

TABLED DOCUMENT

ITEM NO. 3

QUARTERLY BUDGET REVIEW AS AT 30
SEPTEMBER 2019

2019-2020 QUARTERLY BUDGET REVIEW STATEMENT – SEPTEMBER 2019.

ORDINARY COUNCIL MEETING
12 NOVEMBER 2019



PORT STEPHENS
C O U N C I L



PORT STEPHENS

C O U N C I L

"A great lifestyle in a treasured environment"

2019 – 2020
Quarterly Budget Review Statement
September 2019

TABLE OF CONTENTS

1.	EXECUTIVE SUMMARY	1
2.	INTRODUCTION	3
3.	RESPONSIBLE ACCOUNTING OFFICER'S STATEMENT	4
4.	INCOME & EXPENSES BUDGET REVIEW STATEMENT	5
5.	CAPITAL BUDGET REVIEW STATEMENT	9
6.	CASH FLOW STATEMENT & ANALYSIS	13
7.	BUDGET REVIEW CONTRACTS AND OTHER EXPENSES	14

1) Executive Summary

Categorising the changes by Group:

Corporate Services: The operating budget change in this Group was \$852k (favourable). The operating budget changes predominately relate to the impact from the temporary closure of Treescape due to capital works which has been offset by the recognition of land sales and income from royalties.

Capital budget changes were \$5.7m (Unfavourable) and mainly relate to the inclusion of the Koala Sanctuary, land development projects and investment property refurbishments.

Development Services: Operating budget changes for this Group were \$414k (Favourable). The operating budget changes predominately relate to the increase in haulage contributions.

There were no capital budget changes for the quarter.

Facilities & Services: The operating budget change in this Group was \$218k (Favourable). This is mainly due to the establishment of new childcare sites.

Changes in the capital budget were \$16.3m (Unfavourable) which is mainly due to the inclusion of the 2020 Community Projects program recently exhibited.

General Manager's Office: Operating budget changes for this Group were even. Donation income was increased by \$24k, which was offset, by an increase in mayoral donations expense.

The expected dividend from Newcastle Airport was increased.

Operating Budget	2020 Original Budget	Budget revotes & carry forwards	Budget Revision Sept Qtr	Budget Revision Dec Qtr	Budget Revision Mar Qtr	2020 Revised Budget	2020 YTD Actuals
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Corporate Services	40,711	-	852	-	-	41,563	38,442
Development Services	(7,852)	-	414	-	-	(7,438)	(2,043)
General Manager's Office	(2,510)	-	-	-	-	(2,510)	(675)
Facilities & Services	(30,623)	-	218	-	-	(30,405)	4,326
Newcastle Airport	4,092	-	-	-	-	4,092	1,023
Operating Surplus/(Deficit) before capital grants	3,817	-	1,484	-	-	5,301	41,073
Less: Gain on sale	(250)	-	(1,500)	-	-	(1,750)	-
Less: Fair value (gains) / losses	(787)	-	-	-	-	(787)	-
Less: Newcastle Airport	(4,092)	-	-	-	-	(4,092)	(1,023)
Add: NAP Dividend	1,985	-	15	-	-	2,000	-
Underlying Operating Surplus/(Deficit)	674	-	(1)	-	-	673	40,050

Capital Budget	2020 Original Budget	Budget revotes & carry forwards	Budget Revision Sept Qtr	Budget Revision Dec Qtr	Budget Revision Mar Qtr	2020 Revised Budget	2020 YTD Actuals
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Corporate Services	(6,512)	(491)	(5,777)	-	-	(12,779)	(2,796)
Development Services	3,162	-	-	-	-	3,162	1,044
Facilities & Services	(6,420)	(10,639)	(16,325)	-	-	(33,384)	(5,711)
Newcastle Airport	(5,503)	-	-	-	-	(5,503)	-
Total	(15,273)	(11,129)	(22,102)	-	-	(48,504)	(7,463)

Note - + = inflow () = outflow

2) Introduction

Clause 203(1) of the *Local Government (General) Regulation 2005* requires Council's responsible accounting officer to prepare and submit a Quarterly Budget Review Statement (QBRS) to Council. The QBRS must show, by reference to the estimated income & expenditure that is set out in the operational plan, a revised estimate of income and expenditure for the year.

It also requires the QBRS to include a report by the responsible accounting officer as to whether or not the statement indicates Council to be in a satisfactory financial position, with regard to Council's original budget.

Council's operational plan sets out the achievements, goals and revenue policy, including estimates of income and expenditure. The QBRS plays an important role in monitoring Council's progress against the plan and ongoing management of the annual budget.

The QBRS is the mechanism whereby Councillors and the community are informed of Council's progress against the operational plan (original budget) and the recommended changes and reasons for major variances.

The QBRS is composed of the following components:

- Responsible Accounting Officer Statement.
- Income & Expenses Budget Review Statement.
- Capital Budget Review Statement.
- Cash Flow Statement Review.
- Budget Review Contracts and Other Expenses.

3) Responsible Accounting Officer's Statement

The Regulations require that a budget review statement must include or be accompanied by a report as to whether or not the Responsible Accounting Officer (RAO) believes that the QBRS indicates that Council's financial position is satisfactory, having regard to the original estimate of income and expenditure. If Council's financial position is considered by the RAO to be unsatisfactory, then recommendations for remedial action must be included.

The following statement is made in accordance with clause 203(2) of the *Local Government (General) Regulations 2005*.

It is my opinion that the Quarterly Budget Review Statement for Port Stephens Council for the quarter end 30/09/2019 indicates that Council's projected financial position will be satisfactory at year-end, having regard to the projected estimates of income and expenditure and the original budgeted income and expenditure.

Name: Tim Hazell

Responsible Accounting Officer, Port Stephens Council

4) Income & Expenses Budget Review Statement

Consolidated Income Statement	2020 Original Budget	Budget revotes & carry forwards	Budget Revision Sept Qtr	Budget Revision Dec Qtr	Budget Revision Mar Qtr	2020 Revised Budget	2020 YTD Actuals
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rates and Annual Charges	59,087	-	852	-	-	59,939	62,587
User Charges & Fees Income	41,675	-	(695)	-	-	40,980	4,675
Interest & Investment Income	1,421	-	(80)	-	-	1,341	314
Other Income	6,287	-	606	-	-	6,893	1,532
Grants and Cont.	12,356	-	(251)	-	-	12,105	1,725
Grants and Cont.(Capital)	5,866	7,656	7,874	-	-	21,395	2,238
Fair value gains	787	-	-	-	-	787	-
Net Gain on Sale	250	-	1,500	-	-	1,750	-
Total Revenue	127,729	7,656	9,806	-	-	145,190	73,070
Employee Costs	46,786	-	703	-	-	47,489	12,815
Borrowing Costs	767	-	1	-	-	769	135
Materials & Contracts	40,103	-	(50)	-	-	40,053	7,839
Other Expenses	14,387	-	(206)	-	-	14,181	4,962
Depreciation & Impairment	16,003	-	-	-	-	16,003	4,008
Total Expenditure	118,046	-	448	-	-	118,494	29,759
Operating Surplus/(Deficit) after capital grants	9,682	7,656	9,358	-	-	26,696	43,311
Operating Surplus/(Deficit) before capital grants	3,817	-	1,484	-	-	5,301	41,073
Less: Net Gain on sale	(250)	-	(1,500)	-	-	(1,750)	-
Less: Fair value (gains) / losses	(787)	-	-	-	-	(787)	-
Less: Newcastle Airport	(4,092)	-	-	-	-	(4,092)	(1,023)
Add: NAP Dividend	1,985	-	15	-	-	2,000	-
Underlying Operating Surplus/(Deficit)	674	-	(1)	-	-	673	40,050

Notes:

1. Revised Budget = Original Budget +/- approved budget changes in previous quarters.

Council's original operating budget for 2019-2020 was incorporated as part of the Integrated Plans and was adopted by Council on 26 June 2019.

This statement sets out the details of variations between Council's original operating budget and the revised budget as part of the September Quarterly Budget Review. This has altered from an original projected underlying surplus of \$673,000 to a revised surplus of \$672,000.

Note that for budgetary changes: **F** = favourable budget change, **U** = unfavourable budget change.

REVENUE	Budget Change \$'000	F/U
Rates and Annual Charges	852	F
The pensioner rate subsidy which is \$852k has been reclassified from operating grants and contributions to rates and annual charges.		
User Charges and Fees	695	U
User charges and fees have decreased due to the reforecasting of holiday park revenue as a result of temporary closure for capital works (\$1.3m), this has been offset by an increase in child care revenue as result of new sites being established (\$613k).		
Grants and Contributions provided for Operating Purposes	251	U
Income has increased due to the successful application for various weed and environmental grants which has been offset by a reclassification of the pensioner rate subsidy to rates and annual charges.		
Interest and Investment Revenue	80	U
Interest income has been decreased due to the Reserve Bank's decision to lower the cash rate.		

Other Revenues	606	F
-----------------------	------------	----------

Other revenue has increased primarily due to expected royalties and donation income.

Grants and Contributions provided for Capital Purposes	7,874	F
---	--------------	----------

Capital grants & contributions have increased primarily due to the following projects:

- Karuah RFS building - \$800k
 - Koala Sanctuary – \$2.8m (a portion of the grant was received last year)
 - Road Blackspot and Safer Roads grants - \$4m
 - Green Wattle Creek road sealing contribution - \$400k
-

Net Gains from the Disposal of Assets	1,500	F
--	--------------	----------

Net gain from the sale of Anna Bay oval and other various parcels

\$'000 **Budget Change**

EXPENDITURE**F/U**

Borrowing Costs**2****U**

Costs have been revised due to new bank loans

Depreciation, Amortisation and Impairment**-****-**

No Change

Employee Benefits and On-Costs**703****U**

Employee benefits and on-costs have increased primarily due to workers compensation insurance (\$300k) and the employment of additional childcare workers as a result of new sites coming online (\$400k).

Materials and Contracts**50****F**

Materials and contracts have been reduced due to the temporary closure of Treescape for capital works.

Other Expenses**206****F**

Other expenses have been reduced due the temporary closure of Treescape for capital works.

5) Capital Budget Review Statement

Consolidated - Summary	2020 Original Budget	Budget revotes & carry forwards	Budget Revision Sept Qtr	Budget Revision Dec Qtr	Budget Revision Mar Qtr	2020 Revised Budget	2020 YTD Actuals
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Grants and Cont.(Capital)	5,866	7,656	7,874	-	-	21,395	2,238
Total Receipts	5,866	7,656	7,874	-	-	21,395	2,238
Capital Equipment & Contracts	21,138	18,785	29,476	-	-	69,399	9,516
Property Acquisition & Development	-	-	500	-	-	500	185
Total Payments	21,138	18,785	29,976	-	-	69,899	9,701
Capital Surplus/(Deficit)	(15,273)	(11,129)	(22,102)	-	-	(48,504)	(7,463)

This statement sets out the details of variations between Council's original capital budget and revised capital budget. There are budgetary changes proposed which result in a net increase in the capital program to the value of \$23m.

Note that for budgetary changes: **F** = favourable budget change, **U** = unfavourable budget change.

INCOME	\$'000	Budget Change F/U
Capital Grants & Contributions	7,874	F

Capital grants & contributions have increased primarily due to the following projects:

- Karuah RFS building - \$800k
- Koala Sanctuary – \$2.3m (a portion of the grant was received last year)
- Road Blackspot and Safer Roads grants - \$4m
- Green Wattle Creek road sealing contribution - \$400k

EXPENDITURE	\$'000	Budget Change
--------------------	---------------	----------------------

This document forms part of Port Stephens Council's Quarterly Budget Review Statement for the quarter ended 30/9/2019 and should be read in conjunction with other documents in the QBRS.

F/U

Property Acquisition and Development	500	U
---	------------	----------

Property development costs have increased primarily due to Squire Street, Bagnall Avenue and Medowie Road

Capital Materials and Contracts	29,476	U
--	---------------	----------

Capital materials and contracts have increased primarily due to the following projects:

- 2020 Community Projects Program - \$15.9m
 - Koala Sanctuary Project - \$7.6m
 - Road Blackspot and Safer Roads grants - \$4m
 - Karuah RFS building - \$1.1m
 - Investment Property refurbishment - \$1.5m
-

The capital works program by section is as follows:

Consolidated - Detailed	2020 Original Budget	Budget revotes & carry forwards	Budget Revision Sept Qtr	Budget Revision Dec Qtr	Budget Revision Mar Qtr	2020 Revised Budget	2020 YTD Actuals
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Capital Funding							
Capital Grants & Contributions	5,866	7,656	7,874	-	-	21,395	2,238
Total Capital Funding	5,866	7,656	7,874	-	-	21,395	2,238
Capital Expenditure							
Corporate Services Group							
Commercial Property Reserve & Cluster Plan							
Fingal Bay Holiday Park	519	-	295	-	-	814	75
Halifax Holiday Park	2,705	-	(634)	-	-	2,071	1,356
Shoal Bay Holiday park	2,243	-	(118)	-	-	2,125	1,154
Thou Walla Sunset Retreat	-	-	348	-	-	348	1
TreEscape	395	-	6,249	-	-	6,644	263
Office and Chambers	-	-	-	-	-	-	-
Property Development	-	-	500	-	-	500	185
Property Section Manager	-	-	-	-	-	-	-
Property Investments	-	-	1,921	-	-	1,921	56
Commercial Property Total	5,862	-	8,560	-	-	14,422	3,090
Business Improvement Technology	650	491	-	-	-	1,141	56
Corporate Services Group Total	6,512	491	8,560	-	-	15,563	3,146

Consolidated - Detailed	2020 Original Budget	Budget revotes & carry forwards	Budget Revision Sept Qtr	Budget Revision Dec Qtr	Budget Revision Mar Qtr	2020 Revised Budget	2020 YTD Actuals
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Facilities and Services							
Assets							
Fleet Maintenance	1,394	-	486	-	-	1,880	256
Drainage and Flooding	1,330	320	(1,030)	-	-	620	527
Assets Total	2,724	320	(544)	-	-	2,500	783
Community Services							
Domestic Waste Management	-	377	-	-	-	377	-
Library Services	250	-	-	-	-	250	69
Community Services	250	377	-	-	-	627	69
Capital Works							
Capital Works Construction	6,149	17,597	21,960	-	-	45,706	5,703
Capital Works Total	6,149	17,597	21,960	-	-	45,706	5,703
Facilities and Services Total	9,123	18,294	21,415	-	-	48,833	6,555
Newcastle Airport	5,503	-	-	-	-	5,503	-
Total Capital Expenditure	21,138	18,785	29,976	-	-	69,899	9,701
Net Outlay	15,273	11,129	22,102	-	-	48,504	7,463

This document forms part of Port Stephens Council's Quarterly Budget Review Statement for the quarter ended 30/9/2019 and should be read in conjunction with other documents in the QBRS.

6) Cash Flow Statement (Consolidated)	Original Budget	Revotes & Carried Forward	Budget Revision Sept	Budget Revision Dec	Budget Revision Mar	Revised Budget
Cash Flows from Operating Activities	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Receipts:						
Rates and Annual Charges	58,559	-	852	-	-	59,411
User Charges & Fees Income	41,682	-	(695)	-	-	40,987
Interest & Investment Revenue Received	1,421	-	(80)	-	-	1,341
Other	6,297	-	621	-	-	6,918
Grants and Contributions	16,063	7,656	7,623	-	-	31,341
Payments:						
Employee Benefits & On-Costs	(48,815)	-	(703)	-	-	(49,518)
Borrowing Costs	(767)	-	(1)	-	-	(768)
Materials & Contracts	(40,133)	-	50	-	-	(40,083)
Other	(10,255)	-	206	-	-	(10,049)
Net Cash provided (or used in) Operating Activities	24,052	7,656	7,873	-	-	39,581
Cash Flows from Investing Activities						
Receipts:						
Proceeds from disposal of Property Plant & Equipment	250	-	-	-	-	250
Proceeds from development & land sales	-	-	1,800	-	-	1,800
Payments:						
Purchase of Infrastructure, Property Plant & Equipment	(21,138)	(18,785)	(29,976)	-	-	(69,899)
Net Cash provided (or used in) Investing Activities	(20,888)	(18,785)	(28,176)	-	-	(67,849)
Cash Flows from Financing Activities						
Receipts:						
Proceeds from borrowings	6,500	-	4,500	-	-	11,000
Payments:						
Repayment of Borrowings & Advances	(3,302)	-	(1,428)	-	-	(4,730)
Net Cash provided (or used in) Financing Activities	3,198	-	3,072	-	-	6,270
Net Increase/(Decrease) in Cash & Cash Equivalents	6,362	(11,129)	(17,231)	-	-	(21,998)
plus: Cash & Investments - beginning of year (*)	50,237	-	-	-	-	50,237
Cash & Investments - end of the year	56,599	(11,129)	(17,231)	-	-	28,239

* - opening balance adjustment made to reflect 30 June 2019 actual closing balance

This document forms part of Port Stephens Council's Quarterly Budget Review Statement for the quarter ended 30/9/2019 and should be read in conjunction with other documents in the QBRS.

Cash Flow Statement Funding Reconciliation

The 'Recommended Changes to Budget' in the September QBR constitute an overall decrease in Council's Cash Flow position by \$17m (Unfavourable) after the use of internal reserves and external funding sources are factored in.

PSC is clearly solvent based on the current and estimated cash position from the review changes. PSC's current cash position as per the September investment report was \$29.5m.

7) Budget Review Contracts and Other Expenses

Councillors are currently made aware of tenders of \$150,000 or more in accordance with legislation. However, Councillors should be made aware of other material contracts entered into by Council and details of other expenses that are of particular interest. To this end, a contract listing and details of legal fees and consultancy expenses are included in the QBRS.

Part A lists contracts (other than employment contracts and contracts entered into from Council's preferred suppliers list) that:

- Were entered into during the quarter ending 30/09/2019; and
- Have a value equal to or more than \$50,000.

Part B of the report shows expenditure as at 30/09/2019 for:

- Consultancies
- Legal fees

For the purposes of this report, a consultancy is defined as a person or organisation engaged under contract on a temporary basis to provide recommendation or high level specialist or professional advice to assist decision making by management.

**Part A
Contracts Listing**

Contractor	Contract Details and Purpose	Contract Value Inc GST	Commencement date	Contract end date	Budgeted (Y/N)
Giant Electrical Pty Ltd	Sub Board Upgrade - 795 Medowie Road, Medowie	\$ 126,500.00	24/09/2019	15/12/2019	Y
Valley Engineering Services Pty Ltd	Shoal Bay Holiday Park - Civil Works	\$ 121,544.50	1/07/2019	31/08/2019	Y
Creative Recreation Solutions Pty	Fern Bay Sports Court Construction	\$ 116,877.34	9/07/2019	30/11/2019	Y
Turspec Pty Ltd	Sports Field Drainage - Yulong Oval Medowie	\$ 94,765.00	1/08/2019	30/09/2019	Y
Valley Engineering Services Pty Ltd	Halifax Holiday Park - Civil Works associated, etc	\$ 89,254.00	1/07/2019	31/08/2019	Y
Fenworx Pty Ltd	RMS Works - MR302 Heavy Patching & Overlay Works	\$ 89,204.50	23/09/2019	31/10/2019	Y
Anna Bay Sand & Earthmoving	Raymond Terrace Tennis Club Disabled Amenities	\$ 76,670.00	5/07/2019	31/08/2019	Y
Fenworx Pty Ltd	RMS Works - MR104 William Bailey Rd Raymond Terrace	\$ 61,176.50	23/09/2019	31/10/2019	Y
Comserv Industries Pty Ltd	Boomerang Park Shared Path - Supply and Install	\$ 53,621.15	1/07/2019	31/10/2019	Y
Douglas Partners Pty Ltd	Medowie Landfill Remediation - Stage 1	\$ 51,760.50	6/09/2019	31/10/2019	Y
Hay Enterprises (NSW) Pty Ltd	Halifax HP - Variation - Asbesto, etc	\$ 14,303.96	23/09/2019	30/09/2019	Y

**Part B
Consultancy & Legal Expenses**

Expense	Expenditure YTD (\$)	Budgeted (Y/N)
Consultancies	357,288	Y
Legal Fees	93,072	Y