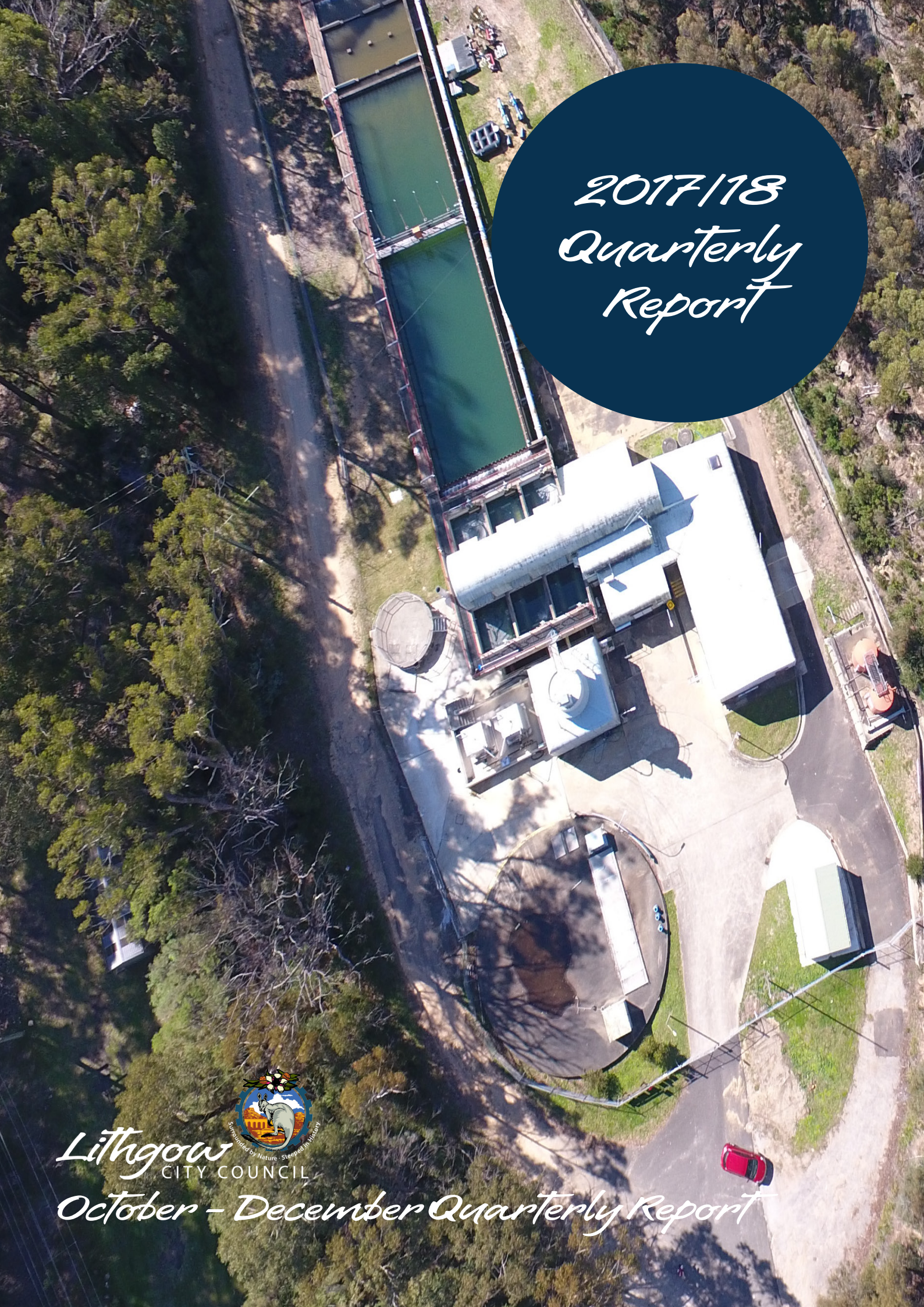


2017/18 Quarterly Report

Lithgow CITY COUNCIL

Surrounded by Nature · Steeped in History

October – December Quarterly Report

Executive Summary

The Quarterly Performance Report provides a budget review statement with a revised estimate of income and expenditure for the year. This is a requirement of the Local Government Act 1993 and Local Government (General) Regulation 2005. This Quarterly Performance Report for the period of 1 October 2017 to 31 December 2017 achieves these requirements.

From the General Manager,
Graeme Faulkner

Report by Responsible Accounting Officer

The following statement is made in accordance with Clause 203(2) of the Local Government (General) Regulations 2005:

31 December 2017

It is my opinion that the Quarterly Budget Review Statement for Lithgow City Council for the quarter ended 31/12/17 indicates that Council's projected position at 30 June 2018 will be unsatisfactory at year end, having regard to the projected estimates of income and expenditure and the original budgeted income and expenditure.

My opinion above, that Council's projected financial position at 30 June 2018 will be unsatisfactory has been based on the following factors:

1. 2017/18 FAGS Grant 50% prepayment into 2016/17 financial year, Potential $2.0M revenue impact if a prepayment of 2018/19 FAGS Grant is not made in the 2017/18 financial year.
2. Increased depreciation expense resulting from asset revaluations completed in the 2016/17 year.
3. Increase in the electricity supply contract commencing January 2018, 2017/18 expected impact $343,000.

Recommended remedial action to deal with the unsatisfactory position includes:

a. Ongoing operating efficiencies and cost savings program, with particular attention to identifying savings in materials and contract costs.
b. Implementing the Financial Performance Improvement Plan from Morrison Low.
c. Revising and refining the Fit for the Future program to include a Special Rate Variation for 2019/20.
d. Implementation of the Technology One Asset Management Solution.

Although an unsatisfactory year end position is projected, operating efficiencies and cost savings have improved the projected result since 30 September 2017.

Ross Gurney
Responsible Accounting Officer

Table of Contents

Executive Summary 1
Report by Responsible Accounting Officer 1
Summary of Financial Position 3
Consolidated - Income and Expense Budget Review Statement 4
Income and Expense Budget Variation Notes 5
General Fund - Income and Expenditure Review Statement 7
Water Fund - Income and Expenditure Review Statement 9
Sewer Fund - Income and Expenditure Review Statement 10
Capital Budget Review Statement 11
Capital Budget Review Statement 13
Budget Variation Notes 13
Capital Budget Review Statement 14
Budget Variation Notes 14
Cash and Investment Budget Review Statement 16
Cash and Investment Review Statement 17
Key Performance Indicators 18
Part A: Contracts Review Statement 21
Part B: Consultancy and Legal Expenses Review Statement 22

Summary of Financial Position

This report provides the Quarterly Performance Report on the 2017-2018 Operational Plan for the period of 1 October to 31 December 2017 with a recommendation that variations to income and expenditure estimates are voted.

2017/18 Quarterly Budget Comparison			
Budget	**Income $'000**	**Expenditure $'000**	**Result $'000**
Original	45,864	41,856	4,008
September Quarter	48,907	43,329	5,578
December Quarter	48,931	43,003	5,928

2017/18 Quarterly Budget Comparison Fund – Proposed December Review			
Budget	**Income $'000**	**Expenditure $'000**	**Result $'000**
General	31,170	29,245	1,925
Water	6,616	7,342	(726)
Wastewater	11,144	6,413	4,731

Please note the above tables will not balance due to rounding within income and expense types.

Consolidated - Income and Expense Budget Review Statement

2017/18 December Quarterly Budget Review Statement											
Projected Income and Expenditure Statement	**Original Budget**	**Carry Forwards**	**Other than by QBR**	**Sept Review**	**Dec Review**	**Mar Review**	**Revised Budget**	**Variations for this Dec Quarter**	**Notes**	**Projected Year End Result**	**Actual YTD Figures**
Rates and Annual Charges	25,474		(192)	2			25,284	540	**1**	25,824	26,431
User Fees and Charges	7,251		263	75			7,589	(1,148)	**2**	6,441	2,726
Interest and Investment Revenue	809			1			810			810	405
Other Revenue	811		4	219			1,034	42	**3**	1,076	561
Operating Grants and Contributions	7,864		(75)	12			7,801	349	**4**	8,150	2,559
Capital Grants and Contributions	3,655	2,545		189			6,389	240	**5**	6,629	2,176
Gain Sale of Assets	-										61
Total Revenue	**45,864**	**2,545**	**-**	**498**			**48,907**	**24**		**48,931**	**34,919**
Employee Costs	14,866	23		345			15,235	(14)	**6**	15,220	7,702
Borrowing Costs	931						931			931	334
Material and Contracts	10,166	572	(13)	462			11,187	(1,643)	**7**	9,544	4,005
Depreciation Expense	10,479			686			11,165	536	**8**	11,701	5,869
Other Expenses	5,414		13	(616)			4,811	795	**9**	5,606	3,151
Loss on Sale of Assets	-										
Total Expenses	**41,856**	**595**	**-**	**876**			**43,329**	**(326)**		**43,003**	**21,061**
Operating Result Surplus/(Deficit)	**4,008**	**1,950**	**-**	**(378)**			**5,578**	**350**		**5,928**	**13,858**
Operating Result before Capital Grants	**353**	**(595)**	**-**	**(567)**			**(811)**	**110**		**(701)**	**11,862**

Income and Expense Budget Variation Notes

Notes	Details
1	See table below regarding reclassification of internal rates and charges on Council land and buildings to other expenses.
2	Decrease in user fee revenue due to over accrual of water usage fees into 2016/17 and water usage less than expected in 2017/18.
3	Increase in Other Revenues due to greater than expected property rental and fine income.
4	Increase in operating grants due to Halloween contributions/sponsorships received and funding received for the Farmers Creek Masterplan.
5	Increase in capital grants revenue due to successful funding application for Blast Furnace Park.
6	Increased salaries in Development have been offset by additional Development Application income and transfer of projects from operating expense to capital projects.
7	Operational efficiencies and cost savings have been identified in materials and contracts. The savings are partly offset by an additional funding requirement for the Council By-Election (a budget variation after exhausting funds held in reserve for elections) and additional funds allocated to the Farmers Creek Masterplan (offset entirely by additional fine/grant income).
8	Increase in depreciation expected as a result of asset revaluations undertaken in the 2016/17 financial year.
9	Increase in Other Expenses due to new electricity contract as noted in the September Quarterly Budget Review and the reclassification of internal land and building rates and charges (see Note 1, net effect is zero).

Please note where there is a variation in the review table but no corresponding note, the variation is due to rounding within the income or expenses category.

As a part of the budget review, internal plant charges have increased due to the charge out rates being too high from prior year indexing of charges. This is an internal transaction which has no effect on Council's financial result for the year.

An adjustment has also been made to internal rates and charging. This has no impact on Council as a whole but affects Council's three individual funds quite significantly. The table below provides details of these movements.

Fund	Previously Revised Budget	Proposed Dec Budget	Total Movement
General Fund	210,194	526,295	316,101
Water Fund	212,154	6,070	(206,084)
Sewer Fund	118,571	8,554	(110,017)
Total	**540,919**	**540,919**	**-**

These charges have also been re-classified from rates and annual charges income to other expenses.

Income and Expense Review Statement Budget Variation Notes

Budget variations being recommended include the following material items:

Project	Original Budget	Proposed Dec Budget	Proposed Variation
Council Election – increased expenditure due to costs associated with the 2017 by-election. $18,576 is an unfunded variation to budget	35,000	135,826	100,826
Council Election – transfer from reserve to fund additional expenses from by-election	0	(82,250)	(82,250)
Christmas in the Park – Increase revenue received from event	-	(2,033)	(2,033)
Christmas in the Park – increased expenditure to reflect revenue received and minute 17-330. Expenditure $2417 transferred from Implementation of the Destination Management Plan	-	4,450	4,450
Implementation of the Destination Management Plan – transfer expenditure to Christmas in the Park as per minute 17-330	50,000	47,853	(2,417)
Halloween 2017 – Increase income from grant and sponsorships money received	-	(42,819)	(42,819)
Halloween 2017 – Increase expenditure in line with grant and sponsorship revenues received	90,000	132,819	42,819
PRMFP Grant 2017/2018 - revenue updated to reflect revenue received	-	(27,015)	(27,015)
PRMFP Grant 2017/2018 - expenditure update to reflect revenue received	-	27,015	27,015
OEH Fine - Farmers Creek Master Plan - revenue increased to reflect revenue received	-	(279,206)	(279,206)
OEH Fine - Farmers Creek Master Plan - expenditure increased to reflect revenue received	-	279,206	279,206

General Fund - Income and Expenditure Review Statement

2017/18 December Quarterly Budget Review Statement Income and Expenditure Review Statement						
Projected Income and Expenditure Statement	**Original Budget**	**September Review**	**December Review**	**March Review**	**Proposed Dec Revised Budget**	**Actual YTD Figures**
Rates and Annual Charges	16,656	16,658			16,869	17,484
User Fees and Charges	1,534	1,610			1,662	792
Interest and Investment Revenue	670	670			670	387
Other Revenue	815	1,034			1,076	544
Operating Grants and Contributions	7,597	7,610			7,959	2,707
Capital Grants and Contributions	2,505	2,694			2,934	1,096
Gain Sale of Assets	-					61
Total Revenue	**29,778**	**30,276**			**31,170**	**23,071**
Employee Costs	11,874	12,231			12,216	5,981
Borrowing Costs	235	235			235	210
Material and Contracts	3,525	4,278			3,668	1,516
Depreciation Expense	8,252	8,252			8,364	4,225
Other Expenses	4,740	4,124			4,762	2,851
Loss on Sale of Assets	-					
Total Expenses	**28,626**	**29,120**			**29,245**	**14,783**
Operating Result Surplus/(Deficit)	**1,152**	**1,156**			**1,925**	**8,288**
Operating Result before Capital Grants	**(1,353)**	**(1,538)**			**(1,009)**	**7,192**

Water Fund - Income and Expenditure Review Statement

2017/18 December Quarterly Budget Review Statement Income and Expenditure Review Statement						
Projected Income and Expenditure Statement	**Original Budget**	**September Review**	**December Review**	**March Review**	**Proposed Dec Revised Budget**	**Actual YTD Figures**
Rates and Annual Charges	1,478	1,478			1,690	1,877
User Fees and Charges	5,790	5,790			4,590	1,862
Interest and Investment Revenue	86	86			86	18
Other Revenue	-	-				15
Operating Grants and Contributions	100	100			100	(77)
Capital Grants and Contributions	150	150			150	73
Gain Sale of Assets	-					-
Total Revenue	**7,605**	**7,604**			**6,616**	**3,768**
Employee Costs	1456	1,464			1,464	927
Borrowing Costs	130	130			130	29
Material and Contracts	4260	4,444			3,855	1,571
Depreciation Expense	1186	1,186			1,612	790
Other Expenses	181	181			281	99
Loss on Sale of Assets	-					-
Total Expenses	**7,215**	**7,405**			**7,342**	**3,416**
Operating Result Surplus/(Deficit)	**390**	**199**			**(726)**	**352**
Operating Result before Capital Grants	**240**	**49**			**(877)**	**279**

Sewer Fund - Income and Expenditure Review Statement

2017/18 December Quarterly Budget Review Statement Income and Expenditure Review Statement						
Projected Income and Expenditure Statement	**Original Budget**	**September Review**	**December Review**	**March Review**	**Proposed Dec Revised Budget**	**Actual YTD Figures**
Rates and Annual Charges	7,146	7,146			7,265	7,070
User Fees and Charges	189	189			189	72
Interest and Investment Revenue	53	53			53	-
Other Revenue	-	-				2
Operating Grants and Contributions	92	92			92	(71)
Capital Grants and Contributions	1,000	3,545			3,545	1,007
Gain Sale of Assets	-					
Total Revenue	**8,481**	**11,025**			**11,144**	**8,080**
Employee Costs	1,534	1,539			1,539	794
Borrowing Costs	566	566			566	95
Material and Contracts	2,368	2,465			2,020	918
Depreciation Expense	1,041	1,727			1,725	854
Other Expenses	506	506			563	201
Loss on Sale of Assets	-	-				
Total Expenses	**6,015**	**6,803**			**6,413**	**2,862**
Operating Result Surplus/(Deficit)	**2,466**	**4,222**			**4,731**	**5,218**
Operating Result before Capital Grants	**1,466**	**677**			**1,185**	**4,211**

Capital Budget Review Statement

2017/18 December Quarterly Budget Review Statement Capital Funding Review Statement								
			Approved Changes					
	Original Budget	Carry Forwards	Sept Review	Dec Review	Mar Review	Revised Budget	Variations for this Dec Qtr	Projected Year End Result
Rates & other untied funding	12,838					12,838	461	13,299
Capital Grants & Contributions	3,655	2,545	189			6,389	240	6,629
Internal Restrictions	300	622				922	(25)	897
External Restrictions		6,586				6,586	(1,334)	5,252
Other Capital Funding Sources e.g.								
• Loans								
Income from sale of assets								
• Plant & equipment								
Total Capital Funding	**16,793**	**9,753**	**189**			**26,735**	**(658)**	**26,077**

2017/18 December Quarterly Budget Review Statement

Capital Expenditure Review Statement

	Original Budget	Carry Forwards	Approved Changes: Sept Review	Approved Changes: Dec Review	Approved Changes: Mar Review	Revised Budget	Variations for this Dec Qtr	Projected Year End Result	Notes	Actual YTD Figures
• Plant & Equipment	900		100			1,000		1,000		426
• Land & Buildings	597	248				845	(134)	711	1	129
• Water Network	1,570	2,719				4,289		4,289		193
• Sewer Network	1,560	9,356				10,917		10,917		715
• Office Equipment	112		8			120		120		56
• Furniture & Fittings	14					14		14		11
• Other Structures	2,105	712	189			3,006	455	3,461	2	1,853
• Stormwater Drainage	62					62		62		59
• Library Books	70		(70)			-		-		-
• Tip Assets	1,400	266				1,666	(1,200)	466	3	147
• Roads, Bridges & Footpaths	6,482	1,365	(52)			7,795	246	8,041	4	2,802
Loan Repayments (principal)	1,921					1,921		1,921		1,196
Total Capital Expenditure	**16,793**	**14,666**	**176**			**31,635**	**(633)**	**31,002**		**7,587**

Capital Budget Review Statement
Budget Variation Notes

Notes	Details
1	Transfer of Community Recycling Centre grant funds back to reserve for construction planned to commence in 2018/19. See Note 3 below.
2	Additional funding and matching Council allocation for Blast Furnace Park works to continue.
3	Transfer of funds back to Waste reserve due to projects not being commenced this financial year. Matching grant funds are expected in 2018/19 to begin construction of Resource Recovery Centre in Lithgow.
4	Four roads projects that were incorrectly classified as operating in the original budget have now been moved into capital. See tables below for details.

Please note where there is a variation in the review table but no corresponding note, the variation is due to rounding within the asset class.

Capital Budget Review Statement
Budget Variation Notes

Budget variations being recommended include the following material items:

Project	Current Revised Budget	Proposed Dec Budget	Proposed Variation
Rural Unsealed Roads Renewal – Transfer of funds to Wattlemount Road	318,200	258,243	(59,957)
Rural Roads Gravel Resheeting – Wattlemount Road – additional funds required to complete works	53,255	92,025	38,770
Rural Unsealed Roads Renewal – Martin Road – renewal identified to be funded from renewal allocation	40,000	55,258	15,258
Rural Unsealed Roads Renewal – Hazelgrove Road – renewal identified to be funded from renewal allocation	-	5,929	5,929
Urban Drainage Renewal – Transfer funds to Cox Street Portland Drainage Renewal	9,414	4,083	(5,331)
Drainage Renewal – Cox Street Portland – renewal identified to be funded from renewal allocation	46,000	51,331	5,331
Gravel Roads – Palmers Oakey Road – Refer Council Minute 17-371	560,000	520,000	(40,000)
Wolgan Road Stabilisation – Refer Council Minute 17-371	-	40,000	40,000
Urban Sealed Roads Renewal – Transfer to various capital projects	280,000	127,669	(152,331)
ILP – Brays Lane – works undertaken by contractors were slightly over budgeted amount	65,000	68,084	3,037
ILP – Lane Improvements – Tank/Union Street – works undertaken in conjunction with Tank Street reseal were over original budget	20,000	36,067	16,067
Resealing Tank Street – renewal identified to be funded from renewal allocation	-	130,043	130,043
Bus Shelters – small overspend required to construct new Bus Shelter	15,000	18,184	3,184
Wallerawang STP – Additional funds required for emergency bypass line	14,000	37,000	23,000
Lithgow STP – Transfer of funds to Wallerawang STP	402,057	379,057	(23,000)
Blast Furnace – Increase income from new grant receivable from Department of Industry	1,000,000	1,240,000	(240,000)
Blast Furnace – Increase expenditure due to additional grant funding and Council allocation. Refer Council Minute 17-360	1,657,028	2,117,028	460,000
Mick Moore Pavilion – transfer of funds back to reserve due to project completion under budget	30,000	5,050	(24,950)
Wallerawang Tip Improvements – funds not required this financial year, transferred to reserve for future	450,000	-	(450,000)

works			
Lithgow Resource Recovery – matching funds expected next financial year for construction of Resource Recovery Centre. Transfer for reserve to hold funds	750,000	-	(750,000)
Community Recycling Centre – Grant funding attached to Resource Recovery project above. Transfer to reserve to hold funds	133,706	-	(133,706)

Please note due to uncertainties and contract variations, Portland STP Upgrade may change significantly for the March quarterly budget review. The current funding deficit may also change depending on the level of loan funding required for the project.

In addition the following projects were moved from capital to operating or vice versa due to incorrect allocation. This has no effect of cash however it will have a positive impact overall on Council's operating result.

Project	Old Project Type	New Project Type	Project Total
Top Dressing Various Ovals	Capital	Operating	40,000
ILP – Cripps Avenue, Wallerawang	Operating	Capital	50,036
ILP – Lyon Parade & Hume Avenue, Wallerawang	Operating	Capital	81,377
ILP – Valley Drive, Lithgow	Operating	Capital	50,036
ILP – Brays Lane, Wallerawang	Operating	Capital	68,084

Cash and Investment Budget Review Statement

2017/18 December Quarterly Budget Review Statement Income and Expenditure Review Statement			
Externally Restricted	**30 June 2017 Position**	**30 September 2017 Position**	**Actual YTD Figures**
Developer Contributions	1,778	1,855	1,833
Special Purpose Grants	1,709	887	994
Water Supplies	2,882	3,363	4,237
Sewerage Services	3,333	5,323	5,456
Domestic Waste	1,968	3,096	2,947
Unexpended Loans	2,089	2,056	-
Total External Restriction	**13,759**	**16,580**	**15,467**
Internal Restricted			
Land & Buildings	7,672	7,643	7,553
Plant & Equipment	1,500	1,227	1,074
Bonds, Deposits & Retentions	695	787	880
Works in Progress	5,102	4,021	1,862
ELE	1,056	1,056	1,056
Election	82	82	-
Total External Restriction	**16,107**	**14,816**	**12,425**
Unrestricted	**-**	**63**	**1,808**
Total Cash & Investments	**29,867**	**31,460**	**29,700**

Due to current Council processes we do not budget based on internal and external restrictions and therefore can only provide year to date actual figures for these restrictions.

Cash and Investment Review Statement

Investments

Investments have been made in accordance with Council's Investment Policy.

Cash

The cash at bank figure included in the Cash & Investment Statement totals $507,675.

The cash at bank amount has been reconciled to Council's physical Bank Statements.

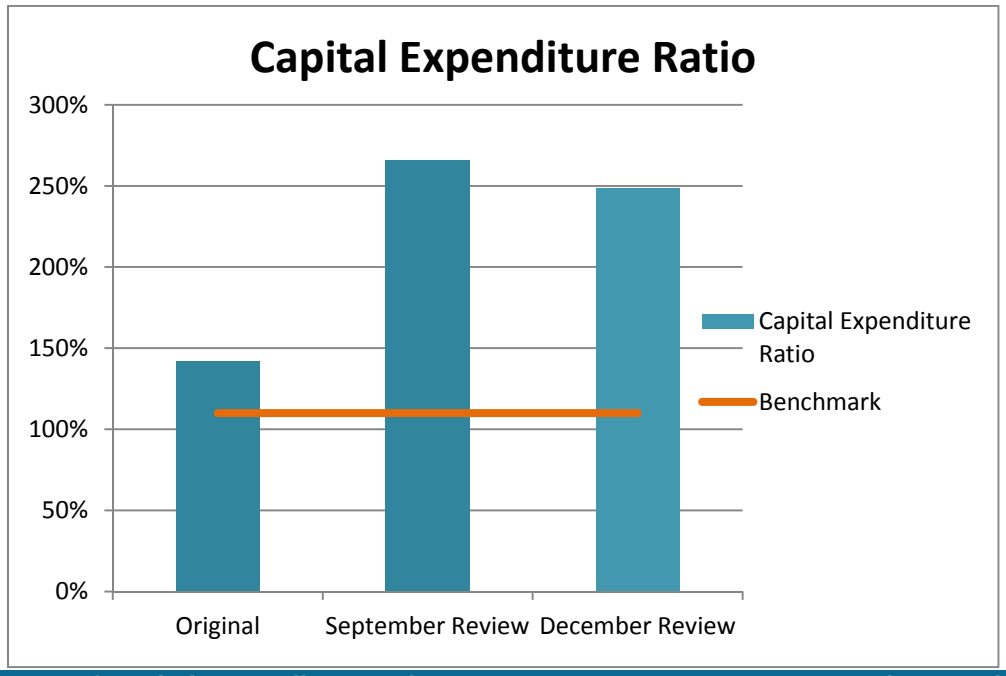
The date of completion of this bank reconciliation was 9/01/18.

Reconciliation Status

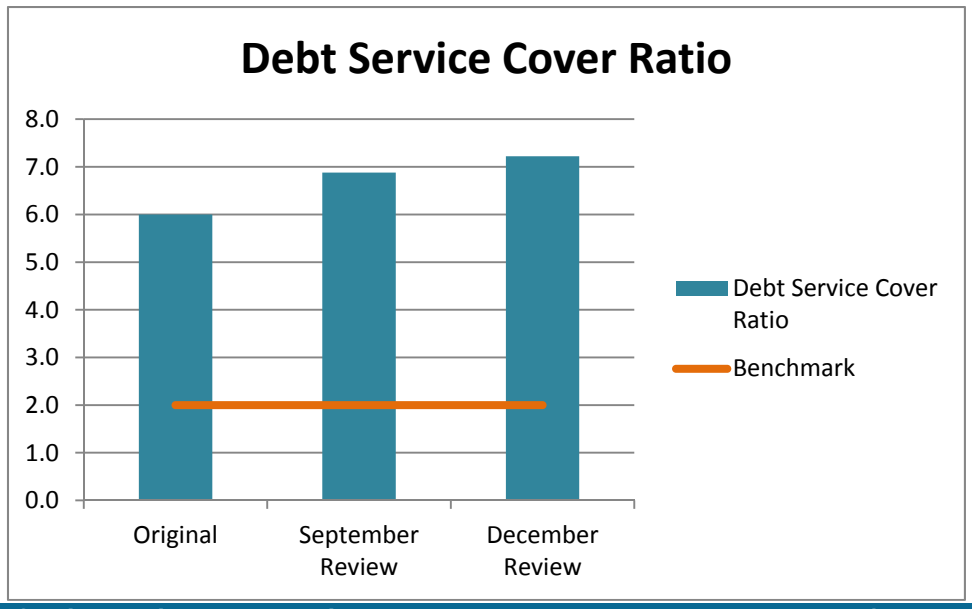
The YTD Cash and Investment figures reconciles to the actual balances held as follows:

	$'000's
Cash at Bank	508
Investments on Hand	29,500
Less: Unpresented Cheques	(24)
Add: Undeposited Funds	-
Less: Identified Deposits	(19)
Add: Identified Outflows	-
Less: Unidentified Deposits	(434)
Ad: Unidentified Outflows	169
Reconciled Cash at Bank & Investments	**29,700**
Balance as per Review Statement	**29,700**
Difference	-

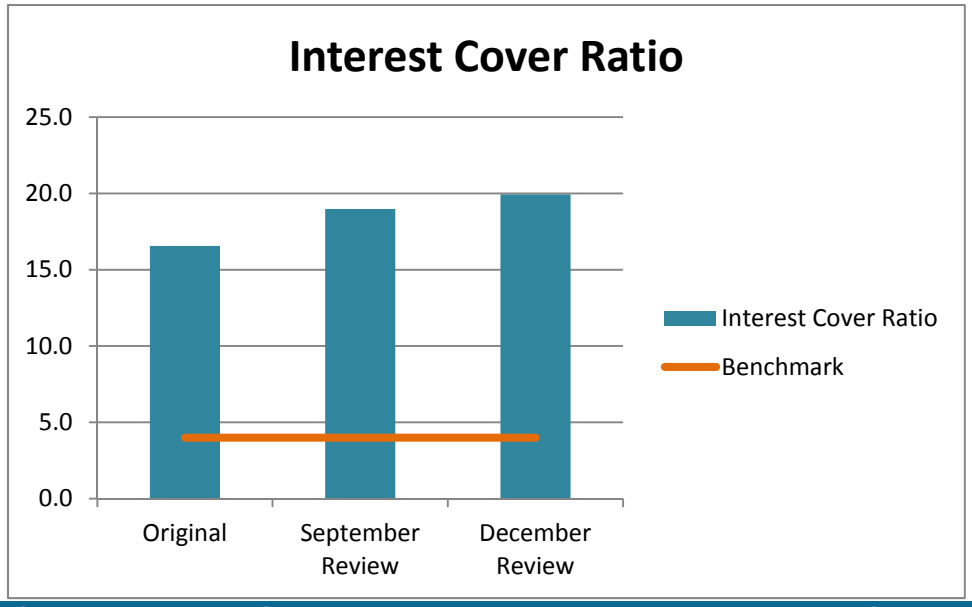
Key Performance Indicators



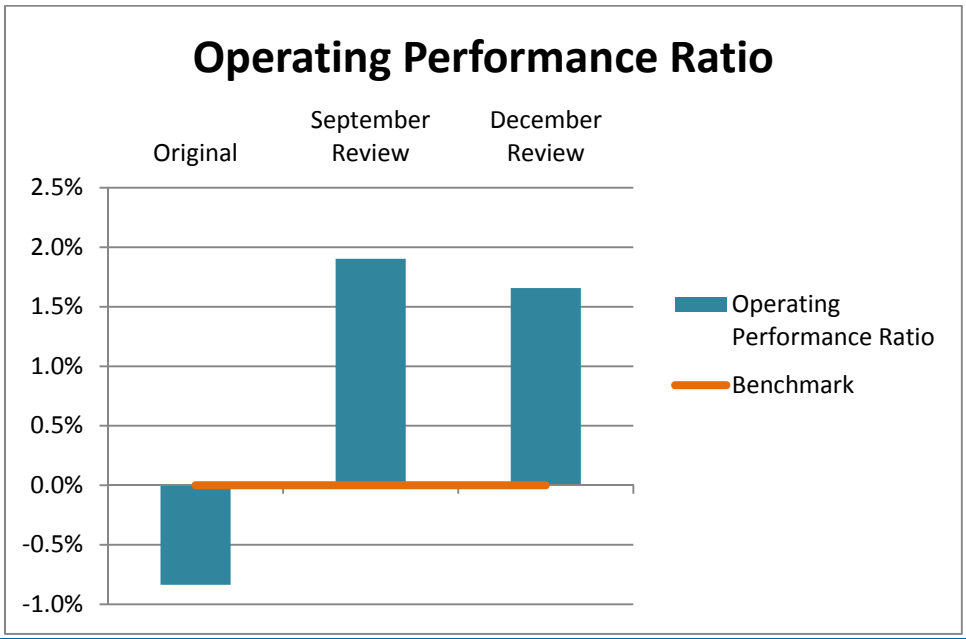
Purpose of Capital Expenditure Ratio	Commentary on 2017/18 Result
	December 2017/18 Ratio 249%
To assess the extent to which Council is expanding its asset base through capital expenditure.	A capital expenditure ratio of 2.49 times suggests that Council has a solid and expansive capital works program. The ratio has slightly declined due to works not commencing this FY.



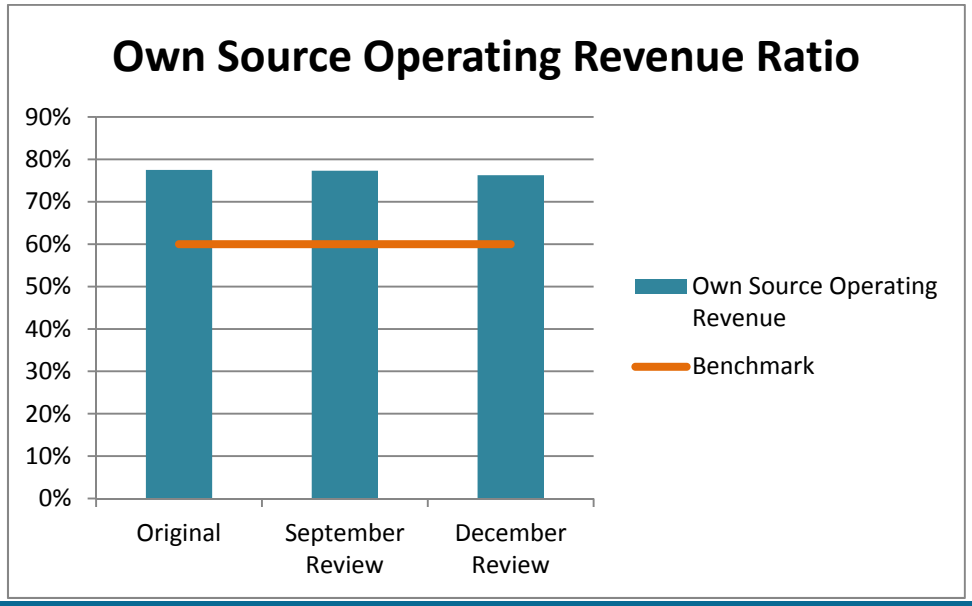
Purpose of Debt Service Cover Ratio	Commentary on 2017/18 Result
	December 2017/18 Ratio 7.2x
This ratio measures the availability of operating cash to service debt including principal, interest and lease payments.	A debt service ratio of 7.2 times means Council has capacity to borrow more funds if required and to service its current debt.



Purpose of Interest Cover Ratio	Commentary on 2017/18 Result
	December 2017/18 Ratio 19.9x
This ratio measures the availability of operating cash to service interest payments.	An Interest Cover ratio of 19.9 times means Council has more than adequate cash to cover interest repayments on its debt. This suggests Council has the capacity to borrow more funds if required.



Purpose of Operating Performance Ratio	Commentary on 2017/18 Result
	December 2017/18 Ratio 1.66%
This ratio measures Councils achievement if containing operating expenses within operating revenue.	Council continues to work towards the 0% Fit for the Future benchmark. The ratio is above zero for YTD actuals, however, a ratio below the benchmark of zero is expected at year end.



Purpose of Own Source Revenue Ratio	Commentary on 2017/18 Result
	December 2017/18 Ratio 76%
This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as grants and contributions.	This ratio shows that Council meets the benchmark and is not overly reliant on external grant funding.

Part A: Contracts Review Statement

2017/18 December Quarterly Budget Review Statement

Contracts Review Statement

For the period 01 October 2017 to 31 December 2017

Contractor	Contract Detail and Purpose	Contract Value (GST Inc.)	Date	Minute No.	Length of Contract	Budgeted (Y/N)
Note: Contracts listed are those entered into during the quarter, under review and/or not fully performed or completed of $50,000 or greater. Contracts for employment are not required to be included.						
Exceloo Pty Ltd	Blast Furnace Park Toilet	$174,077.29	18/12/17	N/A	6 months	Y
Exceloo Pty Ltd	Daintree Lane Toilet	$124,751.55	18/12/17	N/A	6 months	Y
Exceloo Pty Ltd	Kremer Park Toilet	$81,456.37	18/12/17	N/A	6 months	Y
Tracserv Trucks	Isuzu FVR 1465-300	$209,036.00	14/11/17	N/A	N/A	Y
Geolyse Pty Ltd	Preparation of Development Application and detailed design for Lithgow Resource Recovery Centre and Waste Transfer Station	$147,937.81	22/11/17	N/A	3 months	Y
Height Safety Engineers	Walkway D and C at Dam Number 2	$131,827.59	24/11/17	N/A	1 month	Y
SUEZ Environment Recycling & Waste Recovery	3M Belt Press Purchase of a Second hand belt press for the production of LCC treatment plants Sludge production	$50,600.00	16/10/17	N/A	N/A	Y

Part B: Consultancy and Legal Expenses Review Statement

2017/18 December Quarterly Budget Review Statement Contracts Review Statement		
	Actual expenditure 1 July 2017 to 31 December 2017	
Expense	**Year to Date**	**Legal Budget Allocation (Y/N)**
Consultancies	124,194.08	Y
Legal Fees	42,317.52	Y

Note: A consultant is a person or organisation engaged under contract on a temporary basis to provide recommendations or high level specialist or professional advice to assist decision making by management. Generally it is the advisory nature of the work that differentiates a consultant from other contractors.