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Special Council Meeting

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draft Work in Progress

draft Work in Progress



SPECIAL MEETING OF COUNCIL 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 2009/2010 Annual Budget
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Location: City of South Perth
Applicant: Council
File Ref: FS/FI/1
Date: 4 July 2009
Author / Reporting Officer: Michael J Kent, Director Financial and Information Services

Summary

To present the 2009/2010 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 as well as the prevailing economic climate. Revenues have been adversely impacted by significantly reduced investment earnings and a subdued development sector whilst expenditures have been significantly affected by increased state government charges for utilities and waste management in particular.

The Budget document includes the Statutory Budget format with all relevant disclosures to discharge financial accountability to the community. In addition, it contains the 2009/2010 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 2008 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 2009/2010 budget.
- Conducting a critical review of both operating elements and major capital projects.
- Submitting and considering capital project proposals for 2009/2010 budget.
- Incorporating the outputs of community forums / engagement processes and Council Member workshops during the year into our forward financial planning.
- Reviewing the draft strategic financial projections 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 2009/2010 budget.
- Identifying the incomplete capital works to be carried forward to 2009/2010.
- Establishing the likely Budget Opening Position.
- Modelling the Gross Rental Values (GRV) for all properties in the City.
- Preparing and reviewing the Draft Budget & Proposed Budget.
- Preparing the 2009/2010 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, current economic climate and the budget itself was available to participants. This has resulted in an informed and shared understanding of the context for and construction of the Budget - as well as 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 2009/2010 Annual Budget is provided below:

Budget Overview

The 2009/2010 Budget provides for Total Revenue of \$41.95M. Total Expenditure is \$51.44M including non-cash items (depreciation etc) of \$6.96M plus a further \$0.65M for debt capital repayments. The expenditure is comprised of \$35.92M of Operating Expenditure (Management Account format) plus \$15.52M of Capital Expenditure. Planned net transfers from cash backed Reserves for the year are \$2.69M. This reflects Reserve funds being used for projects such as the new library & community facility, plant and equipment and information technology - although these are partly offset by transfers back to Reserves of 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 model results in a balanced budget.

Rates

The proposed rates yield for 2009/2010 is \$21.94M at the initial rates strike - based on the GRVs for all rateable properties in the City. We use the GRVs supplied from the Valuer General's Office in determining our annual rates - which are calculated by multiplying those GRVs by the nominated 'Rate in the Dollar' determined by Council. A small amount of interim rates growth (\$0.06M) is anticipated during the year.

The 2009/2010 proposed rates yield is achieved by applying a 'Rate in the Dollar' of 6.3500 cents to the property GRV - (6.0000 cents in 2008/2009). This results in a 5.8% rates yield increase - which sits responsibly within the WALGA indicative range of a 4% - 8% increase for metropolitan local governments (as reported in the media in late June 2009).

The Minimum Rate (determined to be the minimum equitable cost of servicing lots within the district) increases from \$620.00 to \$650.00 in 2009/2010 - a 4.8% increase. Approximately 3,668 properties (18.9%) are expected to be minimum rated in 2009/2010. This is a slightly lower 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 \$244.80 which is a bigger concession than last year's \$234.90. Instalment payment options will attract a \$7.50 administration fee (per instalment) and pre-interest charges of 5.5%. Penalty interest of 11% (as provided for by the Local Government Financial Management Regulations) will be applied to amounts outstanding beyond the due date. Benchmarking the rates increases of our metropolitan local government peers provides convincing 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 \$190.00 to \$200.00 for 2009/2010. The City's rubbish service charge continues to be at very modest 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 \$210.00 and \$310.00. All non rateable properties will incur a standard rubbish charge of \$285.00 per service and commercial services (1100 ltr) will incur a \$1,000.00 charge.

The rubbish service charge reflects the principles of full cost recovery - contractor charges and landfill levies have increased for 2009/2010 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 or 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 to ratepayers this year.

Overall, the combined increase in Rates and the Rubbish Charge for a typical (average) property in the City will be 5.74%.

Emergency Services Levy (ESL)

The State Government ESL charge will again appear on all local government rate notices in 2009/2010. This charge will be calculated based on the GRVs supplied to the City using a rate nominated by the Fire & Emergency Services Authority. The 2009/2010 rate has been determined to be 1.23 cents in the dollar (1.17 cents in 2008/2009). FESA has indicated that the levy will be capped at \$225.00 for vacant residential land and \$225.00 for all other properties in 2009/2010. 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 & 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 \$14.00M for the year including the expected impact of the City's EBA, award increases and statutory superannuation contributions. This represents an increase of 4.32% 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 217.8 FTE (full time equivalent) positions made up of 179 full time employees and an additional 58 part time employees. This is compared to 217.6 FTE approved positions in 2008/2009.

Whilst overall staffing levels have not increased in FTE terms, the 2009/2010 budget reflects a more appropriate mix of resources. We have also factored in the known vacancies as at year end. That is, where it is known that a position can not be filled for 1 to 2 months, we have not budgeted for that position in the payroll budget for that period.

Council Member Entitlements

Entitlements for Council Members for 2009/2010 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 & 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 at the June 2009 Council meeting) are established at \$48,500 and \$12,125 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 allocation 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.
- A portion of the 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 increase slightly in 2009/2010 to an estimated operating loss of \$187,004 compared to a projected operating loss of \$163,335 in 2008/2009. However, this will be dependent on the impact of costs for utilities which may 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, it is recommended that the Monthly Maintenance Fee for the Collier Park Village remain at \$280 per month for the July to September 2009 period (inclusive) - before increasing to the figure of \$290 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 \$70 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 \$57,000 to the Collier Park Hostel in 2009/2010 (a similar amount to the estimated operating loss in 2008/2009). This would be met from the accumulated balance of the Collier Park Hostel Capital Reserve. This amount does not include capital costs and refurbishments that will also 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 in relation to the operations of the Hostel - although it is possible that the consequential impacts of a future 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 decrease by \$2,694,643 in net terms over the year - after reinvesting some \$1,014,350 worth of interest revenue back to the cash backed reserves.

The reduction in the reserves balance represents a planned strategic use of cash backed reserves previously accumulated to use on the construction of the South Perth Library & Community Centre rather than any deterioration in the City's overall financial position.

Cash backed reserves are expected to have a balance of \$22.99 at 30 June 2010 - including those quarantined for the purposes of the Collier Park Retirement Complex, Golf Course and Waste Management. Quarantined Reserves make up \$19.26M worth of this amount and the remainder (\$3.73M) is City Reserve Funds for future projects - after the \$3.25M reduction drawing down funds for the construction of the new Library and Community Facility at the Sandgate St Civic Centre site.

Capital Program

A Capital Expenditure program of some \$15.52M is proposed for 2009/2010. Incomplete capital works with an estimated value of approximately \$2.5M are planned for the 2009/2010 Budget. Details of projects making up the capital program are contained in **Attachment 7.1** to this report.

Statutory Budget

The Statutory Budget is prepared in accordance with all relevant professional accounting pronouncements. It follows a similar format to the 2008/2009 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 Income Statement prepared in accordance with relevant accounting standards. This statement summarises revenues and recurrent expenditures - classified according to specified local government programs and also discloses them by nature and type.
2. A Rate Setting Statement which consolidates all elements of the budget into the following categories:

• Funding	
▪ All Sources except Rates	\$ 19.94M
▪ Loan Borrowings - City	\$ 0.00M
▪ Transfers from cash backed Reserves	\$ 8.03M
▪ Opening Funds	(\$ 0.21M)
▪ Accrual Funding Movements	\$ 0.41M
▪ Closing Funds	\$ 0.13M

- Expenditures
 - Operating Expenditures (excluding non cash items) \$ 30.86M
 - Capital Expenditure (according to AAS27 principles) \$ 13.62M
 - Transfers to cash backed Reserves \$ 4.95M
 - Loan Capital Payments \$ 0.61M

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 (\$22.01M) to produce a balanced budget in the 2009/2010 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, Council Member and community feedback received by the City through various community forums and consultation exercises throughout the year and, in particular, the prevailing economic climate.

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 2009/2010 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.*

Sustainability Implications

This report embraces all three dimensions of sustainability - although its primary emphasis is on prudent and responsible financial management that addresses the financial aspect of sustainability. It achieves this on several levels. Firstly, it promotes accountability for resource use through a critical evaluation of proposed funding options and expenditures. Secondly, through the City exercising disciplined financial management practices and responsible forward financial planning, we can ensure that the consequences of our financial decisions are sustainable into the future.

OFFICER RECOMMENDATION ITEM 7.1

That...

- (a) a General Rate in the Dollar of **6.3500** cents be applied to the GRV of all rateable property within the City for the year ending 30 June 2010;
- (b) a Minimum Rate of **\$650.00** be set for the year ending 30 June 2010 notwithstanding the General Rate set out in part (a) above;
- (c) that the following rubbish service charges be applied for the year ending 30 June 2010
 - (i) a standard Rubbish Service Charge of **\$200.00** be levied;
 - (ii) a non rateable property Rubbish Service Charge of **\$285.00** be levied;
 - (iii) a commercial (1100 ltr Bin) Rubbish Service Charge of **\$1000.00** be levied;
- (d) a Swimming Pool Inspection Fee of **\$13.75** be levied for the year ending 30 June 2010;
- (e) the following dates be set for payment of rates by instalments:

First instalment	26 August 2009
Second instalment	05 November 2009
Third instalment	07 January 2010
Fourth instalment	11 March 2010
- (f) an administration charge of \$7.50 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 & 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 \$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 July 2009 to September 2009 inclusive;
- (j) a Monthly Maintenance Fee of \$290.00 (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 2009 to June 2010 inclusive;
- (k) the Statutory Annual Budget for the year ending 30 June 2010 comprising Sections 1 & 2 of the 2009/2010 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 2010 as set out in Section 3 of the Annual Budget be endorsed;
- (m) the Capital Expenditure Budget for the financial year ending 30 June 2010 as set out in Section 4 of the Annual Budget be adopted;
- (n) the budgeted Carried Forward Capital Expenditure to 2009/2010 - as set out in Section 5 of the Annual Budget be approved (subject to final confirmation of unexpended balances after the City's final 2008/2009 financial accounts are completed);

- (o) the Reserve Fund transfers for the financial Year ending 30 June 2010 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 2010 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 26 August 2009,
 - (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 26 August 2009 (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

draft Work in Progress