

Table of Contents **Special Council Meeting**

1. DECLARATION OF OPENING.....	3
2. DISCLAIMER	3
3. RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE.....	3
4. DECLARATION OF INTEREST	3
5. PUBLIC QUESTION TIME (<i>in relation to Item 7</i>).....	3
6. DEPUTATIONS (<i>in relation to Item 7</i>)	3
7. REPORT	3
7.1 Adoption of the 2008/2009 Annual Budget.....	3
8. CLOSURE	11



**SPECIAL MEETING OF COUNCIL
ADOPT 2008/2009 ANNUAL BUDGET**

AGENDA

1. **DECLARATION OF OPENING**
2. **DISCLAIMER**
The Chairperson to read the City's Disclaimer
3. **RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE**
4. **DECLARATION OF INTEREST**
5. **PUBLIC QUESTION TIME** (*in relation to Item 7*)
6. **DEPUTATIONS** (*in relation to Item 7*)
7. **REPORT**

7.1 Adoption of the 2008/2009 Annual Budget

Location:	City of South Perth
Applicant:	Council
File Ref:	FS/FI/1
Date:	4 July 2008
Author / Reporting Officer:	Michael J Kent, Director Financial and Information Services

Summary

To present the 2008/2009 Annual Budget, as circulated, for adoption by Council.

Background

The preparation of the Annual Budget is both a statutory requirement of the Local Government Act and a responsible financial management practice. The development of the budget has been persuasively influenced by the City's Strategic Plan and the financial parameters of its Strategic Financial Plan. The Budget document includes the Statutory Budget format with all relevant disclosures to discharge financial accountability to the community. In addition, it contains the 2008/2009 Schedule of Fees & Charges and the Summary Revenue and Expenditure Schedules relating to the Management Budget (which is the strategic overview of the City's finances).

A separate, more detailed Management Budget incorporating all line items (grouped to reflect the reporting mechanisms inherent within the organisational structure) has been prepared and will be used by the administration to responsibly and sustainably manage departmental finances on an operational level throughout the next year.

Comment

From the generation of the initial strategic financial projections in December 2007 to the date of this meeting, the budget process has evolved through a number of structured stages that have provided opportunities for Council Members, the community and City staff to have involvement in the process.

The major phases of the budget development process have been:

- Development of strategic forward financial projections.
- Verifying alignment with the ‘themes’ that underpin the development of the Strategic Financial Plan (SFP) and Budget.
- Determining the overall financial parameters for the 2008/2009 budget.
- Conducting a critical review of major capital projects on the SFP.
- Submitting and considering capital project proposals for 2008/2009 budget.
- Incorporating the outputs of community forums and Council Member workshops during the year (along with contemporary practices) into our forward financial planning.
- Developing a draft Strategic Financial Plan to validate the sustainability of the proposed financial model.
- Reviewing the Fees & Charges Schedule for the upcoming year.
- Preparing a Suggested Budget for consideration by officers and validating its alignment with overall financial parameters.
- Determining the final capital projects list for inclusion in the 2008/2009 budget.
- Identifying the incomplete capital works to be carried forward to 2008/2009.
- Establishing the likely Budget Opening Position.
- Modelling the data for the triennial revaluation of Gross Rental Values (GRV) for all properties in the City.
- Preparing and reviewing the Draft Budget & Proposed Budget.
- Preparing the 2008/2009 Budget as presented for adoption.

Throughout the budget process, a series of structured briefings have been held with Council Members and relevant City officers to ensure that information on the budget process and the budget itself is available to participants. Importantly, this has resulted in a shared understanding of the Budget and its relationship to both the Strategic Plan and the Strategic Financial Plan.

By ensuring alignment with the City’s strategic direction and its agreed strategic financial themes, competing organisational priorities can be assessed and prioritised in a manner which maximises community benefit whilst ensuring the City’s financial, social and environmental sustainability.

Discussion on some of the key elements of the 2008/2009 Annual Budget is provided below:

Budget Overview

The 2008/2009 Budget provides for Total Earned Revenue of \$39.40M supplemented by City borrowings of \$3.0M (deferred from 2007/2008). Total Expenditure is \$48.77M including non-cash items (depreciation etc) of \$6.56M plus a further \$0.55M for debt capital repayments. This is comprised of \$33.39M of Operating Expenditure (Management Account format) plus \$15.38M of Capital Expenditure (including the \$5.50M remaining progress payments for the Underground Power Project). Planned net transfers to cash backed reserves for the year are \$1.36M - which in effect is the interest revenue that will be earned on those reserve funds. Along with the estimated Opening Position and the anticipated change in Accrual Items (including collections of UGP debts) this results in a balanced budget.

Rates

The proposed rates yield for 2008/2009 is \$20.69M - based on the recently supplied triennial revaluation of GRVs for all rateable properties in the City. The City is obliged to use the GRVs supplied from the Valuer General's Office in determining its annual rates - which are calculated by multiplying those GRVs by a 'Rate in the Dollar' determined by Council.

GRVs rose some 30% across the City from \$258.6M to \$337.4M - although the changes in GRV were not evenly distributed.

The 2008/2009 proposed rates yield is achieved by applying a 'Rate in the Dollar' of 6.000 cents to the property GRV for 2008/2009 - (down from 7.400 cents in 2007/2008 to mitigate the impact of the significant increases in GRV). This results in a 5.7% rates yield increase - which compares favourably to guidelines resulting from the WA Local Government Cost Index which suggest an increase of between 5% and 6%. The WALGA Cost Index is based on the CPI movement (all groups) for Perth in the last 12 months - adjusted to include a heavier weighting on wages and construction costs as these represent the major part of local government expenditure.

The Minimum Rate (determined to be the minimum equitable cost of servicing lots within the district) increases from \$590.00 last year to \$620.00 in 2008/2009 - a 5.08% increase. Approximately 3,803 properties (19.6%) are expected to be minimum rated in 2008/2009. This is a very similar proportion to last year - and well below the threshold of 50% of all properties allowable under the Local Government Act.

All current Pensioner and Senior concessions will continue to apply. Eligible Pensioners will benefit from a rebate of up to 50% on their rates. Seniors entitlements are capped at \$234.90 which is a bigger concession than last year's \$227.20. Instalment payment options will attract a \$5.00 administration fee (per instalment) and pre-interest charges of 5.5%. Penalty interest of 11% will be applied to amounts outstanding beyond the due date. Benchmarking the rates increases of our metropolitan local government peers provides conclusive evidence that the City's rating strategy is achieving its objective of being rate competitive relative to its local government peers.

Rubbish Charges

The cost of a standard domestic rubbish service will be increased from \$180.00 to \$190.00 for 2008/2009. The City's rubbish service charge continues to be at low level given the escalations in the costs of landfill, fuel and labour - all of which are key components of waste management costs. The majority of metropolitan local governments charge a rubbish service levy of between \$190.00 and \$230.00. All non rateable properties will incur a standard rubbish charge of \$275.00 per service and commercial services (1100 ltr) will incur a \$950.00 charge.

The rubbish service charge reflects the principles of full cost recovery - contractor charges have increased for 2008/2009 and so therefore must the associated rubbish levy. The charge also acknowledges the need to provide future funding to secure access to one the emerging regional facilities developing alternative waste management technologies when landfill ceases to be a viable option. The City recognises that landfill is neither an environmentally nor financially sustainable approach and that it will soon become necessary to pay a premium to participate in a more environmentally friendly and socially responsible waste management solution.

Resident ratepayers will continue to receive two green-waste and one general waste pass to the Transfer Station. Two bulk kerbside rubbish collections funded by the City will again be provided this year.

Overall, the combined increase in Rates and the Rubbish Charge for a typical (average) property in the City will be 5.49% - which is in line with the guidelines indicated by WALGA Local Government Cost Index movement for the year.

Emergency Services Levy (ESL)

The State Government ESL charge will again appear on all local government rate notices in 2008/2009. This charge will be calculated based on the GRVs supplied to the City using a rate nominated by the Fire & Emergency Services Authority. The 2008/2009 rate has been determined to be 1.17 cents in the dollar (1.52 cents in 2007/2008). FESA has indicated that the levy will be capped at \$215.00 for vacant residential land and \$120.00 for all other properties in 2008/2009. This charge is outside the control of local governments, is set by the State Government and is not retained as revenue by the City.

All monies collected from residents of the City which relate to the ESL must be remitted to the Fire and Emergency Services Authority (FESA). This has cash flow implications for the City in respect to people paying by instalments as the ESL must be treated as a 'priority creditor'. However, the effects of this have been mitigated as the City has signed an agreement to pay FESA in pre-determined quarterly amounts rather than paying monthly based on actual collections. This payment model has a less dramatic impact on the City's cash flow in the earlier part of the year.

Employee Costs

Employee salary and wage costs are \$13.40M for the year including the expected impact of the City's EBA, award increases and statutory superannuation contributions. This represents an increase of 4.50% over the previous year's level and is within the acceptable levels for the Employee Costs / Rates Ratio. As part of a prudent management strategy, accrued employee entitlements under relevant awards (annual leave and long service leave) for all employees are fully funded and supported by cash-backed investments.

The budget provides for a total of 217.6 FTE (full time equivalent) positions made up of 178 full time employees and an additional 76 part time employees. This compared to 213.9 FTE approved positions in 2007/2008.

Staffing levels in the 2008/2009 budget reflect a more appropriate mix of resources - with the major changes in the administration being the removal of a director position, the transfer of the sustainability function to the CEO Office, transfer of the Payroll Officer position from Human Resources to the Finance area, removal of an unfilled 0.5 FTE assistant position in the administration area and inclusion of an additional 0.6 FTE in Community Culture & Recreation as a result of a re-structure.

The mix between full and part time staff in Customer Focus Team and Libraries has been adjusted to provide better roster coverage - but with little impact on the overall headcount. The FTE staff headcount in the Ranger team has been reinstated by 1.0 FTE following the return of a ranger from maternity leave in 2007/2008.

Infrastructure Services has undergone a re-structure to provide better service levels and more effective supervision and has resulted in an increase of 2.0FTE (field staff) relative the 2007/2008 budgeted numbers - although not all positions are currently filled.

Council Member Entitlements

Entitlements for Council Members for 2008/2009 will remain at the statutory level for Meeting Fees of \$7,000 per Council Member and \$14,000 for the Mayor - as provided for under the Local Government Administration Regulations. Council Member Entitlements will also include (for all members), the permitted Communications and Technology allowances of \$2,400 and \$1,000 per annum respectively to assist members in effectively communicating with their electorate.

The Mayoral and Deputy Mayoral Local Government Allowances (as determined for 2 years at the June 2007 Council meeting) are established at \$45,000 and \$11,250 respectively. All amounts proposed above are within the limits permitted by relevant legislation.

Other Expenditure attributed to Council Members

In addition to funding allocations for Council Members for the relevant professional insurances, professional subscriptions, election expenses and training and conferences, there is an allocation that is made by applying activity based costing principles for corporate overheads to the Council Members area.

This covers the costs associated with:

- Officer time in researching, preparing and presenting reports and briefings to Council.
- Attending and recording minutes at Council meetings and briefings.
- An allocation of operating costs for the Council building.
- Technology support services.
- Administrative support services.

CPV Maintenance Fees

The impact of the concerted efforts of the City's executive and the positive and responsible support of the Collier Park Residents Committee have been reflected in effective management of the operating loss for Collier Park Village over the last few years. The Budget currently anticipates that the operating loss may reduce slightly in 2008/2009 to an estimated operating loss of \$111,882 compared to a budgeted operating loss of \$139,936 in 2007/2008. However, this will be dependent on the impact of costs for utilities which will have to be critically reviewed mid year as the impact of revised government charges becomes clearer.

Following the presentation of the draft budget to the Collier Park Residents Committee in June - and subsequently to the general meeting of all village residents, it is recommended that the Monthly Maintenance Fee for the Collier Park Village remain at \$270 per month for the July to September 2008 period (inclusive) - before increasing to the figure of \$280 per month thereafter for the remainder of the financial year.

The three month moratorium on the fee increase is consistent with the process adopted last year to allow time implement the alternative payment method that allows the residents to pay a lesser amount in cash each month - and have the remaining \$50 per month deducted from the refundable monies held on their behalf by the City in the Collier Park Village Residents Loan Offset Reserve. Financial modelling indicates that this approach continues to be financially sustainable and will not compromise the Collier Park Village reserves in the long term.

The budget also includes an operating subsidy of approximately \$45,000 to the Collier Park Hostel in 2008/2009 (versus approximately \$49,000 budgeted operating loss in 2007/2008). This would be met from the accumulated balance of the Collier Park Hostel Capital Reserve. This also does not include capital costs and refurbishments that will have to be funded from the accumulated balance of the Collier Park Hostel Capital Reserve. The budget has been developed on the assumption of the status quo prevailing - although it is possible that the consequential impacts of the Review into the Collier Park Hostel may alter that. In such an event, a separate budget review would be prepared to reflect any changed circumstances.

Reserve Funds

The City anticipates that the balance of its cash backed Reserves will increase by \$1,356,097 in net terms over the year - after reinvesting some \$1,353,199 worth of interest revenue back to the reserves. The expected balance of cash backed Reserves at 30 June 2009 including those quarantined for the purposes of the Collier Park Retirement Complex, Golf Course and Waste Management is approximately \$24.46M. Quarantined Reserves make up \$16.99M worth of this amount and the remainder (\$7.47M) is City Reserve Funds for future projects - with more than \$3M of this representing the 2008/2009 'Shadow Capital Program'. That is, funds allocated for - and ready to be drawn down for the construction of the new community facility (library & hall) at the Sandgate St Civic Centre site.

Capital Program

A Capital Expenditure program of some \$9.88M (excluding the Underground Power Project cash calls of \$5.5M that are payable to the Western Power contractor) and Carry Forward Works of approximately \$2.9M are planned for the 2008/2009 Budget. Details of the included projects are contained in **Attachment 6.1** to this report.

Underground Power Project (UGP)

In addition to the Capital Expenditure Program noted above, a further amount of \$5.50M is provided for the remainder of the City's contribution to the approved Como East UGP project.

Statutory Budget

The Statutory Budget is prepared in accordance with all relevant professional accounting pronouncements. It follows a similar format to the 2006/2007 budget and contains a number of specified schedules including:

Operating Statement:
Rate Setting Statement
Statement of Cash-Flows
Notes to and forming part of the Budget
Schedule of Fees & Charges
Schedule of Capital Projects
Schedule of Carry Forward Projects

The key features of each of these elements of the budget are:

1. An Operating Statement prepared in accordance with Australian Accounting Standard AAS27. This statement summarises revenues and recurrent expenditures - classified according to specified local government programs.
2. A Rate Setting Statement which consolidates all elements of the budget into the following categories :
 - Funding
 - All Sources except Rates \$ 18.71M
 - Loan Borrowings \$ 3.00M
 - Transfers from cash backed Reserves \$ 4.38M
 - Opening Funds \$ 0.41M
 - Accrual Funding Movements \$ 1.11M
 - Closing Funds \$ 0.17M
 - Expenditures
 - Operating Expenditures (excluding non cash items) \$ 33.73M
 - Capital Expenditure (according to AAS27 principles) \$ 8.47M
 - Transfers to cash backed Reserves \$ 5.73M
 - Loan Capital Payments \$ 0.55M

The difference between the total expenditures and funding from all sources other than rates is the amount that the City is required to raise from rates (\$20.69M) to produce a balanced budget in the 2008/2009 year. The Rate Setting Statement demonstrates to the community the full impact of the Budget.

3. A Statement of Cash-Flows which recognises the cash inflows from operating, investment and government sources as well as the outflow of cash on operating and investment items. It also indicates the impact which the timing of these items might have on the organisation's financial liquidity.
4. A Schedule of Fees & Charges which details the fees in force for City services and use of City facilities. Fees are based on either full cost recovery, partial cost recovery, statutory fees or reference (benchmark) pricing.

Consultation

In developing the budget, the City has given due consideration to submissions made in relation previous Strategic Financial Plans as well as considering Council Member and community feedback received by the City through various community forums and consultation exercises throughout the year.

Policy and Legislative Implications

The development of the Annual Budget has been conducted in accordance with the City's *Policy P601 – Strategic Financial Plan and Annual Budget Preparation* and *Policy P604 – Use of Debt as a Funding Option*.

All relevant legislative provisions of Part 6 of the Local Government Act have been met - and the budget document itself is consistent with the requirements of the Local Government Financial Management Regulations.

Financial Implications

The financial implications of adopting the 2008/2009 Budget are as disclosed in **Attachment 7.1** of this report.

Strategic Implications

This report deals with matters of financial management which relate directly to the City's strategic goal of Financial Viability - *To provide responsible and sustainable management of the City's financial resources.*

OFFICER RECOMMENDATION ITEM 7.1.1

That...

- (a) a General Rate in the Dollar of **6.000** cents be applied to the GRV of all rateable property within the City for the year ending 30 June 2009;
- (b) a Minimum Rate of **\$620.00** be set for the year ending 30 June 2009 notwithstanding the General Rate set out in part (a) above;
- (c) the following rubbish service charges be applied for the year ending 30 June 2009:
 - (i) a standard Rubbish Service Charge of **\$190.00** be levied;
 - (ii) a non rateable property Rubbish Service Charge of **\$275.00** be levied; and
 - (iii) a commercial (1100 ltr Bin) Rubbish Service Charge of **\$950.00** be levied.
- (d) a Swimming Pool Inspection Fee of **\$13.75** be levied for the year ending 30 June 2009;
- (e) the following dates be set for payment of rates by instalments:
 - First instalment 20 August 2008
 - Second instalment 06 November 2008
 - Third instalment 08 January 2009
 - Fourth instalment 12 March 2009
- (f) an administration charge of \$5.00 per instalment for payment of rates by instalments be applied to the second, third and fourth instalment in accordance with Section 6.45(3) and (4) of the Local Government Act 1995 and Regulation 67 of the Local Government (Financial Management) Regulations;
- (g) an interest rate of 5.5% be imposed on payment by instalments, to apply to the second, third and fourth instalment in accordance with Section 6.45(3) of the Local Government Act 1995 and Regulation 68 of the Local Government (Financial Management) Regulations;
- (h) an interest rate of 11% be imposed on overdue rates in accordance with Section 6.51(1) of the Local Government Act 1995 and Regulation 70 of the Local Government (Financial Management) Regulations;
- (i) a Monthly Maintenance Fee of \$270.00 (treated as 'Input Taxed' for the purposes of the GST) be applied to all units in the Collier Park Village for the period July 2008 to September 2008 inclusive;
- (j) a Monthly Maintenance Fee of \$280.00 (treated as 'Input Taxed' for the purposes of the GST) be applied to all units in the Collier Park Village for the period from October 2008 to June 2009 inclusive;

- (k) the Statutory Annual Budget for the year ending 30 June 2009 comprising Sections 1 & 2 of the 2008/2009 Annual Budget as distributed with this Agenda and tabled at this meeting, be adopted;
- (l) the Management Account Summary Budget Schedules for the financial year ending 30 June 2009 as set out in Section 3 of the Annual Budget be endorsed;
- (m) the Capital Expenditure Budget for the financial year ending 30 June 2009 as set out in Section 4 of the Annual Budget be adopted;
- (n) the budgeted Carried Forward Capital Expenditure to 2008/2009 - as set out in Section 5 of the Annual Budget be approved (subject to final confirmation of unexpended balances after the City's final 2007/2008 financial accounts are completed);
- (o) the Reserve Fund transfers for the financial Year ending 30 June 2009 as set out in Section 6 of the Annual Budget be approved;
- (p) the Schedule of Fees and Charges as set out in Section 7 of the Annual Budget for the year ending 30 June 2009 be adopted;
- (q) an Incentive Scheme to encourage early payments of rates shall be operated under the following conditions:
 - (i) This competition is open to all ratepayers of the City of South Perth
 - (A) who pay in full all outstanding rate amounts by 20 August 2008,
 - (B) if the ratepayer is a registered entitled pensioner claiming the government subsidy, pay any arrears and 50% of the current year's rates by 20 August 2008 (previously deferred amounts excluded);
 - (ii) ratepayers who comply with part (q)(i) will be automatically entered in the prize draw

**An Absolute Majority is Required*

8. CLOSURE