DRAFT (V2) Central Coast Council - Phase 2

Financial Capacity Review - Phase 2

August 2020

Contents

Grant Thornton

Level 17, 383 Kent Street

Sydney, NSW, 2000
PO Locked Bag Q800
QVB Post Office
Sydney, NSW, 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.granthornton.com.au

Mr. Gary Murphy
Chief Executive Officer
Central Coast Council
P.O. Box 20
WYONG NSW 2259

16 August 2020

Dear Sir

DRAFT (V2) Central Coast Council – Financial Capacity Review – Phase 2

We refer to our engagement letter dated 14 April 2020. We have pleasure in enclosing our report and will be pleased to provide hardcopies on request.

Our conclusions and recommendations are included within the Executive Summary, but stress that for a full understanding it is necessary to read this in conjunction with our detailed commentary set out in sections 2 to 5.

Your attention is drawn to Appendix B which defines the scope of our work. This report is confidential and has been prepared exclusively for the Council. Whilst other parties may be interested in receiving a copy of this report we stress that, to the fullest extent permitted by law, we cannot accept any responsibility whatsoever in respect of any reliance that these parties may place on our report in any decision that they may make in relation to the Council.

We do not accept any responsibility for any loss or damages arising out of the use of the report by the addressee(s) for any purpose other than in connection with the limited Financial Capacity Review.

We reiterate, therefore, that this report should not be used, reproduced or circulated to any other party in whole or in part, without our prior written consent.

If there are any matters upon which you require clarification or further information please contact me on +61 2 8297 2501.

Yours sincerely

Philip Campbell-Wilson

Partner – Financial Advisory

If you have any questions in respect of this report or its contents, please contact:

Philip Campbell-Wilson
Partner
T +61 2 8297 2501 or +61 408 757 245
E fphilip.Campbell-wilson@au.gt.com

DRAFT

01

Executive Summary

Overview

Issue	Observation
General	• Central Coast Council is one of the larger councils in NSW, responsible for providing a wide variety of local services for its c. 342,000 residents. This includes a diverse range of services including open spaces, sporting fields, child care centres, cemeteries, waste collections and roads. Council also has the added complexity of being the responsible authority for water and sewer supply within the region. • Following the merger of Wyong and Gosford councils in 2016, Council is continuing to work through the integration process with many processes and systems yet to be consolidated. It is estimated that the integration has cost c. $40 million to date. While IM&T is working to complete the integration, the current framework has resulted in some data integrity issues, duplication of work and a high degree of manual input to enable reporting. • It is evident that the lack of integration and harmonisation is causing disruption within various streams of Council. Since the merger, there has been a growth in FTE and an increased level of capital projects during this period, though operational performance has deteriorated. As a result of the increased breadth of services and support that the Council provides, there are competing priorities internally which is placing great pressure on the limited financial resources of the Council. • Council is currently at a point where it cannot support the level of services provided and changes are required to ensure that Council becomes more financially sustainable and has sufficient cash flow to meet their operations. In turn, strong leadership is required to drive the changes at all levels.
Finance Overview	• Culturally, there lacks significant emphasis on the importance of the financial position and performance of Council. There are too many competing priorities that overshadow the need for a financially sustainable organisation. As a result, Council has reported deficits for the past three years and has severe cash constraints. • The finance team and systems are capable of producing a multitude of reports, and team members throughout all directorates have access to Majiq which provides access to the financial reports. Further, Finance Business Partners within the organisation assist the directorates with finance and monthly reporting. Despite the systems and structure, there remains a disconnect between the Finance department and the directorates, and the actions required to set reasonable budgets, restructure costs and operate within budget. • Given the past historical operational performance of Council and the lack of unrestricted cash reserves, there needs to be an immediate restructure of the cost base and a shift in culture to ensure Council is financially responsible and sustainable. To achieve this: – The CEO and Leadership team need to work collaboratively with Finance and support the strategic financial objectives (Appendix C), building a financially sustainable organisation, returning to positive operating performance and improving liquidity; – The Finance teams needs to be able to progress from data compilation, remediation and reporting and have a greater focus on financial analysis and planning. In turn, all Directors, Section Managers and Unit Managers must have an appropriate level of financial literacy to understand the reporting provided and actions required to rectify any performance issues; – Through analysis of financial outcomes and understanding the cost and expense drivers, negative variances to budget need to be identified and strategies put in place promptly to turn around poor performance; and – There needs to be greater accountability for the financial performance at all levels. Section Managers, Unit Managers and Directors are ultimately in control of the financial performance of their directorates and are able to drive outcomes. As such, they need to be held accountable for negative budget variances and with the support of finance, implement strategies to turn around performance.

Executive Summary – Budget Process

Overview

- Due to the complex nature of Council and the variety of services provided all with differing revenue and cost drivers, the budgeting process is complex and involves a large number of templates and spreadsheets.
- Finance attempt to simplify the process by pre-populating much of the budget so that the directorates can focus on material costs, other expenses and various revenue lines. Further, the Finance Business Partners play an important part in the process.
- Despite this, the budget process causes a lot of frustration across the organisation with a lot of negative feedback being received.
- Given the limited scope of our engagement, the period of our review, the complexity and scale of the budget process and the timeframe in which the 2021/22 budget commences, we have focused our review on the process as opposed to the detailed templates and inputs.

Recommendations

(Section 2)

- From the outset of the budget process, the priorities, strategies and limits need to be clearly communicated across the relevant levels within the organisation.
- A Budget Steering Committee should be established to set and agree the priorities of the annual budget. While the budget will ultimately commence with the financial framework and limitations, the Budget Steering Committee should include input from the CEO, I&F and P&C to ensure there is alignment with overall strategy, whilst operating within Council's financial means.
- The communication needs to be led by the CEO and CFO. The ELT need to support the messaging so that it consistently flows to all levels within each directorate.
- The budget needs to adopt a bottom up revenue approach, and financial limits need to be set:
  - The operational budget needs to be break even at a minimum which will result in the need to cut back on expenses. To achieve this, Council will need to set clear priorities with respect to their level of services, noting the flow on effect this will have across the organisation.
  - The capital budget needs to be based on available funds, essentially being depreciation less any deficit plus applicable contributions, grants and restricted funds. The capital budget then needs to be allocated among the directorates. In the absence of a PMO, a simple allocation based on the directorate's proportion of depreciation should be used, with a portion set aside for special projects.
- Ideally a PMO should be established to manage the capital budget and process. The PMO should be mandated with the allocation of funding based on clear criteria set at an organisation wide level and in line with long term strategy.
- Due to the importance of the costs that result from the FTE plan, and the flow on effect it has for other elements of the budget such as P&F and IM&T, the FTE plan should be circulated in advance of the budget process to ensure any irregularities with the data can be rectified prior to the budget process commencing.
- Budgeted FTE numbers should be capped and ideally reduced given the increase in this expense and the ongoing generation of operating losses.
- Finance and the Finance Business Partners need to support the directorates in not only setting a budget within limits as communicated, but in implementing strategies so that the budget can be met.
- Once the budget is set, ongoing reporting and holding each directorate accountable for performance against budget is critical. To assist with this, Finance should work closely with each directorate to ensure they understand the actions required to be implemented to operate within budget.
- The budgeting process needs to extend beyond a one year outlook and have a greater focus on sustainability over the medium to long term. Further, cash flow reporting needs to be a critical element of the annual and longer term budgeting to ensure sustainability.

Executive Summary – Operational Review

Overview	• Council has recorded operating losses before capital grants and contributions for the past three years with the loss for 2019/20 estimated at $53.9 million. • Despite revenue reducing as a result of a number of factors including the IPART ruling which has an impact of c. $36 million (refer page 27), the cost base has not reduced. Instead, the largest expense category of employee costs has increased c. 9% p.a. for the past two years, with materials also increasing. • There is the ability to produce good financial reporting, from high level consolidated summaries through to detailed reports on the performance of sections. A variety of financial reports are already produced and are available through Majiq, however, there is a lack of analysis provided and limited action when negative results are incurred. • Accountability, greater financial awareness within the leadership group and financial performance should be considered a priority and key performance metric for all Managers and above. Responsibility and accountability for performance must reside with all Managers and above and Finance is to continue to partner with the directorates to collaboratively turn around performance.
Recommendations (Section 4)	• Greater financial discipline is needed to ensure Council turns around performance and becomes financially sustainable. • Council needs to reduce its cost base with Employee costs the largest expense. The Service Review will be critical in identifying opportunities to reduce costs and service levels. Further, all expenses should be reviewed. • In addition to focusing on expenses, opportunities to increase or pursue additional revenue also considered. • Leveraging more from the accounting system, the regular reporting framework needs to focus on: – Analysing variances between actual, budgeted and historical performance; – Investigating and understanding the causes of negative variances; and – Developing and promptly implementing strategies to turn around poor performance and reduce variances. • Analysis should focus on the key revenue and cost centres that the directorates can control (such as employee, material and other costs) and the underlying performance before overheads are applied. • The directorates need to work closely with the Finance team to ensure there is the appropriate level of financial understanding of the results and the key drivers, so that strategies can be implemented to drive change. Further, the directorates need to take responsibility and be held accountable for the financial performance. • In order to fully understand the drivers of performance, reporting and analysis needs to be available at directorate, unit and section level. Further, the CEO and all of the ELT need to be aware of the consolidated performance of Council, and each of the directorates. This will ensure there is alignment and an understanding of overall performance and the need to limit and prioritise projects across all of Council. • While there is significant focus on the material movements in the accounts, there is also great a opportunity to identify small savings which can have a material impact when accumulated across the large number of accounts within the organisation. For example, there are 900 expense accounts which increased by less than $10,000 in the 11 months to May 2020, with the increases totalling $1.8 million. The opportunities to make small savings can be easier to implement, but equally beneficial. • Given the number of units and sections which all impact on the overall performance of Council, we have not been able to interrogate all of the key movements in the accounts. However, when resourcing is available, there is merit in Council conducting a more detailed analysis of historical revenue and costs to understand the key drivers and reasons for movements.

Executive Summary – Finance Directorate and Other

Overview		• With a vast array of services across the nine directorates, there is the opportunity to continue to evolve and improve. There has been a great deal of transformation over the period since the merger, and there remain many opportunities yet to be identified and pursued. However: – Council needs to ensure it has a clear focus and does not attempt to deliver too much, overshadowing and risking the provision of existing essential services and the available funding; – All proposals need to be properly costed (both short and long term costs); and – Following through with the implementation and ongoing maintenance of any strategies is equally important as the planning phase and needs to be monitored.
Recommendations (Section 5)	• Reporting	• More value needs to be extracted from the detail available in the financial accounts by providing more analysis and partnering with the Directorates to identify opportunities and implement strategies to drive performance and rectify variances to budget. • A change in culture of accountability is needed across the organisation to ensure there is financial awareness at all levels. Council can leverage from the valuable financial information available and revisit the current reports format.
	• Cash and Funds	• Council needs to establish a treasury function within Finance to better manage cash flow, the various funds and the restricted funds. • Cash flow reporting needs to be incorporated into the standard monthly finance reports for the ELT, being integrated with the profit and loss and balance sheet position. In addition to reporting on actual cash flow, cash flow forecasting for both the short term (rolling 13 weeks) and longer term (beyond 12 months) is critical to ensure strategies can be implemented in advance to avoid cash shortfalls. This should be a key priority. • On parallel with the need for cash flow forecasting is the need to better manage and segregate internally and externally restricted funds to ensure there is no further use of restricted funds for purposes other than as intended.
	• Loan Position	• Council should refrain from seeking further external debt until there is a clear strategy in place to improve operating performance and there is a sustainable long term plan. External debt should be a last resort and not used in lieu of making sustainable financial changes. • While it is currently cost prohibitive to seek to refinance loans that have high interest rates, particularly where there is no real ability to meet or capitalise the break costs given the current lack of funds, this position should continue to be monitored on an ongoing basis. • The Treasury function mentioned above under 'Cash and Funds' is needed to focus on more sustainable debt portfolio management.
	• Employee Costs and Reporting	• While it is expected that the Service Review will provide the best opportunity with respect to restructuring employee costs in line with acceptable levels of service, there remains the immediate need for all directorates to independently consider opportunities to reduce employee costs. This includes considering: – Restructuring shift work to reduce the consistently high level of overtime; and – Continuing with the recruitment freeze (with limited exceptions) until the Service Review is completed. • Upon completion of the integration of payroll and P&C systems to a single platform, FTE reporting needs to be increased. More detailed analysis regarding FTE and hours worked by section is needed to enable analysis with respect to cost drivers and efficiencies, which can then be correlated to financial performance.

Executive Summary – Finance Directorate and Other

Recommendations (Section 5)	• Capital	• A PMO is recommended to oversee the capital works program and ensure there is a clear criteria to approve and prioritise the capital works in line with Councils overarching strategy.
	• Plant and Fleet	• Given the movement of plant and fleet expenses into the centralised unit as part of the plant and fleet restructure in 2018, it is difficult to accurately compare historical costs. As such, ongoing monitoring is required to ensure costs are controlled, and to identify opportunities to reduce costs. • Now that GPS has been fitted to equipment, analysis needs to be undertaken to continue to identify opportunities increase the efficiency and reduce the costs of the fleet. Excess equipment should realised and cost/benefit analysis conducted on equipment which is not regularly used. Analysis should also be conducted on external hire to identify any savings that may be available from bringing equipment in house in the event there is a long term need. • Opportunities to reduce the costs of the vehicle fleet should also be investigated including extending the replacement period of vehicles and selecting lower cost models for the fleet.
	• Service Review	• The findings of the Service Review will be critical for the Council to identify opportunities to reduce costs through reducing excessive or non essential services, to ensure that Council can operate within its means. • The Service Review is not due to be completed until December 2020, and further time will then be taken to agree recommended action and implement changes. As such, it is important that all directorates continue to assess cost saving initiatives within their directorates as part of the usual course of business.
	• Process Engineering	• Council has incurred considerable time and expense since the merger to integrate the various systems onto single platforms and systems. The process is continuing with the majority of Finance and P&C programs due to be integrated by December 2020. • While there will be efficiencies gained upon integration, to gain the full benefit of the new/adopted systems, there is a need to review and re-engineer key work processes. Efficient processes need to be adopted consistently across council offices.
	• Business Cases	• All business cases should be required to follow an approval process for sign off by the Finance directorate, in addition to the CEO and P&C. There are a number of business cases which have been approved without proper consideration of all costs, including long term recurring costs.
	• WIP	• There is a tendency for a large value of work in progress to accrue with costs not always capitalised upon commissioning of projects. At 31 May 2020, the carrying value of WIP was $318.8 million. It is necessary to reduce the value of WIP carried with reduction targets set and ongoing monthly review and capitalisation as available as opposed to there being a large portion of year end adjustments.

02

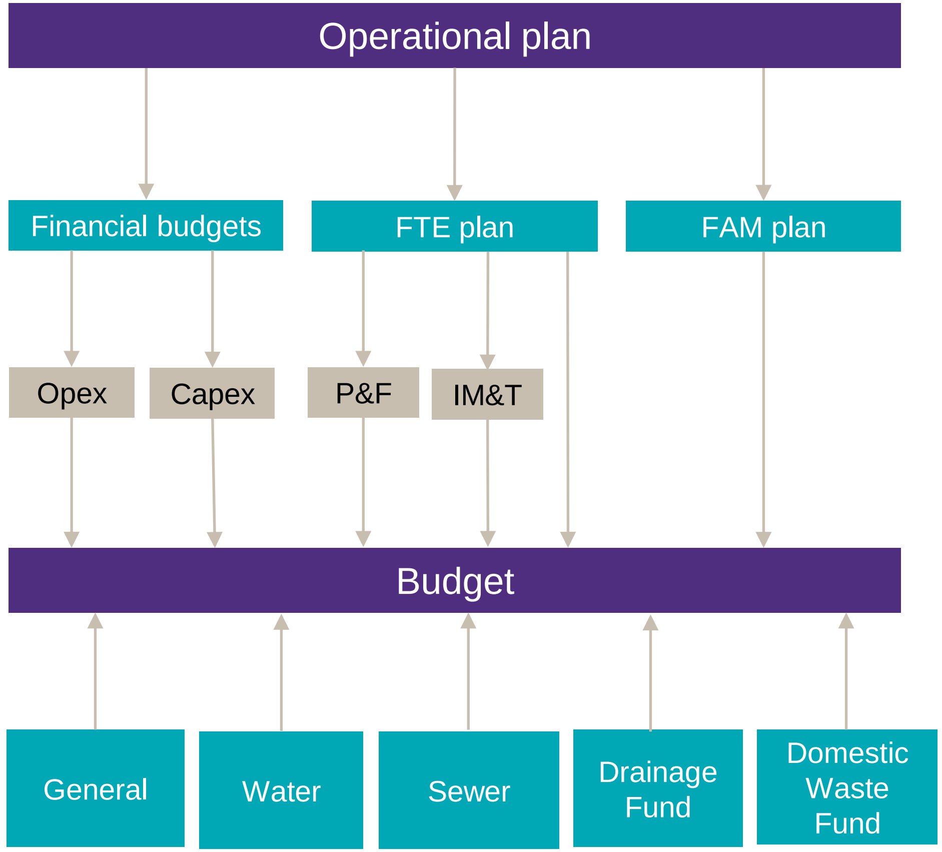
Budgeting Process

Budgeting Process Review

Grant Thornton Review Process

- Due to the limited scope of this engagement, the size and complexity of the organisation and the number of inputs into the budget process, it is not possible to conduct a detailed review of each step of the budget process with the view to redesign the process within our limited timeframe. This is further impacted by the fact that the budget process is due to commence shortly for the 2021/22 year.
- As a result of the above caveat, our review has focused on:
  - Understanding key elements and inputs into the budgeting process;
  - The involvement of key parties; and
  - Timelines.
- Our review did not focus on:
  - Systems used and their appropriateness;
  - Templates; and
  - Specific business units with different processes (e.g. childcare centres).
- Based on the above, we have set out on the following pages our observations and recommendations. While it is not feasible (nor necessary) to consider a complete overhaul of the budget process, many of our recommendations are targeted at adding more rigour to the process which should provide more clarity for all parties involved in setting the budget, and those ultimately responsible for delivering the budget throughout the year.
- We also note that an internal debriefing session was conducted with members of the Finance, I&F and P&C teams. However, there has been no further action on any points raised in the meeting as a result of various factors, including the prior CFO resigning and the disruption caused by COVID-19. We have received high level feedback from this session which we have also considered.
- In addition to the specific recommendations on the following pages, we also recommend a more detailed review of processes, timeframes and templates be undertaken in due course. It may be appropriate that this be lead internally by parties close to the process, but with external oversight and challenge. Further, the internal review would be enhanced by having workshops and receiving feedback of various user groups noting that a key factor in the successful adoption of a new/revised budget process will be to involve key stakeholders throughout the process as this creates ownership and accountability.

High Level Overview



General Observations and Recommendations

Issue	Key Observations and Recommendations
Communication Overall Direction	• It is necessary from the outset of the budget process that priorities, strategies and limits are clearly communicated across relevant levels within the organisation. The communication needs to be led by the CEO and CFO, and all ELT members need to understand and support the messaging so that it consistently flows to all levels within each directorate. • While much of the communication regarding the budget for 2020/21 was delivered at workshops, which were optional to attend, this communication was more focused on procedural issues and not necessarily overarching principles and targets for the budget year. A combination of strategy and detail is required at certain levels, but the key priorities, framework and limits need to be consistently shared across the organisation, delivered by CEO and CFO and reiterated by the ELT.
Setting clear limits and priorities	• Critical to having a clear message is the need to develop limits for the budgeting process which align to the strategy, with a bottom up revenue approach to budget. While there is a particular emphasis on the need for financial limits to be set, these limits are to be partly directed by the operational strategy. For example: – Operational Strategy – The financial focus of Council needs to be clearly articulated and aligned to the operational strategy, be it prioritising service levels, employment or asset maintenance and upgrades. While directional, the strategy needs to be achievable given the competing priorities and limited available resources (i.e. the focus needs to be prioritised); – Operational targets – Targets may be set with respect to capping or reducing certain expenditure (e.g. employee and contract costs reductions), or restructuring certain units or services to ensure a balance budget as a minimum and efficiencies (refer page 16 for further detail); and – Capital budgets – Based on available funds and strategy, a strict capital budget needs to be set independent of the directorate business case selection process necessary for the identification of all Capex projects. The budget then needs to be allocated between directorates and projects prioritised based on an array of factors including strategy, safety, payback, long term strategy etc (refer page 18 for further detail). • To agree and set the priorities and focus of the budget, we recommend a Budget Steering Committee be established. While the budget will ultimately be dictated by the available financial resources of the organisation, directional input from the CEO, I&F and P&C will be critical. The process should start with Finance providing a high level budget/outline of key assumptions, with the other members of the Budget Steering Group then overlaying priorities with respect to overall strategy and providing guidance on application of limited available funds. Ultimately it is essential that the budget is not a deficit and there is the ability to fund operations and capex from available cash resources. • Once the framework is set by the Budget Steering Committee, this should be communicated with the ELT and their feedback sought prior to committing to and agreeing the final strategy. The ELT need to acknowledge and be accountable as a group that there are limited funds available with competing needs for the limited financial resources. The Council must show financial discipline and operate within it means, and be guided by the organisation wide strategy when considering priorities and focus areas. • Upon setting clear parameters, it will be necessary to hold all parties accountable to achieving the targets. Accountability is required at multiple stages: – Budget Setting: All parties/directorates must set budgets that are within the parameters set. If possible, any variance outside the limits set should be flagged in the budgeting process, or identified by Finance in their review. There must be an onus placed on all parties involved in the budgeting process to set reasonable and achievable budgets. – Ongoing Operations: Once the budget has been set, there is an equally important need to regularly monitor performance to budget and hold each directorate accountable to achieving budget. Regular (monthly) variance reporting to budget is required to ensure that strategies can be adopted to address any budget creep in a timely manner and avoid year end overruns. This is discussed further in Section 4.

General Observations and Recommendations

Issue	Key Observations and Recommendations
General Reporting	• Clear reporting is required at various levels. Reporting needs to focus on the finalised budgets and the impact the budgets will have, providing both a high level overview and reporting specific to business units. As an example, reporting should incorporate the following: – The outcome of the final budgets (Profit and Loss) at various levels (consolidated, directorates and units), with a comparison to the prior year budget and prior year actual results; – The adopted assumptions underpinning the budget should be clearly articulated; – Actions to be adopted or strategies required to be implemented to achieve the budget need to be acknowledged at the time of finalising the budget (e.g reduction in costs by X%, reallocation of resources); – Budget reporting prepared by fund so the cash implications can be assessed for the general, water, sewer, drainage and domestic waste funds; and – Cash flow reporting to tie together the budgeted profit and loss, balance sheet movements and the ultimate impact on available funds as this will provide oversight into the sustainability of the operational and capital budgets. • Much of the information that we recommend be reported is already available and reported in a limited fashion. However, there is a disconnect between the Finance team involved in preparing the budget process and the ELT and other team members responsible for delivering the budget. All parties need to have a clear understanding of the final budget, its implications and any necessary steps required to achieve the budget. • It appears that it is necessary to prepare two levels of reporting, a whole of organisation summary and then tailored reports for the various directorates. Finance should also hold monthly meetings with key team members in each directorate to discuss the reports and address any queries.
Cash Flow Reporting	• At present there is very little focus on cash flow reporting within the organisation. Council needs to place greater emphasis on its sustainability from a cash perspective and have a greater understanding of its cash position. As a result, the forecast cash impact from the operational and capital budgets should be presented, together with the funding source. Both budgeted and actual cash flow should also be reported by fund.
Long Term and Holistic view	• The budgeting process needs to move away from an annual budget and consider not just the annual operational and capital budgets, but also the impact on cash flow and medium to long term sustainability. • The LTFP on pages 14 and 15 show that the current budget cannot be supported. With 2019/20 operational performance worse than budgeted and the 2020/21 budget not including the forecast impact of COVID-19, the cash positions is set to be materially worse than set out in the LTFP.
Timing	• While it appears that the budget process is a long process, running from November through to adoption in June, there are a number of steps and users involved and ratification is required at various stages. As a result, there is a strong need to ensure all parties adhere to the timeframes imposed to ensure parties involved in subsequent stages have adequate time. Adherence to the timeframes needs to be enforced (and monitored in advance to avoid issues) by Finance and the ELT. To assist with timeframes, it may also be beneficial to issue checklists/draft templates in advance so users are aware of the reporting requirements and information requirements, and allocate sufficient time in advance. • The notion that the budget process is a long process and parties get 'budget fatigue' appears to be compounded by the need for last minute adjustments. Many of these amendments appear to be as a result of initial guidelines and parameters not being adhered to, or clearly communicated. As such, addressing the concerns regarding the timing of the process is a factor that can be partly addressed by communication and boundaries as set out above. • There is also the ability for the ELT to have greater input and review through the budgeting process with their Business Partners so that they are more aware of what is included in the budget as opposed to waiting for a final review shortly before the budget is provided to the Councillors. • A draft budget timeline, incorporating our recommendations to overlay over the existing process, is set out in Appendix D.

LTFP – Cash Flow Forecast

Cash Flow Statement *(Scenario: 2020-21 LTFP V01)*

	Notes	Actuals 2018/19 ($'M)	Current Year 2019/20 ($'M)	Projected Year 2020/21 ($'M)	LTFP 2021/22 ($'M)	LTFP 2022/23 ($'M)	LTFP 2023/24 ($'M)	LTFP 2024/25 ($'M)	LTFP 2025/26 ($'M)	LTFP 2026/27 ($'M)	LTFP 2027/28 ($'M)	LTFP 2028/29 ($'M)	LTFP 2029/30 ($'M)
Cash Flows from Operating Activities													
Receipts:													
Rates & Annual Charges		361.3	329.8	337.1	345.1	355.4	365.5	374.7	384.0	393.6	403.5	413.5	421.3
User Charges & Fees		159.0	146.3	148.2	152.4	156.6	160.6	164.4	168.4	172.4	176.6	180.9	183.5
Interest & Investment Revenue Received		20.2	9.7	11.7	9.1	7.6	8.2	9.9	11.4	12.4	13.6	14.0	14.4
Grants & Contributions		94.9	90.1	86.7	95.1	86.7	84.1	85.3	87.2	88.9	90.6	92.7	94.3
Other		41.5	10.4	16.8	17.5	19.7	20.7	21.1	21.7	22.2	22.8	23.4	23.9
Payments:													
Employee Benefits & On-Costs		(201.6)	(208.8)	(215.2)	(218.8)	(222.6)	(227.1)	(231.7)	(236.2)	(241.9)	(247.9)	(254.0)	(259.2)
Materials & Contracts		(115.0)	(96.0)	(115.5)	(114.3)	(113.4)	(115.5)	(117.7)	(121.7)	(124.3)	(127.4)	(130.1)	(133.6)
Borrowing Costs		(15.2)	(13.2)	(13.9)	(13.3)	(14.0)	(15.2)	(15.2)	(15.1)	(14.8)	(14.4)	(14.2)	(13.7)
Bonds & Deposits Refunded		(5.2)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Other		(135.6)	(101.7)	(105.3)	(106.5)	(105.8)	(108.2)	(117.1)	(119.0)	(119.3)	(118.5)	(123.5)	(124.3)
Net Cash provided (or used in) Operating	1	**204.3**	**166.2**	**150.0**	**165.8**	**170.0**	**172.7**	**173.3**	**180.3**	**188.8**	**198.4**	**202.3**	**206.1**
Cash Flows from Investing Activities													
Receipts:													
Sale of Investment Securities	2	281.5	84.2	90.9	50.0	-	-	10.0	50.0	35.0	46.6	40.0	50.0
Sale of Infrastructure, Property, Plant & Equipment		2.1	-	-	-	-	-	-	-	-	-	-	-
Payments:													
Purchase of Investment Securities	2	(298.7)	(12.7)	-	(24.0)	-	-	-	(17.7)	(12.3)	(33.2)	(31.9)	(8.5)
Purchase of Infrastructure, Property, Plant &	3	(169.6)	(235.6)	(248.3)	(187.3)	(181.1)	(181.3)	(181.0)	(181.0)	(181.0)	(181.0)	(181.0)	(181.0)
Purchase of Intangible Assets		(3.2)	-	-	-	-	-	-	-	-	-	-	-
Deferred Debtors & Advances Made		0.0	-	-	-	-	-	-	-	-	-	-	-
Net Cash provided (or used in) Investing		**(188.0)**	**(164.2)**	**(157.4)**	**(161.3)**	**(181.1)**	**(181.3)**	**(171.0)**	**(148.7)**	**(158.3)**	**(167.6)**	**(172.9)**	**(139.5)**
Cash Flows from Financing Activities													
Receipts:													
Proceeds from Borrowings & Advances		-	30.0	50.0	50.0	50.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Payments:													
Repayment of Borrowings & Advances		(31.7)	(46.6)	(45.2)	(34.9)	(26.8)	(30.2)	(30.9)	(34.2)	(36.1)	(35.9)	(38.4)	(42.9)
Net Cash Flow provided (used in) Financing	4	**(31.7)**	**(16.6)**	**4.8**	**15.1**	**23.2**	**(0.2)**	**(0.9)**	**(4.2)**	**(6.1)**	**(5.9)**	**(8.4)**	**(12.9)**
Net Increase/(Decrease) in Cash & Cash		**(15.4)**	**(14.5)**	**(2.6)**	**19.6**	**12.0**	**(8.8)**	**1.3**	**27.4**	**24.4**	**25.0**	**21.0**	**53.8**
plus: Opening Cash, Cash Equivalents &		59.5	44.1	29.5	26.9	46.6	58.6	49.7	51.1	78.5	102.9	127.9	148.8
Closing Cash & Cash Equivalents		**44.1**	**29.5**	**26.9**	**46.6**	**58.6**	**49.7**	**51.1**	**78.5**	**102.9**	**127.9**	**148.8**	**202.7**
Cash Composition													
Cash & Cash Equivalents - end of the year		44.1	29.5	26.9	46.6	58.6	49.7	51.1	78.5	102.9	127.9	148.8	202.7
Investments - end of the year		434.5	363.0	272.1	246.1	246.1	246.1	236.1	203.8	181.1	167.7	159.6	118.1
Cash, Cash Equivalents & Investments -year end		**478.5**	**392.5**	**299.0**	**292.7**	**304.7**	**295.9**	**287.2**	**282.2**	**284.0**	**295.6**	**308.5**	**320.8**
Representing:													
- External Restrictions		312.9	323.0	326.3	353.2	383.1	413.9	445.9	480.6	516.5	553.7	592.2	631.5
- Internal Restrictions		114.7	112.2	112.2	112.2	112.2	112.2	112.2	112.2	112.2	112.2	112.2	112.2
- Unrestricted	5	50.9	(42.7)	(139.5)	(172.7)	(190.6)	(230.3)	(270.9)	(310.6)	(344.7)	(370.4)	(396.0)	(423.0)
Cash, Cash Equivalents & Investments - year end		**478.5**	**392.5**	**299.0**	**292.7**	**304.7**	**295.9**	**287.2**	**282.2**	**284.0**	**295.6**	**308.5**	**320.8**

Sources: Long Term Financial Plan – Scenario 2020-21 LTFP V01

Notes:

The summary opposite is prepared from the LTFP. While only forecast at present, should the forecast not be revised to reduce the operational loss and capital expenditure, there is expected to be insufficient available cash to fund future periods. Further, the estimated impact of COVID is not included in the forecast and needs to be accounted for.

1. Net Cash from operating activities equates to net profit/loss, add back non-cash items including depreciation and adjustments for balance sheet movements.

2. The net position of the Sale and Purchase of Investment Securities is the release of term deposits to assist with funding capex. However, as noted below in note 5, there are insufficient Unrestricted and Internally Restricted funds, resulting in this forecast essentially relying on the use of Restricted funds.

3. As is evident, forecast Capex for the seven year period between 2019/20 and 2025/26 is greater than surplus cash flow from operating activities. As such, the forecast assumes access to alternate funding such as debt, grants, contributions or restricted funds.

4. Council continues to assume loans will be refinanced. The refinance figure is assumed to be greater than the prior facility thereby increasing total debt.

5. With no/negative 'Unrestricted' funds available, the forecast assumes a reliance on 'Internally Restricted' funds. However, internally restricted funds have actually been exhausted. Therefore the only funds remaining are 'Externally Restricted' funds and limited unrestricted funds.

LTFP – Profit and Loss Forecast

Profit and Loss *(Scenario: 2020-21 LTFP V01)*

	Actuals 2018/19 ($'M)	Current 2019/20 ($'M)	Projected 2020/21 ($'M)	LTFP 2021/22 ($'M)	LTFP 2022/23 ($'M)	LTFP 2023/24 ($'M)	LTFP 2024/25 ($'M)	LTFP 2025/26 ($'M)	LTFP 2026/27 ($'M)	LTFP 2027/28 ($'M)	LTFP 2028/29 ($'M)	LTFP 2029/30 ($'M)
Revenue:												
Rates & Annual Charges	362.7	324.1	335.5	345.4	355.9	366.0	375.1	384.5	394.1	403.9	414.0	421.6
User Charges & Fees	133.9	144.7	148.8	153.3	157.6	161.3	165.2	169.2	173.2	177.4	181.7	183.8
Interest & Investment Revenue	15.1	14.4	12.9	11.5	10.5	10.7	11.9	13.2	14.1	15.2	15.5	15.6
Other Revenues	17.4	13.7	16.1	17.5	18.9	20.3	20.8	21.4	22.0	22.5	23.1	23.6
Grants & Contributions provided for Operating	40.6	39.3	40.2	42.2	43.2	44.3	45.4	46.7	47.8	49.0	50.2	51.5
Grants & Contributions provided for Capital	67.5	52.4	45.9	54.2	41.5	39.5	40.1	40.6	41.2	41.7	42.6	42.9
Net gains from the disposal of assets	-	1.5	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**637.3**	**590.2**	**599.4**	**624.1**	**627.6**	**642.0**	**658.4**	**675.6**	**692.4**	**709.8**	**727.1**	**739.1**
Expenses from Continuing Operations	-	-	-	-	-	-	-	-	-	-	-	-
Employee Benefits & On-Costs	198.8	207.6	213.9	217.5	221.5	226.1	230.7	235.5	241.3	247.3	253.4	258.6
Borrowing Costs	18.9	16.8	16.8	16.2	16.7	17.9	17.7	17.5	17.1	16.6	16.2	15.6
Materials & Contracts	118.6	97.7	113.0	115.1	115.0	116.9	119.9	122.9	126.0	129.2	132.5	134.1
Depreciation & Amortisation	145.6	139.0	141.7	142.8	143.6	144.1	146.1	148.3	150.4	152.7	154.5	155.4
Other Expenses	89.8	95.3	100.5	100.2	102.2	104.6	110.1	110.7	114.0	117.3	123.5	124.3
Net Losses from the Disposal of Assets	3.0	-	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**574.9**	**556.4**	**586.0**	**591.8**	**599.1**	**609.5**	**624.6**	**634.9**	**648.9**	**663.1**	**680.1**	**687.9**
					0.0							
Operating Result from Continuing	**62.4**	**33.8**	**13.4**	**32.3**	**28.5**	**32.5**	**33.9**	**40.7**	**43.6**	**46.7**	**47.0**	**51.1**
Net Operating Result before Grants and	**(5.1)**	**(18.6)**	**(32.5)**	**(21.9)**	**(13.0)**	**(7.0)**	**(6.2)**	**0.0**	**2.3**	**5.0**	**4.4**	**8.2**

Sources: Long Term Financial Plan – Scenario 2020-21 LTFP V01

Notes:

- The LTFP and 2020/21 budget was prepared prior to COVID and as such does not consider any revenue and contribution reductions that may be experience as a result of the impact of COVID. Further, the 2019/20 year has not been adjusted to reflect recent performance with a loss in excess of $53.9 million expected.
- Even prior to COVID, the LTFP shows an acceptance of forecasting an operating loss before capital grants and contributions. The losses forecast over seven years total $104.3 million with only small profits totalling $20.0 million forecast in the five years between 2025/26 and 2029/30.
- While the LTFP will be overridden by the annual budget, it is necessary to ensure that the organisation is financially sustainable in both the short and long term. It appears that the short term priorities are accommodated but sustainable changes are not made to restrict longer term expense growth, or flexibility to adapt to changing income levels.
- The ongoing Service Review should be prioritised within the organisation as the first step in addressing the service priorities and acceptable levels within the Council. The outcome should then provide the foundation for future budgets and base level costs.

Specific Process Observations - Operational

Operational budget

- The Council has seen a deterioration in its operating performance since 2016/17. As discussed further in Section 4, this is as a result of a number of factors including:
  - Declining revenue as a result of the IPART ruling (c. $36 million on 2019/20);
  - Capital contributions reducing from $59.9 million in 2017/18 to c. $21.0 million for 2019/20 (annualised) and capital grants reducing c. $12.9 million since 2017/18;
  - Increasing costs, notably employee costs, material and contract costs within some directorates and costs of amalgamation estimated at c. $40 million.
- The LTFP appears to accept that losses before capital grants and contributions will continue until at least 2024/25. As set out in the LTFP on page 15, losses before capital grants and contributions totaling $104.3 million for the 7 years to 2024/25 will only be partially off-set by small profits totaling $20.4 million in the five years between 2025/26 and 2029/30. It is further noted that 2019/20 actual results are likely to show a loss of c. $50 million compared to the budgeted loss of c. $18.6 million.
- While the 2020/21 operational budget forecasts a loss of $32.5 million before capital grants and contributions, cost savings of $62.8 million were already incorporated into the budget. The budget includes:
  - 'Materials and Contracts' and 'Other Expenses' being paired back to the 2019/20 budget plus CPI;
  - Labour savings of c. $22.7 million as a result of delaying filling vacancies and enforcing leave; and
  - Other savings of c. $38.1 million

  There is uncertainty on whether these targets can be met.
- The acceptance of running operational losses needs to cease and a plan needs to be implemented to reduce expenditure in light of there being limited opportunities acceptable to the Councillors to increase revenue. With 'Employee Benefits and Costs' being the largest expense category, it is anticipated that the Service Review will identify options to curtail costs. Further commentary is also included in Section 4.
- Regardless of the opportunity to reduce costs or increase revenue, the strategy will take time to implement and realise the benefit. As such, it remains critical that a strict culture is adopted across the board with respect to expenditure and that all costs are monitored closely in line with budget.

Operational Budget Recommendations

- The objective is to produce a balance budget as a minimum. An operating surplus in a COVID environment is preferable given that while rate revenue should not be significantly impacted by COVID, rate collections will be significantly impaired.
- The Operational budget must be developed on a bottom up revenue basis. Once revenue has been established operational expenditure must not exceed forecast revenue. Each directorate's budget must include the agreed allocation of overhead divisional costs prior to striking a balanced/surplus budget.
- A clear framework or parameters need to be set for the operating budget. For example, a base year/reasonable level of costs needs to be established with only CPI or approved extraordinary growth. This may result in forcing savings to be identified to claw back increases in expenses incurred in prior years that have since been normalised into the organisation.
- The habit of 'budget creep' where there are regular increases which are accepted (both budgeted and inadvertent) should be neither proposed nor allowed.
- There needs to be greater involvement of the ELT members during the process. The Directors should liaise with the Unit Managers and Business Partners during the budget process and not wait until the allocated period for ELT review to first consider the budget. This should result in fewer changes being required during the ELT review period, and also ensure that the Directors have an adequate understanding of the budget framework and limits, and the impacts on individual units. This should reduce budget fatigue and stop late adjustments.
- It is also recommended that Directors have a one-on-one meeting with the Finance team during the ELT review period to discuss the implications of the budget and work collaboratively to ensure strategies are in place to achieve the budget. These meetings are in addition to initial ELT briefing sessions to discuss budget strategy, priorities and limitations.
- If there are concerns that directorates or units will not be able to meet the proposed budget, there needs to be a discussion at the time the budget is set. It is not acceptable to incur 'unapproved' overruns when there is an opportunity to discuss options and strategies at the time of setting the budget.

Specific Process Observations - Operational

- Once the budget is set, reporting of actual results compared to budget needs to occur on a monthly basis at consolidated, directorate and unit level:
  - All variances to budget need to be accounted for and strategies put in place to restrict any further unfavorable performance. Ideally, any unfavorable variances need to be rectified by the quarter's end. It is not acceptable to wait prolonged periods to address any variance. To ensure negative variances do not continue to accumulate throughout the year, prompt action is required; and
  - Employees at appropriate levels within the organisation (e.g. Unit Managers and Directors) need to be held accountable for performance and driving necessary strategies with the assistance of Finance;
  - All negative variances need to be investigated at all levels. Favorable outcomes should not be used to subsidise poor performance in other cost categories or units (e.g. employee cost savings should not be eroded by increases in contractor costs).
- The Service Review is ultimately needed to identify what services provided are essential, the cost of all services provided and where efficiencies may be gained. Upon completion of the Service Review, Council will be able to determine what services and what level of services they wish to continue providing noting the costs and limited funding resources. As the Service Review is not due to be completed until December 2020 and it will take additional time to agree a preferred course of action and then implement any recommendations, this may not assist with the 2021/22 budget setting process. It will, however, be invaluable for later periods and achieving general operational improvement.

Specific Process Observations - Capital

Historical Capex - Budget v Actual

	2017/18 Budget ($'M)	2017/18 Actual ($'M)	2018/19 Budget ($'M)	2018/19 Actual ($'M)	2019/20 Budget ($'M)	2019/20 Actual YTD April ($'M)
Chief Financial Officer	7.0	7.0	13.7	13.7	16.5	9.4
Chief Information Officer	14.1	12.2	20.1	16.5	26.5	19.0
Connected Communities	11.3	10.4	12.1	10.3	28.7	9.2
Environment and Planning	35.4	33.3	24.0	18.0	43.7	18.4
Governance/Chief Executive Officer	4.6	3.9	3.8	2.9	0.1	0.0
Innovation and Futures	2.1	2.0	4.3	1.9	8.8	4.8
Roads Transport Drainage and Waste	83.9	80.9	80.2	76.7	93.4	65.9
Water and Sew er	21.6	21.2	34.5	34.0	39.8	31.7
Total	**180.1**	**170.8**	**192.7**	**174.0**	**257.4**	**158.6**

Notes: 2019-20 Actual results are only for the 10 months to April 2020. Actual Capex for the year is estimated to be c. $230 million.

Example Allocation Method

Division	Depr'n Forecast ($'M)	Allocat'n based on Depn	Adjusted Allocat'n for Conting-ency	Est Capex Budget (excl grants and cont) ($'M)	Est Grants and Contrib'ns ($'M)	Est Capex Budget (incl grants and cont) ($'M)
Chief Executive Officer	0.0	0%	0%	0.0	X	= 0 +X
Chief Financial Officer	7.0	5%	4%	4.9	X	= 4.9 +X
Chief Information Officer	4.4	3%	3%	3.1	X	= 3.1 +X
Connected Communities	11.0	7%	7%	7.7	X	= 7.7 +X
Enrivonment and Planning	7.2	5%	4%	5.1	X	= 5.1 +X
Innovation and Futures	0.1	0%	0%	0.1	X	= 0.1 +X
Road Transport Drainage and Water	56.3	38%	35%	39.4	X	= 39.4 +X
Water and Sew er	60.7	41%	37%	42.5	X	= 42.5 +X
Special Purpose/Priority/Contingency			10%	11.4	-	=11.4
Total	**146.7**	**100%**	**100%**	**114.2**	**40.0**	**=114.2+40**
Less: Opex Deficit	(32.5)					
Capex Budget	**114.2**			**114.2**	**40.0**	**154.2**

Notes: Example of allocation only based on 2019-20 depreciation schedule. Grant, Contribution and Restricted funding to be allocated based on purpose of the grant/associated capital works.

Capital budget

- Despite the deteriorating operational performance, Council has approved a capital budget which has increased year on year. The approved capital budget has increased from $180.1 million in 2017/18 to $257.4 million in 2019/20. Despite the increasing capital budget, Council has not been able to deliver all projects budgeted for, typically undertaking c. $170 million of capital works per annum, with actual capital works expected to be c. $230 million in 2019/20.
- The capital budget process appears to be a key frustration within the organization. With there being no clear boundaries, or no adherence to the limits set, the process appears as uncontrolled resulting in an increasing and unsustainable budget.

Capital Budget Recommendations

- The increasing capital budget cannot be funded while operating losses are being incurred. At a high level, in the absence of available cash reserves being available, funding available for capex should be limited to depreciation less operating losses plus applicable contributions, grants and restricted funds. As a result, our primary recommendation is to set a clear budget in terms of what funds are available for capital works. This must focus on available cash and cash flow forecasts, not the desired capital works program regardless of its perceived importance.
- A methodology for the allocation of the budget pool then needs to be established. Ideally the process should be overseen by a PMO which has clear processes and frameworks in place independent of the directorate business case selection process. Critically, the PMO would be operated independently from the directorates and be guided by principles for prioritisation of capital works. The prioritisation criteria is to be set at an organisational level and clearly articulated, having regard to both the short and long term strategy of Council.
- While a PMO does not currently exist, we understand that a PMO framework is being drafted for consideration. Without reviewing the proposal, we highly support the introduction of a PMO to oversee the capital budget process. As with all projects, successful implementation of a PMO will be dependent on ensuring there is a culture which supports the importance of the work undertaken by the PMO and its leader.
- Noting that the introduction of a PMO is a mid term solution and would not be ready for the 2021/22 budgeting process, in the interim we recommend a simple framework where the capex budget is allocated based on depreciation, as set out opposite. While this approach does not consider a number of competing priorities such as safety, organisational strategy etc, it will provide more rigour in the interim. In adopting this simple approach, we also recommend a portion of the budget be kept for special purposes. For example, there may be special projects identified by the Councillors/CEO/ELT that need to be prioritised for various reasons. The simple approach has been attempted before, but was not clearly articulated nor adhered to.
- A three to five year capital budget should also be developed to spread the capital works and provide a longer term view.

Specific Process Observations - Other

Issue	Key Observations and Recommendations
FTE Plan	• The FTE plan is a critical piece in the budgeting process as Employee costs are the largest cost component for Council and the FTE plan drives other budget components including the IM&T and P&F plans. • In prior years, the FTE plan has caused a degree of frustration during the budget process. The FTE plan has historically been the first time Unit Managers see a full list of FTEs, positions and vacancies and issues have been identified in the listing which then requires a number of reiterations. The issues with the FTE plan for the 2020/21 budget were further compounded by a restructure being conducted at the time which resulted in the FTE plan not accurately capturing the movement of units and personnel. • Given the flow on effect and importance of the FTE plan in the budget process, noting that employee costs are only able to be incorporated into the budget once the FTE plan is agreed, there needs to be greater accuracy in the source data which underpins the FTE plan. It is understood that a data remediation exercise has been undertaken and a new P&C platform commenced in March 2020. Since the commencement of the new platform, monthly reporting on FTE data has commenced. • To assist with accuracy of the FTE data, we recommend that a 'draft FTE plan' be circulated outside of the budgeting process, say in July 2020. This will provide Managers additional time to review the data and also work with P&C to address any issues in advance of the budget process when time is less critical. • Given the growth in employee numbers and employee costs across Council, limits with respect to FTEs also need to be incorporated into the budget. In line with the interim P&C measures and broader resourcing plan: – The budget needs to include a strict FTE limit for each department which may include cuts or require inter-unit movements to stay within limits; – There should be no new roles created unless a business case (with cost input from Finance) has been approved by the CEO; – There should be no automatic fill of vacancies. All vacancies should be assessed to determine if the roles needs to be filled, the vacancy made available to another unit only if necessary, or the role to be removed thereby reducing headcount and increasing efficiencies; and – In addition to FTE limits, Contractor and other employee related costs need to be limited to avoid shifting costs as opposed to reducing costs.
P&F and IM&T Plans	• As both the P&F and IM&T plans are driven by the FTE plan, this further stresses the need to lock down the FTE as early as possible. • P&F costs have been growing with there being a need to scale back costs. The ability to scale back costs will be dependent on: – GPS information currently being collected which will assist in determining usage and efficiency; – Assessing the contractual entitlement of parties to have vehicles and other equipment; and – Considering longer replacement periods and replacing vehicles with cheaper models to save costs. • An IM&T review should also be conducted by the Unit Managers to ensure Unit Managers are aware what equipment team members have and whether this is necessary for their roles. • While the above are operational strategies, they also need to be considered at the time of preparing the budget.

03

2020/21 Capital Review

2020/21 Capital Review

Background

- In our Phase 1 report dated 4 June 2020, we estimated that COVID-19 would have a combined cash and revenue impact of between $86.1 million and $117.2 million for 2020/21. While there is expected to be a reduction in revenue of $8.5 million and reduced capital contributions of $6.7 million, the impact on cash is largely driven by assumptions with respect to the collection of rates, annual charges and water and sewer usage charges.
- In addition to the COVID-19 potential cash impact of between $86.1 million and $117.2 million, analysis of the cash flow statement in the 2020/21 draft budget indicated that there were insufficient available funds to fund the proposed operational deficit and capital budget. As such, the estimated funding gap for 2020/21 may actually increase to $227.2 million.

Process

- Following the identification of the potential cash short fall, the ELT identified a number of levers which could either save cash, or release cash into the organisation from various sources. A target for each of the levers was also set with one of the key targets being with respect to the capital budget.
- The Finance department, the ELT and each of their teams undertook an internal review to identify savings that may be available and we have worked with Finance to provide some direction and oversight during the process.
- Opportunities identified with respect to capital included:
  - Deferring $86 million of projects, with a further $28 million of projects in lower priority categories also to be considered for deferral; and
  - An additional $90.0 million of restricted funds was identified to be available, being:
    - $62.0 million of additional restricted and grant funding for the 2020/21 year; and
    - $28.0 million of projects previously completed from general funds that should have actually been funded from restricted funds, thereby enabling a reimbursement to the general fund.
- While we assisted with the process, we did not independently verify the ability for these savings to be achieved, and note that due to the technical nature of the restricted funds, reliance must be placed on the respective Directors in assessing the opportunities.

Recommendations

- Given our involvement in the discussions with respect to identifying capital savings and the material presented to the Councillors in advance of the 4 July 2020 meeting, we do not propose to reiterate the outcomes.
- However, we do reiterate our comments on page 18 that future capital budgets should:
  - Be based around available funding and therefore be limited to budgeted depreciation less deficit, less required loan repayments;
  - A PMO should be established to allocate funding among the directorates and the projects, essentially controlling the capital budgeting process and ensuring that Council's overarching strategy and priorities are incorporated into the capital works program. The PMO process should be independent of the directorate business case selection process necessary for the identification of all Capex projects;
  - In the absence of a PMO for the upcoming 2021/22 budget process, the funds available for capex should be allocated among the directorates based on a simple method such as their portion of depreciation, with a portion also to be set aside for special projects, priority allocation or Councillor priorities; and
  - The capex budgeting process should also have a longer term focus beyond the immediate year.

04

Operational Review

Operational Review Process

Grant Thornton Review Process

- We have received the monthly profit and loss management accounts for the period 1 June 2017 to 31 May 2020. The accounts have been provided at multiple levels, being Consolidated, Department and Unit.
- As monthly management accounts for the month of June 2020 were not available when we commenced the review, to enable comparative analysis for the full year period we have prepared an 'Annualised' figure for the 2019/20 financial year. The 'Annualised' figure has been calculated as actual results for the 11 months to May 2020 plus one month based on the average of the prior 11 months (with the exception of rates). This results in a net loss of $43.9 million before capital grants and contributions. Initial estimates are that the actual loss for 2019/20 will be c. $53.9 million. We note that the Annualised figures provides a guide for comparative analysis purposes only, and stress that actual results for the full year should be considered once available.
- In conducting our review, we have focused on the Consolidated accounts and Department level accounts due to the number of units involved. However, we have also conducted a high level review of some units and note that the organisation should review performance in detail at a unit level. From our high level review it is evident that review at a department level can mask negative performance in one unit which is off-set by positive performance in another unit.
- The Council has recorded operating losses before capital grants and contributions for the past three years. The costs of services provided exceeds the revenue generated, noting that the population of the area is growing at about double the growth in rating base. Further detail is provided on the following pages with respect to some of the factors contributing to the operating losses.
- It is necessary to restructure the cost base of the organization. Critical to reducing the cost structure of the organisation is the Service Review. Upon classification of the services currently provided as essential or non-essential, and understanding the true cost of each service, decision makers will then be able to determine their preferred course of action with respect to costs.
- While the Service Review is being completed, there remains the need to critically evaluate key costs within the organisation in an attempt to reduce costs and achieve efficiencies.
- Commentary with respect to key movements within the accounts are set out on the following pages, together with our initial recommendations.

General Observations and Recommendations

Issue	Key Observations and Recommendations
Lack of Financial Discipline / Accountability	• Council has had operating losses for the past three years, with the loss before capital grants and contributions estimated at $53.9 million for 2019/20. Actual losses for the past three years have been significantly worse than budgeted, with the 2020/21 budget even forecasting a deficit. • While revenue growth in some categories is capped by IPART and many other categories are declining (refer page 27), the expense base of Council has continued to increase at a higher rate (refer page 28), particularly with respect to Employee Costs. This is against a backdrop of population growth at almost double the rate of growth in the rating base. While there may be instances where costs have increased as a result of increased regulatory requirements, improved services, to assist with the integration or for other necessary purposes, it is not clear what portion of cost increase, or the revenue reduction, is attributable to forecast events. Additional analysis of historical accounts at various level may be able to provide further explanation of key movements. • There have also been year on year increases in costs, compounding the growth in the expense base when costs should be reducing in line with reduced revenue. • The increase in costs appears to be an issue across the organisation and any cost savings identified in certain expense categories are eroded by the excessive growth in other expense categories. • The organisation needs to incorporate greater financial discipline and hold Directors and Unit Managers accountable for negative variances to budget. Further, financial targets such as cost reductions need to be set to reduce the cost base and ensure the cost of providing services is sustainable. • To instil a financially disciplined culture, all directorates need to work collaboratively with the Finance directorate and the Business Partners. The Finance directorate needs to assist in not just identifying issues, but understanding the underlying cause and assisting to the directorates identify and implement solutions to curtail any unfavourable financial results. This needs to be done on an ongoing basis.
Ongoing Reporting and Monitoring	• Critical to identifying issues and adopting strategies is the need for ongoing reporting and monitoring. There is a large volume of financial data available at various levels and while this can be invaluable in monitoring performance, too much data can also lead to overload and obscure trends. As such, reporting needs to be targeted to the users' needs with the ability to investigate further if required. • We understand that all Directors have access to financial information in Majiq and are also provided a monthly report by their Business Partners. To achieve greater benefit from reporting, we note the reporting should: – Provide an analysis of actual performance against budget and prior year performance; – Include an investigation and understanding of the drivers of any negative variances; – Include strategies that can be implemented and set targets to address any issues; – Include non-financial measures and KPIs where available; and – Consider the performance of business units and lower levels, not just the directorate, to ensure there is a thorough understanding of the performance of the whole of the directorate. • Further, a high level report needs to be prepared which summarises the performance of the whole of the organisation and the individual departments. This will provide all Directors with a greater understanding of the performance of Council and move away from a silo approach to a more collaborative organisational approach. Cash flow reporting should be incorporated at the consolidated and fund levels. • In addition to the reports, benefit is to be gained from regular one-on-one discussions between Finance (CFO) and the Directors to discuss performance, challenge understanding and assist in agreeing future actions and objectives. This will improve financial management and align financial priorities. • It is critical that performance is reported and monitored on a monthly basis to enable issues to be identified and strategies be put in place immediately. Not addressing negative variances in a timely manner has the ability to compound the issues and put further financial strain on the organisation.

General Observations and Recommendations

Issue	Key Observations and Recommendations
Operational Improvement • Revenue • Expenses	• The Council is somewhat limited in increasing revenue with its key revenue, rates, being subject to an annual rate peg (set at 2.6% for 2020/21). However, subject to Councillor's views, there may be options to increase other revenue sources such as User Charges and Fees. We understand that Council has previously considered increasing parking rates, introducing paid parking and increasing sporting field charges, however, there has been limited appetite from Councillors to increase charges and it is now noted that COVID-19 is placing financial strain on many community members. However, COVID-19 is also placing considerable strain on the Council and should Council wish to continue to deliver the range and standard of services they currently deliver, increased fees and charges should be considered. • It is recommended that a revenue review be conducted on various fees and charges to show the financial impact of a small increase, with comparison to other Council's and commercial operator's charges, and growth over prior years. Even a small increase of 0.5% on some fees and user charges for non-essential services will have a cumulative effect and will assist in reducing the deficit. • It is evident that the expense base and its growth is excessive and not sustainable. A key initiative to assist in reducing costs will be the Service Review being conducted which will consider which services are essential and also the appropriate level of service to provide. However, due to its timing this is not a short term solution, nor is it the only initiative that needs to be implemented. • With Employee costs being the largest expense, there remain current opportunities to cap recruitment, consider allowances, entitlements and benefits, efficiencies and restructure shifts to change the culture to reduce overtime. While it will be slow to realise the benefit of many of these initiatives due to matters such as industrial relation issues and the time taken to gradually change culture, the process should be commenced. Any benefits obtained will be carried forward and the impact of COVID-19 can be used as the driver of change. • Essentially, all expenses need to be reviewed and reduced where possible. Parties need to be held accountable and have KPIs to reduce spend, meet budgeted spend levels and/or avoid year on year creep across all expense lines. Cross subsidisation of strong performing units also needs to cease with all units to be considered on a stand-alone basis. The same applies to individual expense lines with any savings often consumed by increases elsewhere.
Operational Improvement • Other	• While there is a tendency to focus on larger, material movements, all negative variances should be considered. Given the number of expense lines used for reporting, even small variances can have a material impact when multiplied across the organisation. These less material movements often go unnoticed but provide an easy opportunity to improve performance with discipline. To highlight the cumulative impact of the small variances: – There are over 5,000 account lines when viewing the financial reports at unit level, with over 4,000 of these being expense accounts. Of the expense accounts, approximately one third reported an increase when comparing the 11 months to May 2020 with the 2018/19 full year expense. – Approximately 730 expense accounts had an annual expense of less than $1,000 in 2018/19. These accounts totalled $238,000 in 2018/19 and in the 11 months to May 2020, the same accounts increased to a total of $1.3 million. Of the expense accounts with a total of less than $1,000, c. 460 accounts had no change or reduced by a total of $159,000. However, the remainder of expense accounts increased by a total of $1.3 million negating any benefits achieved elsewhere; – c. 460 expense accounts increased by less than $1,000 in the 11 months to May 2020 which had the impact of increasing total costs by $138,000; – c. 120 expense accounts increased between $1,000 and $2,000 in the 11 months to May 2020, with the increase totalling $173,000; and – c. 900 expense accounts increased by less than $10,000 in the 11 months to May 2020, with the increase totalling $1.8 million. • This highlights the importance of monitoring all accounts, not just the larger material account. There is the opportunity to maintain or reduce costs at all levels which will have a significant cumulative impact and be relatively easy to implement change. Often the small changes are easy to implement yet yield rewards and financial discipline can assist in reducing costs without materially impacting services. • A review to achieve amalgamation of various expense accounts will help with the ease of monitoring movements in expenses. In the interim, Council should leverage from the information available from the detailed accounting structure and utilise this to monitor and improve performance.

Consolidated Review

Consolidated Profit & Loss

	2017/18 Actuals ($'M)	2018/19 Actuals ($'M)	2019/20 YTD May Actuals ($'M)	2019/20 Annualised (May+ 1mth)* ($'M)	18/19 YOY Change %	Annual-ised Change %
4.1.1. Rates	161.4	165.5	169.7	169.7	3%	3%
4.1.2. Annual Charges	193.1	197.2	151.7	165.5	2%	-16%
4.2.1. User Charges	71.9	67.3	69.9	76.3	-6%	13%
4.2.2. Fees	67.3	66.6	49.5	54.0	-1%	-19%
4.3.1. Other Revenue	16.4	17.4	11.3	12.4	6%	-29%
4.4.1. Interest	13.6	15.1	11.8	12.9	11%	-15%
4.5.1. Grants - Operating	32.8	34.4	33.7	36.7	5%	7%
4.5.2. Contributions - Operating	5.8	6.3	7.6	8.3	7%	33%
4.6.1. Gain on Asset Disposal	1.4	0.5	0.7	0.7	-63%	35%
4.7.1. Internal Revenue	44.8	73.2	97.0	105.8	63%	45%
5.1.1. Grants - Capital	29.0	25.2	15.3	16.7	-13%	-34%
5.1.2. Contributions - Capital	59.9	42.4	19.3	21.0	-29%	-50%
Total Revenue	**697.4**	**711.0**	**637.5**	**680.0**	**2%**	**-4%**
6.1.1. Employee Costs	182.4	198.8	198.0	216.0	9%	9%
6.2.1. Borrowing Costs	20.7	18.9	13.9	15.2	-8%	-20%
6.3.1. Materials	124.0	134.5	125.3	136.7	8%	2%
6.4.1. Depreciation & Amortisation	174.6	145.6	137.3	149.7	-17%	3%
6.5.1. Other Expenses	86.2	89.4	80.6	88.0	4%	-2%
6.6.1. Loss On Asset Disposal	5.3	3.6	3.6	4.0	-33%	11%
6.7.1. Internal Expenses - Ex OH	38.1	57.8	70.3	76.6	52%	33%
6.7.2. Internal Expenses - OH	0.0	(0.0)	-	-	-101%	-100%
Total Expenses	**631.2**	**648.6**	**629.1**	**686.3**	**3%**	**6%**
Net (Profit)/Loss	**66.2**	**62.4**	**8.4**	**(6.3)**	**-6%**	**-110%**
Net (Profit)/Loss before Capital	**(22.7)**	**(5.1)**	**(26.1)**	**(43.9)**		

Notes: 2019/20 Annualised is calculated as actual results for the 11 month to May 2020 plus one month based on the average of the prior 11 months (with the exception of rates). The annualised figure has been prepared for comparative purposes only in the absence of actual results for the full year being available at the time of this review.

Sources: Monthly Management Accounts for the period June 2017 to May 2020. There will be variances to full year results in the Financial Statements for prior years due to year-end adjustments and as a result of the Management Accounts including internal charges and expenses. The net position is not materially different.

Consolidated Review

- Council has recorded losses before capital grants and contributions for the past three years, with the 2019/20 loss forecast to be $53.9 million (as at 22 June 2020). This is significantly worse than the deficit of $7.7 million budgeted.
- As evidenced in the below summary, Council has a history of performing poorly against budget and generating deficits. Of further concern is the budget in the 2020/21 draft operational plan forecasts a loss of $32.5 million before Capital Grants and Contributions.

Net Operating Profit before Capital Grants and Contributions

	Original Budget ($'M)	Actual ($'M)	Variance ($'M)
2017/18	1.9	(22.7)	(24.6)
2018/19	0.1	(5.1)	(5.2)
2019/20	(7.7)	(53.9) *	(46.2)

*Projection only as at 22 June 2020

- While the poor performance in 2019/20 can in part be attributed to the impact of COVID-19, the initial revenue impact for 2019/20 was only estimated at $9.8 million, or $4.1 million excluding capital contributions.
- The poor performance appears to demonstrate poor cost control year on year, the inability to scale the business up or down in line with revenue movements, and the inability to respond to changes on a timely basis throughout the year and implement strategies to restrict further deterioration. There are, however, some variances within the accounts which are necessary (such as adhering to new regulatory requirements) or beyond the control of Council such as attending to natural disasters. Additional review to determine the reason for key revenue and expense movements is recommended in addition to the analysis set out on the following pages.
- As set out on the prior page with respect to recommendations, to curtail further deterioration with operational performance, it is critical that:
  - There is detailed monthly reporting against budget at least at department and unit level to identify any negative movements and implement strategies to prevent further regression in a timely manner;
  - All variances are investigated as due to the number of line items, small negative variance across a number of accounts can have a material impact; and
  - The cost structure and necessity of each service should be considered upon completion of the Service Review to identify areas where the Council may able to restructure.

Consolidated Revenue

Revenue

	2017/18 Actuals ($'M)	2018/19 Actuals ($'M)	2019/20 YTD May Actuals ($'M)	2019/20 Annualised (May+1mth)* ($'M)	18/19 YOY Change	Annual-ised Change
4.1.2. Annual Charges						
03. Roads Transport Drainage & Waste	69.6	73.2	76.1	83.0	5%	13%
04. Water and Sewer	105.9	107.1	62.4	68.0	1%	-37%
11. Corporate Income and Expense	17.6	16.9	13.3	14.5	-4%	-14%
Total	**193.1**	**197.2**	**151.7**	**165.5**	**2%**	**-16%**
4.2.1. User Charges						
02. Connected Communities	2.0	0.4	1.9	2.1	-77%	379%
04. Water and Sewer	69.0	65.9	67.4	73.5	-5%	12%
05. Environment and Planning	0.9	0.9	0.6	0.6	1%	-32%
Total	**71.9**	**67.3**	**69.9**	**76.3**	**-6%**	**13%**
4.2.2. Fees						
02. Connected Communities	13.1	14.5	10.1	11.0	11%	-24%
03. Roads Transport Drainage & Waste	39.9	39.4	29.4	32.1	-1%	-19%
04. Water and Sewer	2.5	2.1	2.2	2.4	-15%	12%
05. Environment and Planning	10.6	9.1	6.4	7.0	-14%	-23%
07. Chief Financial Officer	0.4	0.0	-	-		
08. Chief Information Officer	0.8	1.5	1.3	1.5	87%	-3%
Total	**67.3**	**66.6**	**49.5**	**54.0**	**-1%**	**-19%**
4.3.1. Other Revenue						
02. Connected Communities	7.6	9.2	5.2	5.7	21%	-38%
03. Roads Transport Drainage & Waste	4.9	3.7	2.9	3.1	-24%	-16%
04. Water and Sewer	0.3	0.3	0.1	0.1	-11%	-45%
05. Environment and Planning	2.8	3.0	2.5	2.7	6%	-10%
07. Chief Financial Officer	0.3	0.7	0.3	0.4	152%	-43%
10. People and Culture	0.0	(0.0)	0.1	0.1	-125%	-765%
11. Corporate Income and Expense	0.1	0.1	0.2	0.3	10%	93%
13. Retired Cost Centres	0.1	(0.0)	-	-	-156%	
Total	**16.2**	**16.9**	**11.3**	**12.4**	**5%**	**-27%**

Revenue Comments

- Set out opposite is a summary of key revenue streams by Department. As noted earlier, the 2019/20 Annualised Figure is an estimate only used for analysis purposes given full year figures were not available at the time of conducting our analysis.
- Total revenue is estimated to fall between $31.0 million to $73.5 million between 2018/19 and 2019/20. Only part of this variance can be attributed to COVID-19.
- The decline in Annual Charges has been driven by a reduction in Residential Drainage Annual Charges, Residential Sewerage Service Availability Charges and Residential and Non-residential Water Supply Availability Charges. This is as a result of the IPART determination reducing charges with respect to water and sewer with the annual impact estimated to be c. $36 million.
- With respect to the 19% decline in Fees:
  - c. $2.0 million of revenue in Connected Communities has been transferred from Fees to User Charges as a result of funding changes during COVID-19 and has not decreased materially in real terms;
  - RTDW revenue is significantly lower in YTD and Annualised 2019/20 as a result of the RMS User charges not recording an accrual. It is estimated that c. $4 to $5 million of RMS revenue will be included in June 2020 resulting in the revenue being inline with prior years;
  - Tipping fees are c. $1.5 million lower than the prior year in 2019/20 with a lower volume being forecast for 2019/20; and
  - Tourist Park Charges were impacted by COVID-19 and down c. $1.0 million in total for the 2019/20 year.
- A key contributor to the fall in Other Revenue, particularly within Connected Communities, is COVID-19, which has seen many services closing for a period or operating at limited capacity due to social distancing restrictions.
- While there has been some growth in Operating Grants, with further grant revenue to be recorded in June 2020, Capital Grants and Contribution have reduced significantly. This can be attributed to a general downward trend with respect to developments as well as being dependent on funding budgets and initiatives of the federal and state governments.
- As it is not possible to review all revenue movements across the departments and units in detail within our timeframe, we recommend that Council conduct further review with a view to understand the cause of material movements and implement change.
- Analysis should also be conducted to consider opportunities to increase revenue, particularly in user pay and non essential services such as the Holiday Parks and Leisure Centres. Whilst it can be difficult to get passage through Council to increase fees and charges, the analysis should still be conducted and presented in a form which provides options and ties in with future cash flow and service requirements.

Consolidated Expenses

Key Expenses

	2017/18 Actuals ($'M)	2018/19 Actuals ($'M)	2019/20 YTD May Actuals ($'M)	19/20 Annualised (May+ 1mth)* ($'M)	18/19 YOY Change	Annual-ised Change
Employee Costs						
800001. Salaries and Wages - Ordinary Hours	135.8	132.9	145.4	158.6	-2%	19%
800002. Salaries and Wages - Overtime	10.6	13.0	12.3	13.4	23%	3%
800006. Salaries and Wages - Public Holiday	0.8	3.1	2.9	3.2	298%	3%
800008. Salaries and Wages - Sick Leave	3.2	6.1	3.4	3.8	92%	-38%
800013. Salaries and Wages - Allowances Paid	0.7	0.9	1.4	1.5	32%	65%
800014. Salaries and Wages - Annual Leave	6.6	11.0	7.8	8.5	68%	-23%
800015. Salaries and Wages - Long Service Leave	4.4	5.5	3.3	3.6	26%	-35%
800196. Salaries and Wages - Standard Costing	-	(52.0)	(55.8)	(60.9)		17%
Salaries and Wages - Other	4.8	5.2	2.7	2.9	8%	-43%
Casuals	2.5	3.2	2.7	3.0	25%	-6%
Superannuation	16.6	18.0	17.7	19.3	8%	7%
Workers Compensation	1.0	0.2	0.2	0.2	-80%	13%
Training	2.0	2.1	1.6	1.7	3%	-17%
Other	8.0	6.3	5.1	5.6	-21%	-11%
Internal Expense - Standard Labour Charges	(14.5)	43.5	47.4	51.7	-401%	19%
Total Employee Costs	**182.4**	**198.8**	**198.0**	**216.0**	**9%**	**9%**
Materials Expense						
820001. Materials	17.98	15.37	13.81	15.06	-14%	-2%
Chemicals and Cleaning	5.90	6.56	6.64	7.25	11%	11%
820006. Computer Hardware Expenses	2.59	1.28	1.60	1.75	-51%	36%
821005. Consultants	10.21	10.61	11.35	12.39	4%	17%
821006. Contractors - Labour Hire	7.92	8.98	8.53	9.31	13%	4%
821007. Contracts - Other	30.71	35.37	27.08	29.54	15%	-16%
821009. External Plant Hire	5.18	5.95	11.56	12.62	15%	112%
Garbage and Waste Contracts	29.52	34.01	31.56	34.43	15%	1%
Operating Leases	1.03	1.77	2.01	2.20	73%	24%
821018. Security and Monitoring	0.25	1.48	1.85	2.02	500%	36%
Other	12.69	13.08	9.30	10.14	3%	-22%
Total Materials Expense	**123.98**	**134.47**	**125.30**	**136.69**	**8%**	**2%**
Internal Expenses (Excluding Overheads)						
890106. Internal Expense - Council Rates	0.89	0.97	0.94	1.03	9%	6%
890115. Internal Expense - Plant and Fleet Hire	20.39	27.34	42.04	45.86	34%	68%
890124. Internal Expense - Tipping Fees	7.91	11.62	11.98	13.07	47%	13%
890126. Internal Expense - Water Charges	2.77	1.81	1.29	1.40	-35%	-22%
890129. Internal Expense - Technology	3.01	4.17	2.97	3.24	39%	-22%
Other	3.14	11.87	11.04	12.04	278%	1%
Total Internal Expenses	**38.12**	**57.79**	**70.26**	**76.65**	**52%**	**33%**

Expense Comments

- Expenses have been increasing at a faster rate than revenue, and not reducing when revenue has fallen. As such, the cost base is at a level which is not sustainable.
- The largest expense category is Employee Costs which comprise c. 30% of all expenses. This has increased 9% year on year against a backdrop of an annual wage increase of only 2.5%:
  - The largest component of Employee Costs are Ordinary Hours which are set to increase 19% in 2019/20. During this time there have been minimal additional services provided by Council which have required a significant increase in FTEs (with the exception of IM&T), and it has also been advised that there are a large number of vacant positions which have not been filled (and are now on hold as a result of COVID-19).
  - Overtime has increased 23% in 2018/19 with a further 3% increase expected in 2019/20. The consistent overtime cost of c.$13 million p.a. results in overtime being treated as a normal expense rather than an exceptional cost. While it is inevitable that some overtime will be required given the nature and variety of services of provided, there needs to be a cultural shift where overtime is not considered usual, and where shifts and rosters are restructured to replace necessary overtime with a standard shifts thereby reducing costs.
  - While only accounting for c. $1.5 million of Employee Costs, Allowances Paid have increased sharply. Regardless of quantum, all cost increases need to be investigated to identify opportunities to reduce costs and halt year on year growth.
- The second largest expense category is Materials which accounts for c. 20% of all expenses. While Materials Expenses are set to increase c. 2% in 2019/20, this is on top of an 8% increase in 2018/19. The key movement in Materials relates to:
  - Consultants which are set to increase 17% in 2019/20;
  - Labour Hire which increased 13% or c. $1 million in 2018/19; and
  - External Plant Hire which has more than doubled in 2019/20.
- The need for Consultants and Labour Hire should be reviewed and weighed up against the benefit of the spend, particularly if the work can be completed internally. Additional approval processes may also be beneficial if determined that there is a need to reduce these costs.
- Savings in some expense lines such as 'Contracts – Other' have been eroded by the overall increases.
- The largest increase in Internal Expenses is with respect to Plant and Fleet Hire which has had increases of 34% and 68% in 2018/19 and 2019/20 respectively. This has been attributed to the restructure and change in accounting treatment (refer page 45).
- While the more material expenses have been noted above, all costs need to be reviewed and controlled noting the cumulative impact small increases can have.

Department Review

Department Review

- We have conducted a high level analysis of the historical financial performance of each of the departments for the 2017/18 to 2019/20 period to highlight common trends, and also the variable performance within each unit. Common trends include increases in the following expense categories:
  - Employment Costs, with increases of up to 28% in 2019/20;
  - Materials Costs, with increases of up to 116% in 2019/20; and
  - Internal Expenses (Excl overheads), with increases of up to 35% in 2019/20 (and up to 500% with exception).
- These increases in 2019/20 are in addition to increases incurred in 2018/19, thereby compounding the increase in expenses. There is a trend for prior year's higher expenses to be normalised or adopted within the business as opposed to seeking to reduce expenses to an acceptable base level or as originally budgeted.
- While there are a number of Departments which reduced Materials Costs in 2019/20, RTDW was the only department to reduced their Employee Costs. This highlights the varying performance among departments and cross subsidisation.
- While it is evident that where there have been some small cost reductions, the benefit has been eroded by increases in other expense categories, particularly the largest expense category of Employee Costs which is expected to increase by 9% in 2019/20 across the organisation.
- In analysing the performance of the Departments, it is necessary to consider movement in individual expense categories on a line by line basis, not just the net profit or loss. Internal overheads and depreciation can often distract from the true operational performance which can be managed by the Departments. Further, opportunities to improve performance may be overlooked if off-set by savings elsewhere and only high level account categories are considered.
- It is also critical to understand the underlying cause of any movement and take immediate steps to rectify any issues identified. This may include capping purchases, freezing recruitment or realigning the expense base if revenue is reduced. Understanding the underlying cause essentially involves understanding the movement in each of the contributing units, noting that each unit has different drivers and change can be enacted at the unit level, or even lower levels. The timing of our review has prevented us conducting a more detailed review of units. Council should ensure they have analysed and understand the reasons for all material movements in all units.
- While there is a tendency to focus on larger, material movements, all negative variances should be considered. Given the number of expense lines used for reporting, even small movements of c. $1,000 can have a material impact when multiplied across the organisation.

01. Chief Executive Officer

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
01. Chief Executive Officer				
4.2.2. Fees	13	18	20	22
4.3.1. Other Revenue	210	481	(15)	(17)
4.5.2. Contributions - Operating	0	-	-	-
Total Revenue	**223**	**499**	**4**	**5**
6.1.1. Employee Costs	6,322	7,393	6,736	7,348
6.3.1. Materials	2,946	1,861	2,790	3,044
6.4.1. Depreciation and Amortisation	5	3	1	1
6.5.1. Other Expenses	4,793	4,477	4,446	4,850
6.7.1. Internal Expenses - Ex Overheads	705	277	199	217
6.7.2. Internal Expenses - Overheads	(11,386)	(13,512)	(11,343)	(12,375)
Total Expenses	**3,384**	**499**	**2,828**	**3,085**
Department Profit/(Loss)	**(3,384)**	**(499)**	**(2,828)**	**(3,085)**

Chief Executive Officer

- While employee costs appear to have remained stable between 2019/19 and 2019/20, there was a 17% increase in 2018/19. By maintaining current level of employee costs, this 17% employee costs has been absorbed and normalised. This increase appears to relate to the Governance and Business Services unit with additional resources being required for administration and meeting support.
- Materials are set to increase between 50% and 63% in 2019/20. This is driven by the Legal unit which has seen Materials increase by at least 120%. Consultants have increased from $276,000 in 2018/19 to $1.5 million in the 11 months to May 2020. Much of these expenses relate to legal actions (e.g. barrister and expert witness costs) and cannot directly be controlled by the directorate.

Department Review - CC and RTDW

02. Connected Communities

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
02. Connected Communities				
4.1.1. Rates	0	(0)	-	-
4.2.1. User Charges	1,951	441	1,937	2,113
4.2.2. Fees	13,054	14,452	10,076	10,992
4.3.1. Other Revenue	7,606	9,169	5,236	5,712
4.4.1. Interest	7	4	2	2
4.5.1. Grants - Operating	1,836	1,766	1,631	1,780
4.5.2. Contributions - Operating	102	51	1,144	1,248
4.6.1. Gain on Asset Disposal	5	-	-	-
4.7.1. Internal Revenue	109	1,952	2,637	2,876
5.1.1. Grants - Capital	54	2,501	329	359
5.1.2. Contributions - Capital	1,008	182	-	-
Total Revenue	**25,731**	**30,518**	**22,991**	**25,081**
6.1.1. Employee Costs	40,670	43,698	43,713	47,687
6.3.1. Materials	11,765	14,278	13,528	14,758
6.4.1. Depreciation and Amortisation	7,504	10,887	10,314	11,252
6.5.1. Other Expenses	11,285	10,456	6,772	7,388
6.6.1. Loss On Asset Disposal	3,511	166	1,668	1,819
6.7.1. Internal Expenses - Ex Overheads	4,153	7,242	7,209	7,865
6.7.2. Internal Expenses - Overheads	1,946	(5,843)	(3,132)	(3,417)
Total Expenses	**80,835**	**80,884**	**80,072**	**87,352**
Department Profit/(Loss)	**(55,103)**	**(50,366)**	**(57,081)**	**(62,270)**

Connected Communities

- Revenue generated by Connected Communities has been notably impacted by COVID-19 with many of the services provided by this department having to be shut down for a period of time with restrictions remaining in place upon the re-opening.
- Across the Division, Employee Costs increased by 7.4% in 2018/19, with a further increase of 9.1% expected in 2019/20. Again, the 2018/19 increase has been normalised, with further increases in 2019/20.
- While some units such as Leisure and Lifestyle and Leasing and Asset Management have reduced their Employee Costs and Material's, any savings realised have been exceeded by notable increases in costs in other units.

03. Roads Transport Drainage and Waste

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
03. Roads Transport Drainage and Waste				
4.1.2. Annual Charges	69,600	73,182	76,071	82,987
4.2.1. User Charges	1	-	-	-
4.2.2. Fees	39,937	39,406	29,435	32,111
4.3.1. Other Revenue	4,928	3,729	2,868	3,129
4.4.1. Interest	2,332	43	25	27
4.5.1. Grants - Operating	5,633	5,890	4,852	5,293
4.5.2. Contributions - Operating	3,726	3,802	3,864	4,216
4.7.1. Internal Revenue	13,083	18,549	20,822	22,714
5.1.1. Grants - Capital	19,105	14,080	9,014	9,833
5.1.2. Contributions - Capital	13,508	18,539	-	-
Total Revenue	**171,854**	**177,220**	**146,952**	**160,311**
6.1.1. Employee Costs	28,888	33,499	29,236	31,894
6.2.1. Borrowing Costs	2,233	1,743	19	20
6.3.1. Materials	59,295	60,402	48,513	52,923
6.4.1. Depreciation and Amortisation	68,261	56,366	52,545	57,322
6.5.1. Other Expenses	39,354	35,527	34,097	37,197
6.6.1. Loss On Asset Disposal	237	627	200	218
6.7.1. Internal Expenses - Ex Overheads	13,778	20,119	24,950	27,218
6.7.2. Internal Expenses - Overheads	25,531	27,416	27,845	30,377
Total Expenses	**237,578**	**235,698**	**217,405**	**237,169**
Department Profit/(Loss)	**(65,724)**	**(58,478)**	**(70,454)**	**(76,859)**

Roads Transport Drainage and Waste

- A notable decrease in fees of between 19% and 25% is expected in 2019/20. While Tourist Park and Tipping fee revenue has been impacted, the largest reduction is with respect to RMS User Charges which have reduced from $7.1 million in 2018/19 to an estimate of $2.5 million in 2019/20. However, this appears to be a timing issue with revenue of c. $4 million to $5 million to be recorded in June 2020.
- RTDW has seen a positive reduction in costs between 2018/19 and 2019/20, notably Employee Costs and Materials. However, the savings have not been across all units, with four units including Roads Business Development and Technical Services and Waste Services and Business Development increasing employee costs.
- Materials have reduced as a result of reduced garbage collection costs and contracts.

Department Review - W&S and E&P

04. Water and Sewer

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
04. Water and Sewer				
4.1.2. Annual Charges	105,858	107,121	62,353	68,022
4.2.1. User Charges	69,044	65,925	67,413	73,542
4.2.2. Fees	2,493	2,126	2,177	2,375
4.3.1. Other Revenue	296	264	133	145
4.4.1. Interest	4,397	5,630	3,757	4,098
4.5.1. Grants - Operating	499	478	413	451
4.7.1. Internal Revenue	3,438	2,257	2,149	2,344
5.1.1. Grants - Capital	62	-	3,139	3,425
5.1.2. Contributions - Capital	16,793	10,017	6,772	7,387
Total Revenue	**202,880**	**193,818**	**148,306**	**161,788**
6.1.1. Employee Costs	28,401	32,592	31,200	34,037
6.2.1. Borrowing Costs	17,884	15,158	12,327	13,448
6.3.1. Materials	19,875	23,310	18,860	20,574
6.4.1. Depreciation and Amortisation	71,592	61,212	56,088	61,187
6.5.1. Other Expenses	8,916	1,370	1,171	1,278
6.6.1. Loss On Asset Disposal	1,196	2,387	1,029	1,123
6.7.1. Internal Expenses - Ex Overheads	8,597	17,525	18,064	19,706
6.7.2. Internal Expenses - Overheads	17,814	16,047	20,914	22,815
Total Expenses	**174,274**	**169,602**	**159,654**	**174,168**
Department Profit/(Loss)	**28,605**	**24,216**	**(11,348)**	**(12,379)**

Water and Sewer

- While revenue has been reduced under the IPART ruling, there has been no corresponding reduction in costs. To the contrary, Employee costs are set to rise c. 4% and Internal Costs by c. 12%. The increase in Internal Costs follows a 103% increase in 2019/20. This is as a result of the change in treatment of plant and fleet costing from, $8.6 million to $17.5 million (discussed further on page 45). However, we have not been able to assess the base costs of plant and fleet prior to the restructure to determine whether there has been any increase in real terms.

05. Environment and Planning

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
05. Environment and Planning				
4.1.2. Annual Charges	(0)	-	-	-
4.2.1. User Charges	912	921	572	624
4.2.2. Fees	10,559	9,103	6,437	7,022
4.3.1. Other Revenue	2,813	2,996	2,463	2,687
4.4.1. Interest	2	2	1	1
4.5.1. Grants - Operating	2,845	3,650	4,387	4,786
4.5.2. Contributions - Operating	82	262	730	797
4.6.1. Gain on Asset Disposal	34	21	-	-
4.7.1. Internal Revenue	250	198	66	72
5.1.1. Grants - Capital	9,825	8,094	2,398	2,616
5.1.2. Contributions - Capital	28,561	13,501	12,487	13,622
Total Revenue	**55,884**	**38,747**	**29,541**	**32,227**
6.1.1. Employee Costs	37,995	39,782	40,799	44,508
6.2.1. Borrowing Costs	211	51	20	21
6.3.1. Materials	11,430	14,004	11,645	12,704
6.4.1. Depreciation and Amortisation	6,208	6,783	7,373	8,043
6.5.1. Other Expenses	6,867	6,710	5,232	5,708
6.6.1. Loss On Asset Disposal	0	18	45	49
6.7.1. Internal Expenses - Ex Overheads	7,953	10,708	12,823	13,988
6.7.2. Internal Expenses - Overheads	8,732	9,477	10,545	11,504
Total Expenses	**79,397**	**87,532**	**88,482**	**96,526**
Department Profit/(Loss)	**(23,513)**	**(48,785)**	**(58,941)**	**(64,299)**

Environment and Planning

- A declining trend is evident in the receipt of capital grants and contributions.
- As with many other departments, E&P has seen an increase in Employee Costs for several years. The 5% increase in 2018/19 is likely to be further increased by 12% in 2019/20. The increase in Employee Costs erodes any benefit gained by the reduction of Materials estimated to be between 9% and 17% for 2019/20.
- Internal expenses also increased materially year on year as a result of P&F treatment.

Department Review - CFO and CIO

07. Chief Financial Officer

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
07. Chief Financial Officer				
4.1.1. Rates	-	(0)	-	-
4.1.2. Annual Charges	0	-	-	-
4.2.1. User Charges	(25)	-	-	-
4.2.2. Fees	450	0	-	-
4.3.1. Other Revenue	263	663	346	377
4.4.1. Interest	351	8	-	-
4.5.1. Grants - Operating	187	5	(0)	(0)
4.5.2. Contributions - Operating	1,916	2,106	1,881	2,052
4.6.1. Gain on Asset Disposal	1,399	507	654	713
4.7.1. Internal Revenue	23,973	29,592	53,242	58,082
5.1.2. Contributions - Capital	-	-	-	-
Total Revenue	**28,514**	**32,881**	**56,123**	**61,225**
6.1.1. Employee Costs	16,364	18,794	21,229	23,159
6.2.1. Borrow ing Costs	333	4	-	-
6.3.1. Materials	9,171	9,498	18,864	20,579
6.4.1. Depreciation and Amortisation	17,617	6,963	6,722	7,333
6.5.1. Other Expenses	4,579	4,996	4,831	5,270
6.6.1. Loss On Asset Disposal	256	352	687	749
6.7.1. Internal Expenses - Ex Overheads	1,597	1,017	6,247	6,815
6.7.2. Internal Expenses - Overheads	(10,143)	(8,745)	(650)	(709)
Total Expenses	**39,773**	**32,879**	**57,930**	**63,196**
Department Profit/(Loss)	**(11,259)**	**2**	**(1,807)**	**(1,971)**

Chief Financial Officer

- Employee Costs in the CFO department increased by 15% (c. $2.4 million) in 2018/19, with a further increase of between 13% and 23% expected for 2019/20. While increased Employee Costs are expected across all units, the largest increase is in the Plant and Fleet Unit. Plant and Fleet Employee costs are set to increase by between 36% and 48% (a real increase of between $2.7 million to $3.6 million) as a result of a restructure which has seen all P&F costs centralised. We are unable to determine the real cost increase at present when compared to the prior reporting structure.
- Materials and Internal overheads are also to increase by over 100% and 500% respectively in 2019/20.

08. Chief Information Officer

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
08. Chief Information Officer				
4.2.2. Fees	811	1,514	1,348	1,470
4.3.1. Other Revenue	4	4	3	3
4.5.2. Contributions - Operating	0	0	0	0
4.7.1. Internal Revenue	3,016	4,188	2,932	3,198
Total Revenue	**3,831**	**5,707**	**4,282**	**4,672**
6.1.1. Employee Costs	9,127	9,638	11,306	12,333
6.3.1. Materials	4,045	8,416	7,911	8,630
6.4.1. Depreciation and Amortisation	2,990	3,119	4,082	4,453
6.5.1. Other Expenses	9,019	9,558	10,068	10,984
6.6.1. Loss On Asset Disposal	67	5	-	-
6.7.1. Internal Expenses - Ex Overheads	301	349	229	250
6.7.2. Internal Expenses - Overheads	(20,640)	(25,377)	(32,560)	(35,520)
Total Expenses	**4,908**	**5,707**	**1,036**	**1,131**
Department Profit/(Loss)	**(1,077)**	**-**	**3,246**	**3,541**

Chief Information Officer

- Employee Costs within the CIO department are expected to increase between 17% and 28% in 2019/20. This increase is triple the expected 9% increase in Employee Costs across the organisation and results from the integration needs.
- Material expenses doubled in 2018/19, with this increased level maintained through 2019/20. While there were increases in Material Costs in all units in 2018/19, the primary increase is attributed to IMT Operations which saw 'Contracts – Other' increase by $2.7 million and 'Contracts – Labour Hire' increase by $667,000.
- The material increases in Other Expenses are also primarily attributable to IMT Operations, being increases in Software Licenses and Telephone and Communication, both of which appear to relate to the whole organisation.

Department Review - I&F and P&C

09. Innovation and Futures

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
09. Innovation and Futures				
4.3.1. Other Revenue	0	-	1	1
4.5.1. Grants - Operating	40	1,014	-	-
4.7.1. Internal Revenue	-	14,558	13,582	14,816
5.1.1. Grants - Capital	-	495	384	419
5.1.2. Contributions - Capital	-	111	-	-
Total Revenue	**40**	**16,178**	**13,966**	**15,236**
6.1.1. Employee Costs	1,641	2,225	3,032	3,308
6.3.1. Materials	239	789	1,409	1,537
6.4.1. Depreciation and Amortisation	218	149	137	149
6.5.1. Other Expenses	165	15,340	13,840	15,098
6.7.1. Internal Expenses - Ex Overheads	144	154	178	194
6.7.2. Internal Expenses - Overheads	(321)	(1,054)	(1,657)	(1,808)
Total Expenses	**2,085**	**17,604**	**16,939**	**18,479**
Department Profit/(Loss)	**(2,045)**	**(1,427)**	**(2,973)**	**(3,243)**

Innovation and Futures

- As a newly established and growing department, it is expected that there will be an increase in costs year on year for I&F, particularly Employee Costs. It is understood that all positions in this department have not yet been filled and with recent recruitment freezes, this is likely to slow the growth of the department.
- The 99% increase in Materials in 2019/20 is driven by an increased use of consultants and contractors.

10. People and Culture

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
10. People and Culture				
4.3.1. Other Revenue	35	(9)	55	59
4.5.2. Contributions - Operating	(9)	0	-	-
4.7.1. Internal Revenue	338	(0)	-	-
Total Revenue	**365**	**(9)**	**55**	**59**
6.1.1. Employee Costs	7,768	9,032	9,042	9,864
6.3.1. Materials	2,040	1,758	1,497	1,633
6.4.1. Depreciation and Amortisation	4	4	4	4
6.5.1. Other Expenses	373	478	220	240
6.7.1. Internal Expenses - Ex Overheads	290	361	359	392
6.7.2. Internal Expenses - Overheads	(10,054)	(11,600)	(13,173)	(14,371)
Total Expenses	**422**	**32**	**(2,052)**	**(2,238)**
Department Profit/(Loss)	**(57)**	**(40)**	**2,106**	**2,298**

People and Culture

- All units within the P&C department have recorded an increase in Employee Costs in 2019/20. The People Planning and Operations and Business Partnering and Employment Relations units also had an increase in 2018/19 with this base level further increased in 2019/20.
- While there was a favourable reduction in Material Expenses, this was not material in comparison to the other increases. The People Planning and Operations units actually had an increase in Material expenses, partly eroding the savings generated within the other two business units.

Unit Review

Unit Analysis

- Given the number of units, we have not conducted an analysis of all units. However, for illustration purposes, we have worked through an example below to illustrate the importance of conducting analysis at a unit level due to the varying performance within units and a degree of cross-subsidisation.
- The example below shows the mixed messaging that can be received if analysis is not conducted at the appropriate levels, resulting in savings being achieved in one unit but being eroded in another.
- For example, the Leisure and Lifestyle unit has had a reduction in most key expense categories (albeit attributable to the reduction in services/operations during COVID) while Facilities and Asset Management has seen increases. As such, the estimated 9% increase in Employee Costs across the department for 2019/20 will be driven by certain units, and partly off-set by the savings generated in other units.
- Further, while not illustrated below, there will be merit in various instances to monitor performance of sections. For example, within the Libraries, Learning and Education, there are multiple businesses with differing revenue and cost drivers. Theses should be considered separately, and where possible, internal benchmarking done against similar businesses, such as the individual child care centres.

02. Connected Communities Expenses

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*
6.1.1. Employee Costs	40,670	43,698	43,713	47,687
6.3.1. Materials	11,765	14,278	13,528	14,758
6.4.1. Depreciation and Amortisation	7,504	10,887	10,314	11,252
6.5.1. Other Expenses	11,285	10,456	6,772	7,388
6.6.1. Loss On Asset Disposal	3,511	166	1,668	1,819
6.7.1. Internal Expenses - Ex Overheac	4,153	7,242	7,209	7,865
6.7.2. Internal Expenses - Overheads	1,946	(5,843)	(3,132)	(3,417)
Total Expenses	**80,835**	**80,884**	**80,072**	**87,352**

Unit Expenses

($'000)	2017/18 Actuals	2018/19 Actuals	2019/20 YTD May Actuals	2019/20 Annualised (May+ 1mth)*	18/19 YOY Growth	19/20 YOY Growth	Annual-ised Growth
02.1. Facilities and Asset Management							
6.1.1. Employee Costs	4,350	6,308	6,795	7,413	45%	8%	18%
6.3.1. Materials	2,357	5,156	6,334	6,910	119%	23%	34%
6.4.1. Depreciation and Amortisation	1,346	2,628	2,532	2,762	95%	-4%	5%
6.5.1. Other Expenses	1,001	269	265	289	-73%	-1%	8%
6.6.1. Loss On Asset Disposal	321	124	321	351	-61%	158%	182%
6.7.1. Internal Expenses - Ex Overheads	1,302	2,896	3,218	3,511	122%	11%	21%
6.7.2. Internal Expenses - Overheads	1,564	(6,396)	(4,492)	(4,901)	-509%	-30%	-23%
Total Expenses	**12,241**	**10,985**	**14,974**	**16,335**	**-10%**	**36%**	**49%**
02.2. Libraries, Learning and Education							
6.1.1. Employee Costs	13,845	14,286	13,888	15,151	3%	-3%	6%
6.3.1. Materials	1,291	1,098	842	919	-15%	-23%	-16%
6.4.1. Depreciation and Amortisation	948	1,097	1,017	1,110	16%	-7%	1%
6.5.1. Other Expenses	1,139	1,285	1,143	1,247	13%	-11%	-3%
6.6.1. Loss On Asset Disposal	-	6	1	1	n/a	-78%	-76%
6.7.1. Internal Expenses - Ex Overheads	721	590	756	825	-18%	28%	40%
6.7.2. Internal Expenses - Overheads	2,575	2,659	2,964	3,233	3%	11%	22%
Total Expenses	**20,519**	**21,022**	**20,612**	**22,485**	**2%**	**-2%**	**7%**
02.6. Leisure and Lifestyle							
6.1.1. Employee Costs	10,045	10,015	9,413	10,268	0%	-6%	3%
6.3.1. Materials	2,070	1,396	1,180	1,288	-33%	-15%	-8%
6.4.1. Depreciation and Amortisation	649	1,549	1,538	1,678	139%	-1%	8%
6.5.1. Other Expenses	1,329	563	540	589	-58%	-4%	5%
6.7.1. Internal Expenses - Ex Overheads	844	1,417	1,165	1,271	68%	-18%	-10%
6.7.2. Internal Expenses - Overheads	2,134	2,057	2,345	2,558	-4%	14%	24%
Total Expenses	**17,072**	**16,997**	**16,181**	**17,652**	**0%**	**-5%**	**4%**

YOY Analysis

Section 1
Section 2
Section 3

Section 1
Section 2
Section 3

Section 1
Section 2
Section 3

Continue with all Other Units in the Department

Sections

05

Finance Directorate

Reporting

Reporting

- The financial systems capture very detailed data and as such, the Finance directorate has the ability to produce a magnitude of reports, both at a high level and very detailed. However, the current reporting processes and framework do not appear to be having the desired benefit of ensuring all Directors are aware of the financial performance of both the organisation and their directorate, and ensuring all parties are aware of initiatives that need to be implemented to drive financial performance.
- Council has been through a process of integrating their systems post merger and transitioning to a single reporting platform, however, not all applications are currently on a single platform. This has created some issues with inconsistent data between regions and the need for some manual reporting, however, the integration project is near complete which will further assist with the integrity of data and ease of reporting.
- Going forward, reporting needs to focus on:
  - Ensuring all directorates receive a summary of overall performance of the Council and each directorate, in addition to their own directorate;
  - Analysing trends and understanding the reasons for variances as opposed to merely presenting figures;
  - Determining future action required to rectify variances;
  - Holding Directors and Unit Managers responsible for variances to budget and implementing strategies to turn around negative variances, with the Finance Business Partners to provide support through the process; and
- While Section Managers, Unit Managers and the ELT have access to an array of data for their directorate and others in Majiq, a consolidated report is needed to ensure that there is an awareness of the whole of organisation to move away from the silo approach.
- There is also the need to ensure there is an appropriate level of financial knowledge at all levels within the business. This includes sufficient financial literacy for Section Managers to Directors, and more detailed analytical skills for Business Partners.

Consolidated/Whole of Council Reporting

- The CEO does not currently receive monthly profit and loss reports for each directorate, nor does the ELT.
- It is recommended that a summary report be provided which includes:
  - Consolidated performance;
  - Individual Directorate performance; and
  - Analysis of trends and improvement strategies required to be implemented.

Directorate Reporting

- Currently the monthly profit and loss reports prepared for the ELT take the equivalent of 45 days to prepare (15 staff, 3 days) with much of the work being reformatting information from Majiq. Directorates need to avoid duplicating processes and producing their own financial reports. While there have been historical issues with data as Council moves towards single integrated systems, ongoing issues need to be flagged and addressed so data can be remediated (if necessary) and single systems relied upon. We recommend:
  - Reverting to system generated/excel actual vs budget reporting;
  - Agreeing a standard monthly reporting pack format across all directorates; and
  - Focusing on analysis and explanation of variances, and actions required to address negative variances.
- We also consider there to be a need for Finance to conduct monthly briefing sessions with each Directorate to discuss the financial results in detail and agree action items.
- The key outcome from reporting needs to be holding the Directors and Unit Managers accountable for budget over runs and driving improvements. For example, month one budget over runs must be recouped by end of quarter. Accountability will essentially drive a change in culture to ensure Council is financially responsible at all levels.

Report Components

- Reports should include:
  - Profit and loss: monthly, quarterly and YTD budget v actual;
  - Capex: budget v actual and project progress status;
  - Cash flow: budget v actual
  - Reconciliation of cash between:
    - Restricted Funds;
    - Internally Restricted Funds; and
    - Unrestricted Funds.
  - Cash flow by fund (e.g. general, water etc)
  - Analysis of underlying cause of all variances; and
  - Actions required to address negative variances.

Treasury

Three-Way reporting / Cash Flow

- The Council has historically been focused on profit and loss reporting and has had limited regard to cash flow and balance sheet movements. This is evident from the budgets not being sustainable resulting in the Long Term Financial Plan budgeting for negative unrestricted cash.
- Reporting and monitoring at the consolidated level needs to include analysis with respect to movements in the balance sheet and cash flow statements which are integrated with the profit and loss.
  - It is critical that cash is monitored and forecast regularly, not only when there are cash constraints;
  - A treasury function needs to ensure that there is sufficient available cash to meet short term (3 months) forecast payments, and this should tie into the cash management/investment strategy in place for funds in excess of immediate needs;
  - Long term cash flow forecasting (12 months and beyond) is also required to ensure that strategies can be implemented in advance should there be a forecast cash shortfall. For example, it may be necessary to reduce capital spend or reduce operating expenses to avoid a cash crisis in the next six to 12 months; and
  - Sensitivity testing should be conducted on cash flow. Given cash flow is largely dependent on quarterly receipt of rates and annual charges, sensitivities based on collection rates and/or timing of payments should be considered to ensure there is no immediate threat of cash shortages.
- While actual cash flow is monitored on a monthly basis, forecasting and sensitivity is necessary. The cash flow reporting should also be made available to the ELT in monthly reporting packs to ensure the ELT has a full understanding of the position of Council, and to place perspective on the impact that action or lack of action can have across the organisation. Detailed cash flow forecasting and reporting is critical given the current cash position.

Restricted v Unrestricted Funds

- Better practices need to be in place with respect to reporting on and segregating internally and externally restricted funds.
- The lax practices (together with a lack of cash flow reporting) have resulted in over $60 million of internally restricted funds being utilised for general purposes without the approval of the Councillors. Internally restricted funds appear to have been accessed from October 2019 for general operational purposes given unrestricted funds were exhausted. The cash flow forecasts in the LTFP results in negative unrestricted funds which appears to have inadvertently led to the use of internally restricted funds as part of delivering the operational and capital budgets.
- It is noted that the balance of restricted funds regularly changes over the year as contributions and other restricted funds are collected, and as certain capital projects are undertaken. However, restricted funds are not physically segregated from general funds, with all funds pooled into bank accounts. Instead, internally and externally restricted funds, and general funds are all accounted separately by finance. Further, when term deposits mature, adjustments/drawings are made to reimburse general funds if allowed.
- We recommend:
  - Monthly reconciliations be conducted and reported on for all categories of funds;
  - Cash flow forecasts be prepared on a fund basis to ensure that there is no inadvertent use of restricted funds, and in the event there is a shortfall of general funds, this can be addressed in advance;
  - A review/approval processes (backed by reporting/cash flow forecasts) be implemented prior to funds being drawn upon maturity of term deposits; and
  - Actual and forecast reporting on cash flow by funding type be included in monthly reporting to the CEO and ELT.
- There also needs to be a greater push to utilise restricted funds with priority given to capital projects that can be funded from restricted funds. As was evident when putting forward the revised capital budget to the Councillors for 2020/21, opportunities to commence projects and utilise restricted funds were overlooked in the first instance.
- A longer term view is also required so that projects to be undertaken from restricted funds can be planned in advance and executed upon.
- Noting the additional opportunities identified with respect to restricted funds, particularly from prior years, it is expected that this will be subject to increased scrutiny in the audit and as such all funding must be able to be clearly evidenced.

Treasury

Fund Reporting

- Greater transparency and reporting is also needed on the cash flow (and profit and loss) by fund (i.e. general, water, sewer, domestic waste and drainage funds).
- With the need for certain funds to be kept separate for regulatory reasons, greater visibility and reporting is required on the funds on a regular basis, in line with other reporting recommendations.
- A treasury function needs to be in place to better manage cash and funding.

Investment Policy

- We have considered Council's Investment Management Policy which is based on the relevant legislation and the most recent ministerial order. Given the legislative requirements and need for councils to take a risk adverse approach, there are limited opportunities available for increasing investment returns. Nevertheless, upon maturity of a deposit Council undertakes a process of identifying the most attractive interest rates available across the big four banks. This not only seeks to increase the return, but spread the risk.
- A large portion of funds are deposited for a period of less than a year. Subject to improving cash flow reporting and reliability, there may be the opportunity to deposit funds for a greater period and increase the return. However, there is minimal upside available in current low rate environment and cash flow reporting needs to be embedded within Council first.

Loan Position

External Borrowings/Loans

General

- In line with the need for greater cash flow reporting and planning is the need for greater consideration and long term planning with respect to the loan position of Council.
- While Council has reduced their external borrowings from $288.8 million at 30 June 2017 to $233.2 million at 30 June 2019, there has not been sufficient consideration of the cash position and forecast. As a result, Council is now in a position with cash flow constraints and limited ability to borrow further funds.
- Given the operating deficit, TCorp will not advance any funds which results in commercial banks being the only available lenders, albeit at a high cost. However, based on the debt service cover ratio, there is also limited ability to borrow further based on the current performance and existing debt profile.
- It should also be noted that we do not encourage additional borrowing until such time as operational performance is improved and there is a culture of financial sustainability and responsibility. Increasing debt should be a last report while a restructure is being undertaken.

Current Debt Profile

- Council currently has c. 22 loan facilities (or 42 loans when split across the funds) spread across the big four banks, plus a legacy facility with Grange Securities Limited and NSW Treasury. The weighted average interest rate is 5.7%. Noting the current low interest rates, the most recent facility has an interest rate of 3.0% with the highest interest rate being 8.55% for a facility borrowed in 2008.
- Given the loans are generally taken for a fixed term of 10, 20 or 30 years, there are break costs associated to try and refinance the facilities at a lower rate. The break costs have been calculated by Council (and a sample tested with the banks) to total $50.1 million.
- Given the high break costs, lack of available funds to cover break costs and the inability to materially increase debt at present and therefore a perceived limited ability to capitalise the break cost in a new facility, we do not see there being any short term benefits in attempting to refinancing the loan book and hence reduce the weighted average interest rate.
- However, ongoing modelling of the cost benefit of breaking individual loans and the revised cash/repayment profile should continue to be conducted internally. Ultimately, once performance improves it may be possible to refinance a portion of the loans with TCorp at their low rate, currently c. 2.45%.
- The CFO’s role description should include managing an efficient and tightly controlled treasury function to ensure debt levels are sustainable and that appropriate facilities are maintained and approved.

Balance Sheet Review

Comparative Balance Sheet

	30 June 2018 ($'M)	30 June 2019 ($'M)	31 May 2020 ($'M)
Current Assets			
1.1.1. Cash and Cash Equivalents	59.5	44.1	77.9
1.1.2. Investments	138.5	335.8	203.9
1.1.3. Receivables	118.6	96.8	122.7
1.1.4. Inventories	1.4	1.4	1.7
1.1.6. Other Assets	3.6	5.5	5.4
Total Current Assets	**321.6**	**483.6**	**411.6**
Non-Current Assets			
1.2.1. Investments	278.8	93.7	(54.7)
1.2.2. Receivables	0.3	0.3	0.8
1.2.3. IPPaE	6,996.4	7,077.1	7,119.0
1.2.5. Other Assets	0.5	0.3	0.3
1.2.6. Intangible Assets	10.4	11.7	13.0
Total Non-Current Assets	**7,286.4**	**7,183.1**	**7,078.4**
Total Assets	**7,608.0**	**7,666.7**	**7,490.0**
Current Liabilities			
2.1.1. Payables	(120.3)	(110.6)	(87.2)
2.1.2. Income Received in Advance	(1.9)	(3.7)	(1.6)
2.1.3. Borrow ings	(33.0)	(46.5)	(45.1)
2.1.4. Provisions	(69.2)	(66.4)	(66.1)
Total Current Liabilities	**(224.4)**	**(227.2)**	**(199.9)**
Non-Current Liabilities			
2.2.2. Borrow ings	(231.9)	(185.4)	(171.3)
2.2.3. Provisions	(64.8)	(65.8)	(65.8)
2.2.5. Income Received in Advance	(10.2)	(7.5)	(7.5)
Total Non-Current Liabilities	**(306.9)**	**(258.6)**	**(244.6)**
Total Liabilities	**(531.3)**	**(485.8)**	**(444.5)**
Net Assets/(Liabilities)	**7,076.7**	**7,180.9**	**7,045.6**

Sources: Monthly Management Accounts for the period June 2017 to May 2020. There will be variances to full year results in the Financial Statements for prior years due to year-end adjustments. We have not attempted to reconcile the variance.

Balance Sheet Opportunities

- Council has a strong net asset position driven by the value of its Infrastructure, Property, Plant and Equipment.
- However, the strong net asset position does not necessarily equate to a strong liquidity position. The importance of the cash flow forecast is again highlighted to ensure that the cash held, and forecast to be generated, is sufficient to meet ongoing operational and capital needs. It is noted that the 'Cash and Cash Equivalents' and 'Investments' balances include the internally and externally restricted funds and as such, is not available for general purposes. The negative non-current 'Investments' balance is impacted by the negative unrestricted funds position, discussed on page 38.
- With respect to Infrastructure, Property, Plant and Equipment, key components (as at 30 June 2019) include:
  - Land (operational, community and crown) totaling c. $841.8 million;
  - Infrastructure of c. $5.9 billion (including sewer assets of $1.4 billion, roads of $1.4 billion and stormwater and water supply network assets of $1.0 billion each); and
  - Other assets including plant and equipment and WIP.
- We understand that the Council does not have a detailed land/property register. We recommend that Council:
  - Prepare a land register;
  - Determine the need for each property and the return being received; and
  - Identify surplus assets and underperforming assets (compared on a commercial basis, albeit noting that some assets will not be generating commercial returns in support of the community) to identify opportunities to increase returns or release capital by sale, where appropriate.
- Council should also review the need for other assets held to identify surplus assets and those with significant holding costs. The GPS discussed on page 45 will assist.
- While we do not recommend that Council rush to realise assets and potentially jeopardise longer term strategic plans or returns, it would prudent to commence a review in an orderly fashion. Then, should opportunities be identified or cash flow requirements dictate, properly considered realisation plans can be put forward for consideration.

06

Other Recommendations

Strategy and Service Review

Strategy

- At present we recommend that Council focus on its core services and a ‘back to basics’ strategy until there is greater financial stability and sustainability. Financial sustainability is the core strategic financial objective and underpins the ability of all of Council to continue to service the needs of the community. At present there is financial uncertainty posed from COVID-19, increasing operating losses and limited cash reserves.
- While many Directorates have ambitions to grow, enhance services being provided and/or aggressively address backlogs with respect to infrastructure and capital, Council must operate within its financial constraints. A such, it will need to prioritise where funding is delivered, potentially make cut-backs and accept reduced service levels where possible (i.e. where the risk is deemed acceptable).
- The Service Review is key in identifying the essential services provided by Council. Until such time as the Service Review is significantly advanced, all Directorates should review their services in an attempt to identify opportunities to increase efficiencies, reduce and potentially defer costs and operate within the existing financial constraints. Additional revenue opportunities should also be considered.
- Subject to the initial findings of the service review, there may be opportunities Council can explore further with respect to outsourcing the operation and/or selling non-core services. For example, it is not uncommon for councils to outsource a number of services such as pools, leisure centres and even child care. There may be benefits which can be realised including increasing service levels for the community while reducing costs and operating risks for Council.
- Benchmarking of services against commercial operators, where available, will also provide Council with data as to the efficiency and financial opportunities available for various services.

Service Review

- Council has seen excessive growth in its cost base, led by an increase in Employment costs.
- While there appears to be some acknowledgement that Council is overstaffed in certain areas, or there is not the right mix of skills in certain teams, there is some reluctance to restructure the workforce when vacancies arise. Further, it is a principle within Council that any job losses are minimised.
- Accordingly, it is critical that the Service Review be completed to identify which services are essential, what the true cost of services are and where efficiencies lie. Once the Service Review is completed around December 2020, decisions can then be made with respect to the appropriate levels of service and associated costs to be borne by Council. While interim measures such as employment freezes will yield some savings, a complete review of the services and structure is critical.
- A longer term option may also be with respect to undertaking a workforce planning review.

Employee Costs and Reporting

Employee Costs

- As mentioned elsewhere in this report, Employee Costs are the most significant cost within the organisation and have been increasing at a rapid rate year on year.
- While the Service Review will assist in identifying essential services, their costs and efficiencies, immediate measures should be considered across Council to try and curtail growth of this expense. Areas to consider include:
  - Maintaining the recruitment freeze until the findings of the Service Review have been presented and a course of action agreed upon. As such, any vacancies should not automatically be filled and the necessity to fill vacancies should be considered. There will be limited exception to filling roles for reasons such as meeting ratios, safety and cost benefit analysis. All exceptions should require the approval of P&C, Finance and the CEO;
  - Reviewing Overtime: As mentioned previously and summarised below, overtime expenses of c. $13 million per annum have become a normal expense as opposed to an exceptional cost. While some overtime is inevitable, strategies need to be adopted to significantly reduce overtime costs including restructuring shifts to cover common overtime hours (e.g weekends and afternoons), changing the culture with respect to overtime as an entitlement, incorporating additional approval processes and providing more regular and detailed reporting and setting reduction targets.

Salaries and Wages - Overtime Expenses

	2017/18 Actuals ($'M)	2018/19 Actuals ($'M)	2019/20 YTD May Actuals ($'M)	2019/20 Annualised (May+ 1mth)* ($'M)
01. Chief Executive Officer	0.03	0.04	0.04	0.05
02. Connected Communities	0.94	1.01	0.89	0.97
03. Roads Transport Drainage and	3.14	3.72	3.86	4.21
04. Water and Sew er	3.51	4.45	3.87	4.22
05. Environment and Planning	1.33	1.95	1.85	2.02
07. Chief Financial Officer	1.39	1.58	1.38	1.50
08. Chief Information Officer	0.15	0.20	0.29	0.32
09. Innovation and Futures	0.01	0.01	0.01	0.01
10. People and Culture	0.05	0.06	0.08	0.09
Total Overtime by Department	**10.56**	**13.03**	**12.27**	**13.39**

  - Assessing the contractual entitlement of employees with respect to various benefits and entitlements such as vehicles. For example, it is understood that there are a number of employees who have vehicles that are not required for their roles, nor are standard for their level. While there may be instances where benefits are offered to key personnel to attract or retain their services, this should be limited.
  - Reviewing all allowances paid to again assess their necessity pursuant to the workplace agreement noting the increased cost; and
  - Enforcing policies with respect to accrued annual and long service leave limits to ensure there does not continue to be a large accrual carried on the balance sheet.

Reporting

- While P&C reporting has recently commenced via the monthly P&C Metrics report, upon completion of the migration to a single system, it would be beneficial to provide more detailed FTE data and analysis.
- Detailed data with respect to weekly and monthly hours worked needs to be made available at a directorate, unit and section level:
  - Managers needs to be able to analyse hours worked on a monthly basis as a minimum and:
    - Consider hours worked in various categories (e.g. overtime, casual etc);
    - Track movement between periods;
    - Correlate the FTE and hours worked data to financial data and non-financial data such as capacity/utilisation to understand the true costs, drivers and efficiency; and
    - Use available data to swiftly implement changes necessary to drive desired outcomes.
- It is noted that the April 2020 P&C Metrics report caveats that “positions that have no budget are not included in this analysis”. As costs being incurred outside of budget and budgets being exceeded is a material issue, we recommend that the reporting also include analysis on the positions that are excluded from budget and their costs.
- As with the Finance Business Partners, P&C Partners needs to have a strong working relationship with the directorates and assist in providing analysis and recommendations to assist with driving culture and performance.

Plant & Fleet and PMO

Plant & Fleet

- The Plant & Fleet team has recently been relocated to the Finance Directorate following a restructure in late 2018. The restructure involved centralising all plant and fleet costs and operators into a central team to better manage availability and utilisation across Council, and reduce the need for external wet an dry hires.
- While it appears that the expense base of the P&F unit has increased two-fold, this is largely attributed to costs that were previously recorded in other directorates now being centralised into this unit. It is not possible to compare P&F costs for prior periods to confirm if there has been any real increase in the cost base.

Plant & Fleet Expenses

	2017/18 Actuals ($'000)	2018/19 Actuals ($'000)	2019/20 YTD May Actuals ($'000)	2019/20 Annualised (May+1mth)* ($'000)
6.1.1. Employee Costs	5.7	7.5	10.2	11.2
6.3.1. Materials	7.2	8.1	18.1	19.8
6.4.1. Depreciation and Amortisation	8.4	7.0	6.7	7.3
6.5.1. Other Expenses	1.4	1.4	1.3	1.4
6.6.1. Loss On Asset Disposal	0.3	0.4	0.7	0.7
6.7.1. Internal Expenses - Ex Overheads	0.7	0.1	5.5	6.0
6.7.2. Internal Expenses - Overheads	4.7	8.3	16.4	17.9
Total Expenses	**28.4**	**32.8**	**58.9**	**64.3**

- Regardless of the large increase primarily being advised to be attributed to the restructure, there are opportunities to reduce P&F costs, particularly with respect to the asset base. Some comments noted with respect to the P&F include the need to:
  - Collect and analyse the GPS data as it becomes available now that GPS tracking is being fitted to the fleet. The GPS data will enable the utilisation of the fleet and equipment to be assessed. More informed decisions regarding the purchase or lease of certain items of equipment will then be able to be made, and an assessment of excess or under utilised equipment may also identify opportunities to realise assets and reduce holding costs;
  - Review and assess the vehicle fleet and the contractual entitlement employees to have vehicles;
  - Review the policy with respect to vehicle replacement and acquisition. It may be possible to reduce costs by increasing the replacement period of vehicles, and also replacing the range of vehicles that can be acquired to lower cost makes and models; and
  - Monitor all external wet and dry hire costs to ensure external hire is not being used where there is in-house capacity, and to consider the cost benefit of bringing certain arrangements in-house if demand is ongoing.

PMO

- As referred to in Section 2, we support a PMO being established to:
  - Independently oversee and facilitate the capital woks planning and approval process, not just at budget time but on a rolling basis;
  - Embed processes and a framework for considering capital projects and a criteria for approving capital works which aligns to Council's strategy and long term plans;
  - Prioritise capital projects within Council's allocated capital budget;
  - Support directorates with their business cases to ensure all key criteria has been adequately considered; and
  - Act as gate keeper for the capital works program.
- We understand that a PMO framework is being drafted for consideration which considers the following stages:
  - Feasibility (start-up);
  - Planning (design);
  - Implementation (deliver); and
  - Closure (commissioning).
- Without reviewing the proposal, we highly support the introduction of a PMO to oversee the capital works process in a unified manner, and add a more strategic and structured approach to capital planning and delivery.

Other Comments

Integration of Processes

- We understand that Council is still progressing with the integration of several systems onto a single platform or into a single system following the merger of the two councils in 2016. As a result, there are currently issues with data quality, system reporting variances, the need for manual inputs and issues with reporting. This has led some parties to doubt the integrity of the data and maintain their own records. Further, there is a lot of duplication and manual handling required with reporting, which results in less time being available for the value add processes such as analysis and planning.
- While the remediation of data and software integration program is continuing to be implemented by IM&T, with a number of projects to be completed by December 2020, there appears to be little focus on the need to harmonise processes.
- To gain efficiencies and the full benefit of the new systems, it is necessary also align processes being undertaken so that the same process is undertaken regardless of which office an employee operates from, and that efficient and risk adverse practices are adopted. As such, process re-engineering is an equally important phase in the integration (and post-integration) process.

WIP

- Council carries a large value of WIP ($318.8 million at 31 May 2020) in comparison to the annual capital budget. There need to be proactive practices and targets in place to ensure WIP is capitalised as soon as possible, with quarterly reviews also conducted. Capitalisation in a timely manner will have less impact on the depreciation profile and reduce the risk of needing to expense large amounts at year-end.

Funding Coordinator

- There have been many success stories provided regarding the work of the Chief External Funding Coordinator. However, there has also been mention of grant applications still being prepared and submitted by the directorates without the assistance of the Chief External Funding Officer. In some instances, the directorates have received feedback that they would have received a greater amount of funding had they gone through the funding coordinator.
- We have not investigated further whether this is a resourcing issue, timing issue or whether there is still a practice not to involve the Chief External Funding Coordinator in all funding applications. Accordingly, we recommend this be investigated further and:
  - There be an internal requirement that the Chief External Funding Coordinator leads the process for all grant applications;
  - In the event of limited instances where there are resourcing constraints, as a minimum the Chief External Funding Coordinator be involved in the planning and final review phase, with the application to be substantially completed by the directorate; and
  - In the event there are regularly resourcing constraints, a cost benefit analysis be conducted to assess the merit of recruiting an additional resource, or reallocating someone from within the organisation.

Finance Input in Business Cases

- There are many instances where business cases are required within Council, including when seeking approval for FTE increases and capital projects.
- However, there do not appear to be clear processes which are followed with respect to authorisation and sign off, particularly in relation to the costs of the business case being proposed. As such, there have been instances where capital projects have been approved without any consideration of the long term costs associated after commissioning including ongoing maintenance and servicing, or FTE requests which do not consider the long terms costs of roles beyond the current budget period.
- As such, we recommend that there be a requirement that all business cases and council reports be signed off by Finance to confirm that the costs included in the business cases appear reasonable and that material costs, incidental costs and long term costs are not excluded. The CEO and P&C should also be included in the approval process.

Appendices

A. Glossary

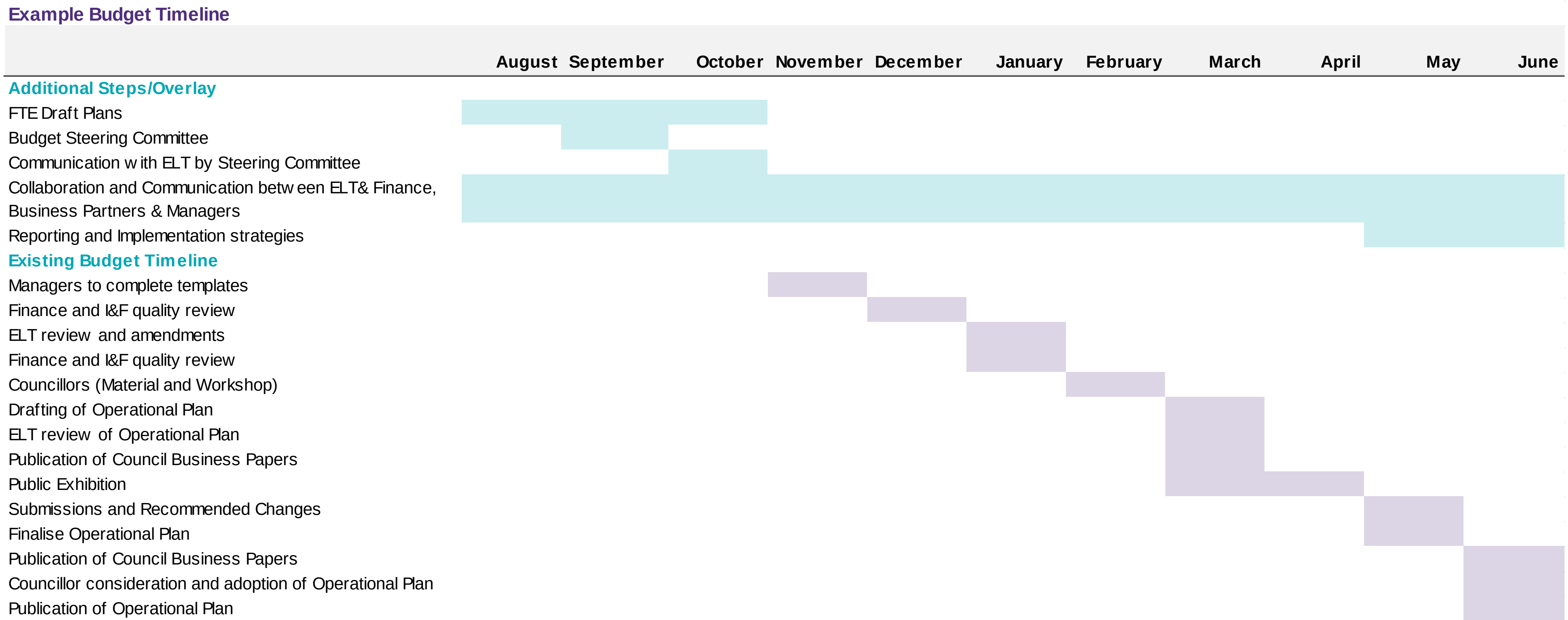
2016/17, 2017/18, 2018/19, 2019/20, 2020/21, 2021/22	Financial years ended 30 June 2017, 30 June 2018, 30 June 2019, 30 June 2020, 30 June 2021(forecast), 30 June 2022 (forecast)
c.	Circa
Capex	Capital expenditure
CC	Connected Communities
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Council	Central Coast Council
COVID	2019 novel coronavirus
CPI	Consumer Price Index
Directors	Directors, Acting Directors and Executive Managers of the Directorates
ELT	Executive Leadership Team
E&P	Environment and Planning
FAM	Facilities Asset Management
Finance	Finance Directorate
FTE	Full time equivalent
GPS	Global Positioning System

I&F	Innovation and Futures
IM&T	Information Management and Technology
IPART	Independent Pricing and Regulatory Tribunal
KPIs	Key Performance Indicators
LTFP	Long Term Financial Plan
‘M	millions
Majiq	Reporting software (extracting data from the Oracle finance system)
Opex	Operational expenditure
p.a.	Per annum
P&C	People and Culture
PMO	Project Management Office
RTDW	Roads Transport Drainage Waste
TCorp	NSW Treasury
WIP	Work In Progress
YTD	Year To Date
YTD May	Year To Date (11 months ended 31 May 2020)

C. Strategic Financial Objectives

Sources: Central Coast Council Resourcing Strategy (Long Term Financial Plan section)

D. Example Budget Timeline



Notes: 'Existing Budget Timeline' based on timeline 2020/21 budget. To be refined based on updated 2021/22 budget timeline
Table Indicates month in which stage needs to be completed, not necessarily commenced.
Table is high level only and does not include all detailed steps included.

DRAFT

Grant Thornton

granthornton.com.au