6m it should be noted that approximately \$1.6m of these committals relate to annual expenditure contracts. These committals are being reviewed as we approach the end of financial year.

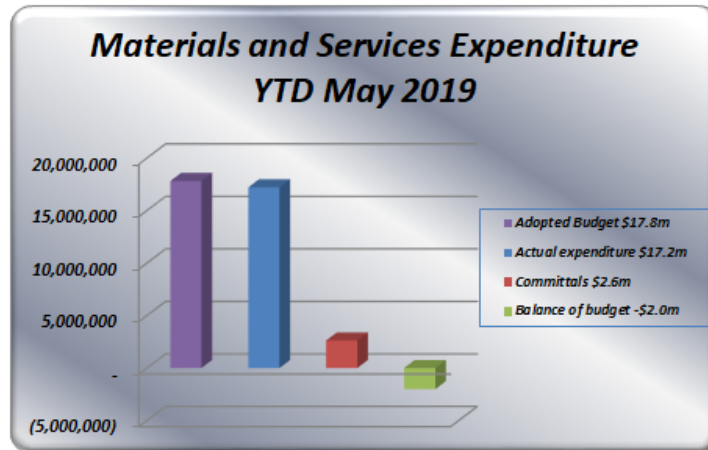


Figure 1.

- Depreciation expense is currently \$400k under budget and while this expense is expected to move closer to budget as we approach the end of the financial year (and capital projects continue to be completed, capitalised and depreciated), overall depreciation is now anticipated to be under budget due to a delay in the completion of some projects.

### Capital Revenue and Expenditure

Key point:

- Council has received 74% of its annual budgeted capital grants and subsidies.

Significant adjustments were made to capital revenue and expenditure in the budget review with the inclusion of carry forwards (uncompleted works) from the previous financial year, capital project adjustments and new capital projects including the Works for Queensland (W4Q) program.

It should be noted that in addition to year to date expenditure a further \$5.1m had been committed as at the end of May.

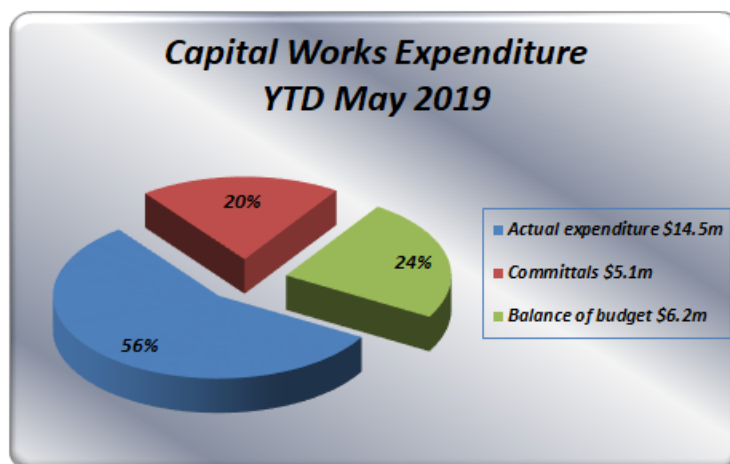


Figure 2.

## Operating Result

### Key point:

- *the operating result is \$730k ahead of budget*

As reflected in the attached report, total operating revenue at the end of May was ahead of budget, however operating expenditure also exceeded budget. This has resulted in an operating deficit of \$510k compared to a budgeted operating deficit of \$1.24m. As mentioned above, this result does not include any committals for materials and services and the result is also inflated by the \$550k National Disaster Relief and Recovery Arrangements funding received early (\$450 was budgeted to be received in June 2019)

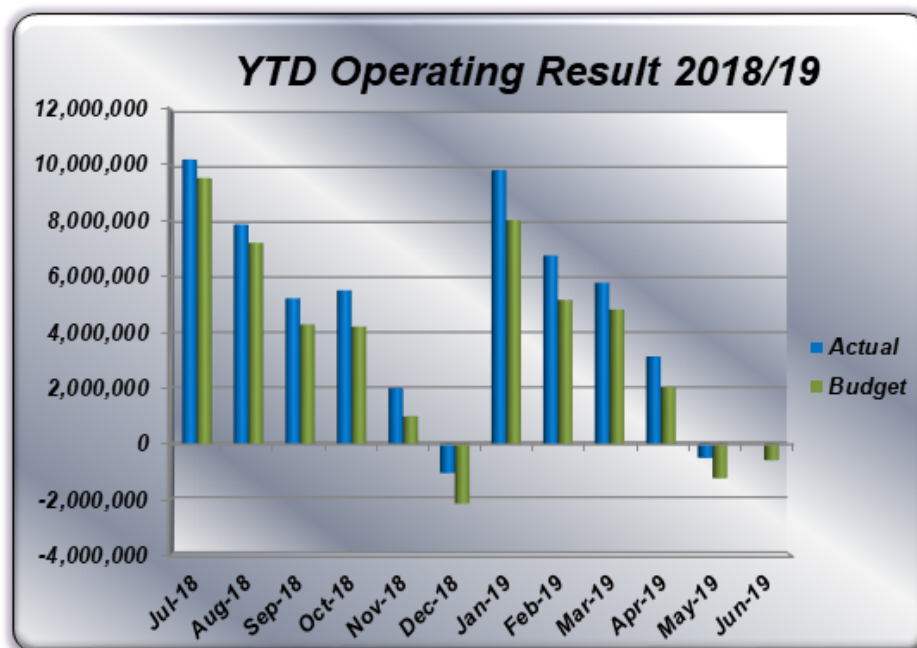


Figure 3.

### ESTIMATED FINANCIAL POSITION FOR THE FINANCIAL YEAR ENDING 30 JUNE 2019

Two columns have been added to the attached financial report to show the estimated financial position and variance to budget for the financial year ending 30 June 2019. This estimate is based on information available (including the variance explanations outlined above) and assumptions made at the time of preparing this report.

The operating result is predicted to be a \$975k deficit (budget \$595k deficit). The increased deficit is due to Emergent works expenditure incurred during the year following extreme weather events. This result is impacted by the timing of the reimbursement for the emergent costs for the disasters. The attached result attempts to show the overall operating result and then reflect the operating result after excluding the disaster funding and emergent works expenditure on materials and services. The operating result if the impact of NDRRA is excluded indicates that Council may have achieved a \$48k deficit vs a budgeted \$595k deficit if we had not encountered such an extreme weather year.

It should be noted that the employee costs relating to NDRRA works have not been taken into account as it is likely these expenses would be incurred regardless of events. In addition to this, final claims for NDRRA funding and final allocation of all relevant expenses

have not been completed. Council's estimated financial position as at 30 June 2019 will also be dependent upon the outcomes of the end of financial year adjustments and final audit processes.

## **PROPOSAL**

The Financial Report for the period ended 31 May 2019 and the Statement of Estimated Financial Position for the 2018/19 financial year be received and noted by Council.

## **FINANCIAL/RESOURCE IMPLICATIONS**

The operating result for 2018-19 will be greatly distorted by the costs associated with the emergent works expenditure as a result of significant weather events. The majority of the funding associated with these emergent works will be received in the 2019-20 financial year and has been included in the 2019-20 budget.

## **RISK MANAGEMENT IMPLICATIONS**

Monthly financial reporting keeps Council informed of the progress that has been made in relation to the budget and allows for timely corrective action if required.

## **CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE**

This report has been prepared in accordance with the following:

### **Corporate Plan 2014-2019 Initiatives:**

#### **Theme 5 Governance**

*5.1.1 - Establish and develop long term financial, resource and infrastructure planning to ensure ongoing capacity to fund operations and capital works programs.*

*5.2.1 - Provide Councillors and community with accurate, unbiased and factual reporting to enable accountable and transparent decision-making.*

## **ATTACHMENTS**

1. Financial Report & Projected result May 2018-19 [**3.9.1** - 1 page]

| <b>Douglas Shire Council<br/>Statement of Comprehensive Income</b>                                   |                      |                      |                    |                     |  | <b>Estimated Position June 2019</b> |                    |
|--|----------------------|----------------------|--------------------|---------------------|--|-------------------------------------|--------------------|
|  | <b>Actual YTD 19</b> | <b>Budget YTD 19</b> | <b>Variance</b>    | <b>Budget 18/19</b> | <b>Actual as % of<br/>Budget 18/19</b> | <b>Actual</b>                       | <b>Variance</b>    |
|  | <b>\$</b>            | <b>\$</b>            | <b>\$</b>          | <b>\$</b>           |  | <b>\$</b>                           | <b>\$</b>          |
| <b>For the month of May 2019</b>   |                      |                      |                    |                     |  |                                     |                    |
| <b>Operating Revenue</b>   |                      |                      |                    |                     |  |                                     |                    |
| Net rates and utility charges  | 31,510,374           | 31,528,456           | (18,082)           | 34,088,347          | 92%                                    | 34,088,347                          | -                  |
| Fees and charges   | 4,966,816            | 4,983,279            | (16,463)           | 5,408,334           | 92%                                    | 5,408,334                           | -                  |
| Grants and subsidies   | 2,337,133            | 1,418,089            | 919,044            | 2,580,696           | 91%                                    | 3,491,190                           | 910,494            |
| Interest received  | 791,354              | 776,073              | 15,281             | 842,895             | 94%                                    | 842,895                             | -                  |
| Other recurrent income   | 983,878              | 820,165              | 163,713            | 876,284             | 112%                                   | 1,173,284                           | 297,000            |
| <b>Total Operating Revenue</b>   | <b>40,589,555</b>    | <b>39,526,062</b>    | <b>1,063,493</b>   | <b>43,796,556</b>   | <b>93%</b>                             | <b>45,004,050</b>                   | <b>1,207,494</b>   |
| <b>Operating Expenses</b>  |                      |                      |                    |                     |  |                                     |                    |
| Employee benefits  | 13,098,314           | 13,277,063           | 178,749            | 14,356,112          | 91%                                    | 14,356,112                          | -                  |
| Materials and services   | 17,207,925           | 16,288,150           | (919,775)          | 17,816,073          | 97%                                    | 19,604,132                          | (1,788,059)        |
| Depreciation   | 10,722,071           | 11,121,254           | 399,183            | 12,132,286          | 88%                                    | 11,932,286                          | 200,000            |
| Finance costs  | 71,207               | 79,309               | 8,102              | 86,700              | 82%                                    | 86,700                              | -                  |
| <b>Total Recurrent Expenses</b>  | <b>41,099,517</b>    | <b>40,765,776</b>    | <b>(333,741)</b>   | <b>44,391,172</b>   | <b>93%</b>                             | <b>45,979,230</b>                   | <b>(1,588,059)</b> |
| <b>Operating Result</b>  | <b>(509,962)</b>     | <b>(1,239,714)</b>   | <b>729,752</b>     | <b>(594,616)</b>    | <b>86%</b>                             | <b>(975,180)</b>                    | <b>(380,564)</b>   |
| <b>Capital Revenue</b>   |                      |                      |                    |                     |  |                                     |                    |
| Capital grants and subsidies   | 8,438,401            | 11,390,062           | (2,951,661)        | 11,390,062          | 74%                                    | 11,390,062                          | -                  |
| Contributions from developers  | 78,816               | 250,000              | (171,184)          | 250,000             | 32%                                    | 250,000                             | -                  |
| <b>Total capital revenue</b>   | <b>8,517,216</b>     | <b>11,640,062</b>    | <b>(3,122,846)</b> | <b>11,640,062</b>   | <b>73%</b>                             | <b>11,640,062</b>                   | <b>-</b>           |
| <b>Net Result</b>  | <b>8,007,255</b>     | <b>10,400,348</b>    | <b>(2,393,093)</b> | <b>11,045,446</b>   | <b>72%</b>                             | <b>10,664,882</b>                   | <b>(380,564)</b>   |
| <b>Capital Works Program</b>   |                      |                      |                    |                     |  |                                     |                    |
| Capital additions  | 14,499,638           | 25,713,543           | 11,213,905         | 25,713,543          | 56%                                    | 25,713,543                          | -                  |
| <b>Total capital additions</b>   | <b>14,499,638</b>    | <b>25,713,543</b>    | <b>11,213,905</b>  | <b>25,713,543</b>   | <b>56%</b>                             | <b>25,713,543</b>                   | <b>-</b>           |
| <b>NDRRA portion of Capital Works Program (included above)</b>                                       |                      |                      |                    |                     |  |                                     |                    |
| Capital grants and subsidies   | 1,743,175            | 3,612,816            | (1,869,641)        | 3,612,816           | 48%                                    | 3,612,816                           | -                  |
| Capital additions  | 1,219,558            | 3,276,085            | 2,056,527          | 3,276,085           | 37%                                    | 3,276,085                           | -                  |
| <b>Net position</b>  | <b>523,617</b>       | <b>336,731</b>       | <b>186,886</b>     | <b>336,731</b>      |  | <b>336,731</b>                      | <b>-</b>           |
| <b>NDRRA &amp; Category D portion of Operational Expenditure for Emergent Works (Included Above)</b> |                      |                      |                    |                     |  |                                     |                    |
| NDRRA Operational Funding  | 860,494              | -                    | 860,494            | 450,000             | 191%                                   | 860,494                             | 410,494            |
| NDRRA Material & Services  | 1,788,059            | -                    | 1,788,059          | -                   |  | 1,788,059                           | (1,788,059)        |
| <b>Net Operating Result Excluding NDRRA</b>  | <b>417,604</b>       | <b>(1,239,714)</b>   | <b>1,657,318</b>   | <b>(1,044,616)</b>  |  | <b>(47,614)</b>                     | <b>(1,377,566)</b> |