



QUARTER 2 FINANCIAL REVIEW

Orange City Council

In last week's column I wrote about the Council's second quarter progress report and said I would look at the financial quarterly review.

I know of many people working in other sectors who find it very strange that the annual budget is changed quarterly in local government. It may seem very strange indeed given the fact that the original annual budget is the subject of consultation, and then is changed substantially but quite quietly during the year at each of the 3 Quarterly Reviews.

The form of the Quarterly Review report to councils is set by the Office of Local Government and is not easy to understand. The report explains that *'all red bracketed numbers ...indicate a surplus result for Council.'* Confusion can arise over this and at the Council meeting last week the recommendation:

'To adopt unfavourable variations in the consolidated overall cost to council from the December 2019 quarterly review amounting to \$3,488.132.'

had to be changed to:

'To adopt favourable variations in the consolidated overall cost to council from the December 2019 quarterly review amounting to \$3,488.132.'

I have compared below the original budget and the budget changed at this 6 monthly review. The words that Council uses in the report of the left hand column being 'Adopted Budget', means the budget adopted as a result of the first Quarterly Review, so I have changed that to Original Budget and gone back to the budget originally adopted for 2019/20.

Projected year end results by Direction (including capital expenditure, income and funding).			
Direction	Original Budget\$	Variations first 2 Quarters \$	Projected Year End Position \$
Collaborate	(26,382,683)	(966,204)	(27,348,887)
Live	14,499,544	485,585	14,985,129
Prosper	700,428	14,207	714,635
Preserve	10,833,599	(2,595,692)	8,237,907
TOTAL	(349,112)	(3,062,104)	\$(3,411,216)

Projected year-end Operating Result (before capital) by Fund.			
Fund	Original Budget\$	Variations first 2 Quarters \$	Projected Year End Position \$
General	(158,152)	1,427,546	1,269,394
Water	(1,042,944)	472,485	(570,459)
Sewer	(1,205,656)	128,261	(1,077,395)
TOTAL	(2,406,752)	2,028,292	\$(378,460)

What this means is that the operating result has worsened in the first 6 months from an expected overall operating surplus of \$2.4 million when the original budget was set to an expected overall operating surplus of \$0.4 million which is made up of an expected operating deficit of \$1.3 million in the general fund and surpluses in the water and sewer funds.

In the first quarter major variations resulted from the decision to undertake the Southern Lights LED project at a cost of \$2.5 million with a loan of just over \$2 million, that would result in savings of some \$250,000 in the annual electricity charge for street lighting. In the second quarter this was adjusted again as most of those savings will not be achieved due to delays, with savings of \$216,444 not being achieved.

There is an accounting protocol that expenditure is included as soon as it is known about, and income is only included in the accounts when it is actually achieved. It seems that the anticipation of substantial savings anticipated in the first quarter had disappeared by the end of the second quarter, due to delays in the project.

Councillor Jo McRae pointed out at the Council meeting that one of the impacts of water restrictions is that Council does not sell as much water as anticipated and has revised budgeted water income down by \$400,000.

The first table above includes capital expenditure, income and funds, and shows an improvement of an additional \$3 million in the expected overall surplus. Much of this seems to be as a result of deferring or ceasing some projects, for example, Gosling dam upgrade has

been deferred and presumably is not taking place this year. The Icelly Rd WTP land acquisition of \$1.1 million has been removed from the budget. The Sewage Treatment Plant inlet works upgrade of \$1.8 million has been deferred. Many of these changes do not seem to be reflected in the progress report on the Delivery/Operational Plan.

I have worked at councils that report much more transparently than this by showing the progress of capital projects during the year in pie charts, which are easier to follow than columns of figures. Many councils can lag a long way behind on capital projects. I worked at one council that allocated significant funds each year for capital expenditure, but projects were running 18 months behind! It is difficult to tell from the Orange City Council report what the situation is.

The annual Financial Statements describing the main departures from budget, and for 2018/19 the main issues for Orange City Council were:

'REVENUES

Interest and investment revenue Budget \$2,404,000 Actual \$4,603,000 Variance \$2,199,00 91% FAVOURABLE

Council's investment portfolio has continued to exceed benchmarks set, however, with the reduction in the Cash rate by the Reserve Bank in the last quarter of 2019, this result will soften in the new financial year.

Council has always been conservative in the estimate of returns from investments.

Operating grants and contributions Budget \$9,836,000 Actual \$13,876,000 Variance \$4,040,000 41% FAVOURABLE

The main factor contributing to this variance from budget is the contribution towards the removal of asbestos from the Former Hospital site of \$2.7M, the remainder would be the change in purpose for the Carcoar-Orange Pipeline grant received for the portion of the project managed by Orange City Council for construction of assets belonging to Central Tablelands Water.

Capital grants and contributions Budget \$40,445,000 Actual \$19,142,000 Variance \$(21,303,000) (53)% UNFAVOURABLE

During the budget process, there are capital grants that are speculative and are not received during the year.

EXPENSES

Borrowing costs Budget \$1,843,000 Actual \$1,061,000 Variance \$782,000 42% FAVOURABLE

This is due to the timing of the draw down of Council's loans and the ability to obtain better than budgeted interest rates at the time.

Materials and contracts Budget \$26,803,000 Actual \$30,498,000 Variance \$(3,695,000) (14)% UNFAVOURABLE

There are some projects listed in the Original budget as capital projects, however, once completed and analysed they are not capital projects and then the costs of these projects are expensed.

Other expenses Budget \$7,609,000 Actual \$6,402,000 Variance \$1,207,000 16% FAVOURABLE

This is due to the reclassification of some expenses from Other expenses to Materials and contracts.'

In summary, as the movements in the Council's finances are difficult to follow, they lack accountability. Developing an annual budget to achieve an annual operational plan is about accountability. A cynic would say that some income is included at budget time to show a 'balanced budget' that may not eventuate, for example, the description of the variance of 53% or \$21.3 million for **Capital grants and contributions is 'during the budget process, there are capital grants that are speculative and are not received during the year'.**

I have encountered some General Managers over the years who seem to resent the idea that they need to be accountable to Councillors and the community. One General Manager used to refuse to budget for legal costs for the inevitable costs of being taken to court over planning decisions as he thought it was wrong to tie up money that might not be spent!!

I am happy to receive comments from readers about this column and other issues you would like me to cover so please either contact me at Orange City Life or aes@amandaspaldingconsulting.com