

REPORT TITLE: QUARTERLY BUDGET REVIEW - SEPTEMBER 2023

ECM INDEXES:

Subject Index: FINANCIAL MANAGEMENT: Budgeting

Customer Index: NIL

Property Index: NIL

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PURPOSE

The purpose of this report is to provide Council with a **Quarterly Budget Review Statement (QBR)** for the period from 1 July 2023 until 30 September 2023 (**Annexure A**) for its review and adoption.

RECOMMENDATION

That Council notes and adopts the September 2023 Quarterly Budget Review.

REPORT

(a) Background

Section 203 of the **Local Government (General) Regulation 2021 (the Regulation)** states that:

- (1) Not later than 2 months after the end of each quarter (except the June quarter), the responsible accounting officer of a council must prepare and submit to the council a budget review statement that shows, by reference to the estimate of income and expenditure set out in the statement of the council's revenue policy included in the operational plan for the relevant year, a revised estimate of the income and expenditure for that year.*

- (2) *A budget review statement must include or be accompanied by:*
- (a) *a report as to whether or not the responsible accounting officer believes that the statement indicates that the financial position of the council is satisfactory, having regard to the original estimate of income and expenditure, and*
 - (b) *if that position is unsatisfactory, recommendations for remedial action.*
- (3) *A budget review statement must also include any information required by the Code to be included in such a statement.*

The Code referred to above is the **Code of Accounting Practice and Financial Reporting (the Code)**. While earlier versions of the Code had an appendix that listed minimum requirements, these were removed a few years ago as they are of no relevance to the Financial Statements (which is the main purpose of the Code).

In the absence of any instructions in the Code, the QBRS publication issued in 2010 by the then Division of Local Government, NSW Department of Premier and Cabinet, details the minimum requirements and these requirements have been met in the preparation of the QBRS.

The quarterly review should act as a barometer of Council's financial health during the year, and it is also a means by which Councillors can ensure that Council remains on track to meet its objectives, targets and outcomes as set out in its Operational Plan and Budget.

(b) Discussion

The original budget adopted by Council indicated that the Net Operating Deficit at the end of the 2023/2024 Financial Year was expected to be \$2.580M (excluding Capital Grants and Contributions of \$11M). This was based on budgeted total operating revenue of \$34.562M and budgeted total operating expenditure of \$37.141M, with \$11M expected from Capital Grants and Contributions.

The September Quarterly Budget Review led to a change from original budget of \$36K, resulting in a projected Net Operating Deficit of \$2.543M (excluding capital grants and contributions of \$11M). The September 2023 Quarterly Budget Review indicates that Council is in a steady position in respect of actual net expenditure when compared to budgeted net expenditure.

The September 2023 Quarterly Budget Review does indicate that the Council spend of operational expenses is less than anticipated when compared to the projected total operating expenses, which is the result of not yet processing depreciation charges of \$2.3M. Taking this into account, the trajectory of expenses reported as at 30 September 2023 is aligned with the expected costs.

The annual budgeted depreciation of \$9.010M was based on asset valuations as at 30 June 2022. Asset valuations for the financial year 2023/24 have now been completed, highlighting a significant uplift in asset values, which will be finalised as part of the 2023/24 financial statements. The increase in asset values affects assumptions made for depreciation and will impact on the actual final depreciation for 2023/24. The exact impact is unknown at this stage but is expected to be significant.

The Operating Performance Ratio demonstrates whether Council is making an operating surplus or deficit. The Operating Performance Ratio (excluding Capital income) is defined as:

Total Continuing Operating Revenue (excluding Capital grants and contributions) – Operating Expenses

Total Continuing Operating Revenue

Council originally budgeted for a negative Operating Ratio (deficit) excluding Capital income of **-7.4%**. The Operating Performance Ratio is expected to be negative because of the current proposed variations and will shift to **-7.2%**.

By way of comparison, the Annual Financial Statements reported that this ratio was:

- 1.23% in 2021/2022;
- **-4.81%** in 2020/2021;
- **-1.94%** in 2019/2020;
- 0.72% in 2018/2019;
- 7.75% in 2017/2018; and
- 12.84% in 2016/2017.

The major adjustments recommended for the September 2023 quarterly review are as follows, noting that minor items affecting total increases have not been shown separately.

- 1) **Open Spaces** – total increase of **\$137K**
 - a. \$66K due to the increased cost of internal plant hire.
 - b. \$70K for the CBD upgrade/lighting/tree planting project.
- 2) **Administration and HR** – total increase of **\$100K**
 - a. \$100K increase to workers compensation premiums due to a budget compilation error.
- 3) **Waste Management** – total increase of **\$42K**
 - a. \$100K allowed for compacter hire as purchase of new compacter is being delayed.
 - b. \$70K income budget that was previously omitted from the original budget

- 4) **Economic Development** – a total increase of **\$247K**
 - a. Visitor Information Centre operating costs of \$125K omitted in the original budget.
 - b. Australian Celtic Festival expenditure increases of \$103K not budgeted for in the original budget. Expenses have now been updated with actual quotes. Significant increases to internal plant hire expenses not allowed for in the original budget.

- 5) **Asset Services** – total increase of **\$56K**
 - a. Increase to salaries & wages of \$20K.
 - b. Increase to SES contributions of \$17K being aligned to actual vs estimates.
 - c. Community Centre rent expenses of \$18K omitted from the original budget.

- 6) **Finance** – total decrease of **\$629K**
 - a. An increase of \$648K to the **Financial Assistance Grants (FAGS)** for 2023-24. Original budget was based on 2022-23 actuals and the FAGS details for 2023-24 were not published at the time of budgeting.
 - b. Increase of \$70K allowed for consulting costs due to work required around business reporting and system issues.
 - c. Decrease in salaries & wages estimates of \$70K.
 - d. Increase to external audit fee for 2023-24 of \$20K allowed, as the audit engagement plan had not been finalised during the original budget process.

Further details of income and expenditure adjustments are included in Annexure A.

Cash and Investment Review

The cash and investment review provides an estimate of the current internal and external restrictions on Council's invested funds. These are not fully determined until the end of the financial year and the completion of the preparation of the Financial Statements for that financial year. The report also includes a reconciliation of Council's cash and investments on hand as at 30 September 2023.

It should be noted that both internally and externally restricted funds must be acquitted for a particular purpose, and therefore are in truth already committed for that purpose. For this reason, the expenditure of these funds is more of a cash flow / working capital issue and will have no effect on the operational surplus or deficit. However, as indicated above, the timing of receipt of income and the expending of this can occur over several financial years. This results in a variance in the operational budget between those years; however, the net effect should still be nil over the financial years in which the grant (or reserve) is acquitted.

This report also requires a statement in respect of whether all investments are in accordance with the requirements of Section 625 of the *Local Government Act 1993*, the Regulation and Council's Investments Policy. This statement, in combination with the monthly investment report, ensures that Council is complying with these statutory, regulatory and policy requirements.

Further, a declaration as to the preparation of bank reconciliations is also required. Bank reconciliations occur daily with a full reconciliation performed monthly. The full reconciliation for the September 2023 quarter occurred on Thursday, 05 October 2023.

Capital Budget Review

The Capital Budget Review format allows Council to analyse any additional Capital expenditure to be incurred in the current Financial Year and the extent to which monies have already been expended. Importantly, the report also indicates how Council is to fund the Capital expenditure for the year.

This review proposes an increase in the Capital Expenditure Budget of \$1.856M. Details of capital project adjustments are included in Annexure A.

Contracts

The Reporting Framework requires the identification of contracts entered into in the preceding quarter which exceed specified expenditure limits. The limit for reporting contracts in the QBRS is one percent of revenue from continuing operations, or \$50K, whichever is less.

There were no new contracts entered into Council's contract register for the period of July 2023 to September 2023.

Consultancy and Legal Expenses

The current expenditure to 30 September 2023 on qualifying consultancies and legal fees is identified in the QBRS. This expenditure is budgeted for and, given the size and nature of Council's operations, is considered reasonable.

(c) Options

Nil.

IMPLICATIONS TO BE ADDRESSED

(a) Financial

It is important for Council to note that the adoption of this budget review approves the variations identified in the attached report and that the cumulative effect of the budget variations should be considered when reviewing this budget.

The original estimated Operating Deficit for the 2023/2024 Financial Year was \$2.580M excluding Capital Grants and Contributions. After quarterly budget review adjustments, the estimated Operating Deficit for the 2023/2024 Financial Year is \$2.543M.

(b) Governance/Policy

Nil.

(c) Legislative/Statutory

Section 203 of the Regulation requires all councils in NSW to prepare and submit to Council a budget review statement which has a revised estimate of the income and expenditure for that year, within two months of the end of the quarter.

A certification is required to ensure that all investments are made in accordance with the requirements of Section 625 of the *Local Government Act 1993*, the accompanying Regulations and Council's Investments Policy.

This budget review statement must be prepared in accordance with the new Integrated Planning and Reporting Framework introduced under the *Local Government (General) Amendment (Planning and Reporting) Regulation 2009*, the *Local Government Act 1993* (as amended) and the *Local Government Amendment (Planning and Reporting) Act 2009*.

(d) Risk

The Quarterly Budget Review aims to mitigate financial risk by providing a more accurate indication of Council's operating and capital budgets.

(e) Social

Nil.

(f) Environmental

Nil.

(g) Economic

Investment in Capital Works assists in the stimulation of the local economy. Additional Capital expenditure has been incorporated into this review and funds required are appropriately provided for the capital works.

(h) Asset Management

Carried forward capital projects from 2019/2020, 2020/2021, 2021/2022 and 2022/2023, as well as revotes are included in this report as a separate column.

CONSULTATION

(a) External

Nil.

(b) Internal

This report has been prepared with input from Manex and managers to ensure that there is up-to-date information regarding income and expenditure.

LINK/S TO THE DELIVERY PROGRAM/OPERATIONAL PLAN (DPOP)

This report links to Council's Delivery Program Council Sustainability, Transparency and Communication Principal Activity STC 5.3.1: Provide financial and budget compliance reporting to Council and the community.

CONCLUSION

The Original Budget adopted by Council in June 2022 indicated that the Net Operating Deficit at the end of the 2023/2024 Financial Year would be \$2.580M (excluding Capital Grants and Contributions).

The proposed changes outlined in this September 2023 Quarterly Budget Review will lead to an increase to the bottom line, resulting in a projected Net Operating deficit of \$2.543M before capital items.

As a result of the new finance system implementation, balance sheet accounts are not being reconciled and are not up to date, grants and capital income and expenses are not being reflected in the profit and loss yet, and depreciation is not reflected in the actuals. The projected Net Operating deficit of \$2.543M might differ considerably against the actual result as at 30 June 2024.

ATTACHMENTS

Annexure A QBR1 QTR1 2023-24