

12 REPORTS FROM MANAGER CORPORATE AND FINANCE

12.1 BUDGET REVIEW STATEMENT AS AT 31 JANUARY 2021

Author: Alistair Innes-Walker, Manager Corporate and Finance

SUMMARY

The purpose of this report is to present to Council Budget Review Statements as at 31 January 2020, which outlines the financial performance of Council's operations and capital expenditure against budget.

BACKGROUND

The Budget Review Statement (BRS) presents a summary of Council's estimated financial performance for the 2020/21 financial year. This estimate is based on Council's actual results for the period 1 July to 31 January 2020 and forecast income and expenditure for the balance of the financial year.

The budget review process is the mechanism through which Council and the community are informed of Council's progress against the Operational Plan (Annual Budget), together with recommendations for changes and reasons for any budget variations.

In accordance with Clause 203 (Budget Review Statements and Revision of Estimates) of the Local Government (General) Regulations 2005, the Council must present a report to Council:

1. *Not later than 2 months after the end of each 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 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:*
 - i. *A report as to whether 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*
 - ii. *If that position is unsatisfactory, recommendation for remedial action.*

Normally a budget review is provided each quarter, as required under the regulations. However due to the financial challenges currently faced by Council this budget review has been undertaken using actual data for the period 1 July 2020 to 31 January 2021. The focus has had to be on analysing Council's capacity to fund short term cash commitments, and the implications around projected Full Year financial deficits rather than on Q2 outcomes.

The BRS appears as Attachments and consists of the following reports:

1. Statement of Financial Position (Balance Sheet)
2. Income Statement & Operating Forecast,
3. Statement of Cashflows, and
4. Statement of Capital Expenditure.

The Statement of Financial Position (Balance Sheet) has been prepared on the basis of draft closing balances for 2019/20. The External Audit report for 2019/20 has not been finalised and opening Financial Position balances have not been signed off. Once this is done an updated Statement of Financial Position and Statement of Cash flows will be prepared.

RELEVANCE TO THE STRATEGIC PLAN AND RESOURCING STRATEGY

The Quarterly Budget Review Statement (QBRs) relates to the strategic plan objectives as follows:

Objective 4 – A successful and innovative community.

Objective 5 – An informed and accountable community.

Objective 6 – A healthy and safe community.

DISCUSSION

The budget review statement reports a projected Council operating **surplus** for the 2020/21 financial year of \$1,047,912, against the original budget (**\$120,481 deficit**) for the financial year end 30 June 2021.

The adjustments to the projected operating deficit reported at the 16 December 2020 Council meeting (**\$1,642,497 deficit**) are as follows;

1. \$3,000,000 received in December 2020 from the Commonwealth to enable Council to continue to provide services to the community in quarters 3 and 4.
2. **\$350,000** (estimate) charged to Capital but operating in nature
3. \$184,409 expenditure charged to operating but capital in nature
4. **\$144,000** additional consultant costs

The COVID pandemic will continue to impact on Councils revenue streams. However, as noted in the independent Audit Reports, there are also systemic financial management issues that have contributed to Council's deteriorating financial position, which will need to be addressed. Some improvements in resourcing and systems are already in place or being scheduled for implementation.

The Council's immediate need remains to restore its working capital position. Without the December cash injection Council's projected operating result would be a deficit of **\$1,951,088**. Additional injections of funding from, most likely, the Commonwealth, will be required given Council's lack of capacity to source funds from elsewhere.

2. Capital

Capital expenditure is \$23,493,698 as at 31 January 2021 – refer attached Statement of Capital Expenditure. CAPEX requirements for the remainder of the year are estimated to be \$3,588,981. Council's current cash commitment to CAPEX is \$2,212,880 with the balance being funded from scheduled CAPEX funding agreements (\$1,376,101). The majority of the Council CAPEX commitment has been factored into the Council's cashflow forecast – some non-material CAPEX items have been excluded as potential cash savings.

ORDINARY COUNCIL MEETING AGENDA**24 FEBRUARY 2021****3. Cash Flow Position**

Cash and Investments at 31 January 2021 was \$8,138,960. Of this, \$1,101,607 is classified as restricted/ quarantined funding, detailed below in Table 2 Restricted Funds. This leaves a balance of \$7,037,353 as unrestricted funds.

Table 1 Restricted Funds as at 31 January 2021

Restricted Funds	\$
Iven 'Toon' Buffet Environment fund	101,695
Security Deposits	33,721
Historic Shipwrecks	50,484
Protecting National Historic sites	2,500
Norfolk Island Language Trust	9,175
NIRC Employee Entitlements*	900,132
Accounts Payable*	1,446,000
Accounts Receivable*	-1,442,100
Total Restricted Funds	\$1,101,607

*Subject to final External Audit Report 2019/20 Annual Financial Statements

4. Business Units

Forecasted Results for NIRC Business Units as at 30 June 2021 are detailed in Table 4 below:

Table 2 NIRC Business Unit - Full Year Forecast as at 31 October 2020 (- deficit + surplus)

Business Unit	Full Year Forecast - as at 31 January 2021	Annual Budget	Variance (excluding Overhead)	Budgeted overhead recovery [^]
Airport	-1,532,547	-1,622,733	-90,186	110,396
Liquor Bond	696,832	290,895	405,937	548,964
Electricity	282,312	222,668	59,644	37,323
Sewage	-41,147	-134,921	93,774	29,434
Telecom	40,537	44,821	-4,284	112,238
Waste Management	-298,611	-278,436	20,175	69,202

[^]The full year forecast(s) for business units do not include overhead recovery. Whether the allocation of overhead to business units provides any additional clarity is still being debated, especially in the current circumstances where the focus is on the financial position of the Council as a whole. For comparative purposes, the impact for example on the liquor bond would be - the Liquor Bond is showing an estimated FY surplus of \$696k. When the budgeted overhead is considered the surplus reduces to \$148k.

GOVERNANCE/POLICY IMPLICATIONS

A reliable financial reporting process improves transparency and accountability increasing confidence in responsible governance.

FINANCIAL IMPLICATIONS/CONCLUSION

The projected year-end result is a **surplus** \$1,047,912 in contrast to the original budget **deficit** of **\$120,481** for the financial year end 30 June 2021.

The results must be read in conjunction with the findings and recommendations from the recent governance and financial audits conducted by Nexia Australia and Grassroots Connections, at the request of Council, and funded by the Commonwealth. The adoption of some, or all, of the recommendations will impact on the Council's ultimate financial position for 2020/21 and beyond.

It is also noted that any forecast is only as good as the assumptions made in preparing the forecast. For the Q2 QBRS.

(i) it has been assumed that revenue and expenditure will be received/paid in the forecasted period. However, this is not always the case and there may be timing differences that impact on cash flows e.g. revenue/expenditure may be received/paid in earlier or later periods than anticipated.

(ii) Forecasts are estimates at best, and circumstances can change, as seen with COVID in 2019/20. This is especially true when the forecasts are made early in a financial year. The forecasted financial position/cashflow highlighted in this report should be read in this context. However, they remain a very strong indicator of the seriousness of the financial challenges Council now faces.

RECOMMENDATION

That:

1. Council notes the 2020–21 Budget Review Statements consisting of the four reports, Statement of Financial Position (Balance Sheet), Income Statement & Operating Forecast, Statement of Cashflows, and Statement of Capital Expenditure.
2. Council notes that at 31 January 2021 the projected 2020/21 year- end financial result is a \$1,047,912 surplus.
2. Council notes that full year capital budget is now forecast to be \$27,082,679 (original budget \$25,257,345). Council's cash commitment to Capital expenditure for the period February 2021 to 30 June 2021 is \$2,212,880.
3. Council notes that it is highly unlikely that the Council will be able to fund ongoing operations, to undertake further capital investment, and to provide contracted services to the Commonwealth without a further injection of working capital.

ATTACHMENTS

1. **Statement of Financial Position as at 31 January 2021**
2. **Income Statement & Operating Forecast as at 31 January 2021**
3. **Statement of Cashflows as at 31 January 2021**
4. **Statement of Capital Expenditure as at 31 January 2021**

Norfolk Island Regional Council
Statement of Financial Position
as at 31 January 2021

	2019-20 Actuals \$(000)	2020-2021 YTD Actuals \$(000)
ASSETS		
Current assets		
Cash and cash equivalents	15,304	2,868
Investments	10,033	5,331
Receivables	1,755	1,442
Inventories	2,029	2,095
Total current assets	<u>29,121</u>	<u>11,676</u>
Non-current assets		
Infrastructure, property, plant and equipment	209,750	226,695
Intangible Assets	-	-
Total non-current assets	<u>209,750</u>	<u>226,695</u>
Total assets	<u>238,871</u>	<u>238,371</u>
LIABILITIES		
Current liabilities		
Payables	2,060	2,335
Contract liabilities	12,356	100
Provisions	535	535
Total current liabilities	<u>14,952</u>	<u>2,970</u>
Non-current liabilities		
Provisions	365	365
Total non-current liabilities	<u>365</u>	<u>365</u>
Total liabilities	<u>15,317</u>	<u>3,335</u>
Net assets	<u>223,554</u>	<u>235,036</u>
EQUITY		
Retained earnings - current year		11,482
Accumulated surplus	168,680	168,680
Revaluation reserves	54,874	54,874
Council equity interest	223,554	235,036

Norfolk Island Regional Council
Income Statement and Operating Forecast
for the period 1 July 2020 to 31 January 2021

	2019-20 Actuals \$(000)	2020-2021 YTD Actuals \$(000)	2020-21 Original Budget \$(000)	2020-21 Forecast Budget \$(000)
Income from continuing operations				
Rates and annual charges	1,382	1,472	1,506	1,529
User charges and fees	12,417	4,969	10,966	10,468
Grants and contributions provided for operating purposes	8,170	10,538	9,050	12,494
Grants and contributions provided for capital purposes	33,833	8,142	8,164	10,309
Interest and investment income	259	24	332	232
Other revenues	4,566	2,897	4,870	4,630
Rental income	598	-	-	-
Total income from continuing operations	61,225	28,041	34,887	39,661
Expenses from continuing operations				
Employee benefits and on-costs	11,538	5,789	10,545	10,492
Materials and contracts	7,406	3,257	3,527	4,702
Depreciation and amortisation	4,624	2,524	4,328	4,328
Other expenses	5,608	4,990	8,444	8,782
Total expenses from continuing operations	29,176	16,559	26,844	28,303
Net operating result for the year	32,050	11,482	8,043	11,358
Net operating result for the year before grants and contributions provided for capital purposes	(1,783)	3,340	(121)	1,049

Norfolk Island Regional Council
Statement of Cash Flows
 for the period 1 July 2020 to 31 January 2021

	Notes	2019-20 Actuals \$(000)	2020-2021 YTD Actuals \$(000)
Cash flows from operating activities			
Receipts:			
Rates and annual charges		1,403	1,494
User charges and fees		12,512	5,007
Grants and contributions		51,860	18,680
Bonds, deposits and retention amounts received		44	
Investment and interest revenue received		336	31
Other		5,156	2,892
Payments:			
Employee benefits and on-costs		(31,105)	(5,572)
Materials and contracts		(6,796)	(3,138)
Bonds, deposits and retention amounts refunded			
Other		(6,199)	(5,167)
Net cash provided (or used in) operating activities		47,211	13,877
Cash flows from investing activities			
Receipts:			
Sale of investment securities		6,467	4,703
Payments:			
Purchase of investment securities		(35,656)	(17,054)
Purchase of infrastructure, property, plant and equipment		(13,329)	(12,393)
Net cash provided (or used in) investing activities			
Cash flows from financing activities			
Payments:			
Repayment of borrowings and advances		0	0
Net cash flow provided (used in) financing activities			
Net increase/(decrease) in cash and cash equivalents		33,983	3,486
Plus: cash and cash equivalents – beginning of the period		1,323	1,323
Cash and cash equivalents – end of the period		15,304	2,808
plus: investments on hand – beginning of the period		0	10,033
Investments on hand – end of the period		10,033	5,331
Total cash, cash equivalents and investments		25,337	8,139

Operational Plan - Annual Budget										
CAPITAL BUDGET 2020/2021										
\$	Notes	Capex	Funding Source	Q2 Review Capital spend & forecast as at 31 January 2021						
				2020/2021	Grant	YTD Capex	Forecast CAPEX remaining	Total Forecast Capex	Variation to Budget	Forecast Grant
Airport										
	Airport Runway Reseal	The carry over and funding estimates will vary depending upon the amount of works that Boral complete by 30 June 2020	14,049,807	6,942,807	14,924,188	756,582	15,680,770	-1,630,582	500,000	256,582
	Security Equipment-Equipment	Funding received in the 2019-20 financial year.	226,800		121,500	105,300	226,800	0		105,300
	Airport Fuel Farm									
	Truck Shed	Safety Requirement	35,000			35,000	35,000	0		35,000
	Dangerous Goods Shed	Safety Requirement	21,000			21,000	21,000	0		21,000
	Fuel Workshop	Safety Requirement	29,000			29,000	29,000	0		29,000
	Avgas Trailer System	Replace underground tank	62,000		62,909	0	62,909	-909		0
	Filter Water Separator Jet - A1	Ball Bay Fuel Farm	30,000		44,748		44,748	-14,748		0
			0							0
			14,453,607	6,942,807	15,153,344	946,882	16,100,226	-1,646,619	500,000	446,882
Airport ARFFS										
	Install new pump & Motor		10,000		0	10,000	10,000	0		10,000
	Rosenbauer Spare Parts	50% community	53,000		0	53,000	53,000	0		53,000
	Water Pump new tank	50% community	1,400		0	1,400	1,400	0		1,400
			64,400	0	0	64,400	64,400	0	0	64,400
Broadcasting										
	Transmitter, backup modules-TV		20,000			20,000	20,000	0		20,000
Electricity										
	Batteries Council	Council Resolution 2018/210	2,200,000		1,905,058	294,942	2,200,000	0		294,942
	Generator Council	Council Resolution 2018/210	200,000			200,000	200,000	0		200,000
			2,400,000	0	1,905,058	494,942	2,400,000	0	0	494,942
ICT										
	Computer Hardware		23,000		9,489		9,489	13,511		0
	Upgrade CIVICA		70,000		35,600	34,400	70,000	0		34,400
	Upgrade human resources system		30,000		37,000		37,000	-7,000		0
			0							0
			123,000	0	82,089	34,400	116,489	6,511	0	34,400
Liquor Bond										
	New Forklift battery	Needs replacing as not holding charge	5,000		0	5,000	5,000	0		5,000
			5,000	0	0	5,000	5,000	0	0	5,000
Parks and Reserves										
	Public Toilets-Rawson Hill and Burnt Pine Alley		99,000			99,000	99,000	0		99,000
			0							0
			99,000	0	0	99,000	99,000	0	0	99,000
Plant Operations										
	Motorbikes (3)-Electricity		15,000		27,408	0	27,408	-12,408		0
	Tar Truck	Purchase from Boral	70,750		70,750	0	70,750	0		0
	Power Screener unit	Purchase from Boral	260,000		258,177	0	258,177	1,823		0
	Tipper Truck	Purchase from Boral	15,000		24,847	0	24,847	-9,847		0
	Dog Trailer	Purchase from Boral	5,000		5,000	0	5,000	0		0
	6000L Truck mounted water tank	Purchase from Boral			15,000		15,000	-15,000		0
	Water Tank 8,500 litres	Purchase from Boral	10,000		15,000	0	15,000	-5,000		0

Funding Source	Notes	2020/2021		YTD Capex	Forecast Capex remaining	Total Forecast Capex	Variation to Budget	Forecast grant	Council Cash Required
		Grant	Capex						
Q2 Review Capital spend & forecast as at 31 January 2021									
General Manager vehicle (Kubota GR 2102 ride on mower)	GM vehicle currently leased		20,000	13,345	6,555	20,000	0	0	6,555
Desal Plant	Purchase from Boral	345,000	345,000	345,000	0	345,000	0	0	0
Mobile Lights		0	89,100	89,100	0	89,100	-89,100	0	0
Roads		740,750	345,000	863,627	6,555	870,282	-139,532	0	6,555
Culverts x 169		125,000	46,490	78,510	125,000	1,119,911	0	0	78,510
Road Repairs	Asphalt Roads By Boral: Council resolution 2019/141 17 July 2019	5,065,000	3,945,089	78,510	3,945,089	1,119,911	0	0	78,510
Telecom		1,854,772	853,289	1,571,847	2,425,136	-578,364	876,101	695,746	71,209
4G phone network	Generators, batteries, refurb - Anson Bay	91,816	20,607	71,209	91,816	0	0	0	0
Fibre Tester	Testing of existing Fibre network, testing of any new fibre installs in airport	20,000	0	20,000	20,000	0	0	0	20,000
Additional Eaton Rectifiers / Inverters	Currently No Spares for 4G Network	20,000	20,000	20,000	20,000	0	0	0	20,000
Additional Mobile 4G/3G Repeater	To cover black spot in the new mobile network	10,000	0	0	0	10,000	0	0	0
Small Generator for Mt Pitt	Needs to have a reliable power source for Mobile, Airport, Border Force	10,000	10,000	10,000	10,000	0	0	0	10,000
ARIA PABX for hospital	IP PABX, will be leased by Hospital	20,000	20,000	20,000	20,000	0	0	0	20,000
Mount Pitt Mast Maintenance	Estimate	20,000	20,000	20,000	20,000	0	0	0	20,000
Cisco Backbone switch at Telecom	Upgrade of existing cheap switch carrying 4G and General Network	8,000	8,000	8,000	8,000	0	0	0	8,000
Cisco Internal switches - 53000 x 5	Upgrade of existing cheap switches carrying ALL Telecom network	15,000	15,000	15,000	15,000	0	0	0	15,000
Cisco Backbone switch at Radio Station	Upgrade of existing cheap switch carrying Satellite Services	4,000	4,000	4,000	4,000	0	0	0	4,000
Cisco Backbone switch at ANZCAN	Upgrade of existing cheap switch carrying 4G network and Satellite Services	8,000	8,000	8,000	8,000	0	0	0	8,000
Cisco Backbone switch at Kingston	Upgrade of existing cheap switch carrying NIRC Network	4,000	4,000	4,000	4,000	0	0	0	4,000
Waste Management		2,085,588	873,895	1,772,056	2,645,952	-589,164	876,101	895,955	0
Metal Bay		26,000	6,710	19,290	26,000	0	0	0	26,000
Refurbish Toilets		50,000	2,154	47,846	50,000	0	0	0	50,000
Unallocated Capital		76,000	8,864	67,136	76,000	-615,241	0	0	67,136
TOTAL CAPEX		25,257,345	8,163,908	23,493,698	3,588,981	-1,825,134	1,376,101	2,212,880	0