



**SPECIAL MEETING OF COUNCIL
CALLED TO ADOPT 2011/12 BUDGET
12 July 2011**

AGENDA

1. **DECLARATION OF OPENING**
2. **DISCLAIMER**
The Chairperson to read the City's Disclaimer
3. **ANNOUNCEMENTS FROM THE PRESIDING MEMBER**
 - 3.1 **Audio Recording of Council meeting**
4. **ATTENDANCE**
 - 4.1 **Apologies**
 - 4.2 **Approved Leave of Absence**
5. **DECLARATION OF INTEREST**
6. **PUBLIC QUESTION TIME** (*in relation to Item 8*)
7. **DEPUTATIONS** (*in relation to Item 8*)
8. **REPORTS**

8.1 Adoption of the 2011/2012 Annual Budget
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Location:	City of South Perth
Applicant:	Council
File Ref:	FS/FI/1
Date:	6 July 2011
Author / Reporting Officer:	Michael J Kent, Director Financial and Information Services

Summary

This report presents the 2011/2012 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, Corporate Plan and the financial parameters of its Strategic Financial Plan - as well as the prevailing economic climate.

The Budget document includes the Statutory Budget format with all relevant disclosures to discharge financial accountability to the community. In addition, it contains the 2011/2012 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 2010 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 Plan Corporate Plan, Budget and the (revised) Strategic Financial Plan.
- Determining the overall financial parameters for the 2011/2012 budget.
- Conducting a critical review of both operating elements and major capital projects.
- Submitting and considering capital project proposals for 2011/2012 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 and Corporate Plan.
- Determining the final capital projects list for inclusion in the 2011/2012 budget.
- Identifying the incomplete capital works to be carried forward to 2011/2012.
- Establishing the likely Budget Opening Position.
- Modelling the newly provided Gross Rental Values (GRV) for all properties in the City.
- Preparing and reviewing the Draft Budget & Proposed Budget.
- Preparing the 2011/2012 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 the Strategic Plan, Corporate 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 2011/2012 Annual Budget is provided below:

Budget Overview

The 2011/2012 Budget provides for Total Revenue of \$56.41M - including \$4.80M from UGP charges and \$6.25M from the strategic disposal of surplus land. Total Expenditure is \$64.20M comprising \$34.39M of Operating Expenditure (Management Account format) plus \$21.81M of Capital Expenditure. It also includes non-cash items (depreciation etc) of \$8.00M.

The budget allows for \$1.45M for loan capital repayments plus planned net transfers to cash backed Reserves of \$5.55M - including transfers of \$1.98M of interest revenue back to Reserves. The remainder reflects quarantining of land sale proceeds and funding for future building works, infrastructure projects, plant items and information technology. Along with the estimated Opening Position and the anticipated change in Accrual Items (including movements in UGP debtors), this model results in a balanced budget.

Rates

The proposed rates yield for 2011/2012 is \$25.15M at the initial rates strike - based on the newly supplied GRVs for all rateable properties in the City. The GRVs supplied by the Valuer General's Office are used in determining our annual rates - which are calculated by multiplying those GRVs by the nominated 'Rate in the Dollar' determined by Council. The new GRVs across the City have risen in aggregate by some 21% - but not consistently in all suburbs.

Detailed modelling of options was carried out to determine how the City could 'smooth' the effect of the revaluation fluctuations so that as many as possible of our ratepayers could be placed in the most advantaged (or least disadvantaged position). Based on this, the 'average' ratepayer would experience a 4.81% increase overall in rates and charges - but some would necessarily experience a greater or lesser increase due to the changes in GRVs in some areas.

The 2011/2012 proposed rates yield is achieved by applying a 'Rate in the Dollar' of 5.9325 cents to the property GRV - (6.7250 cents in 2010/2011) This results in a 5.9% rates yield increase which sits very favourably when compared to the WALGA metropolitan indicative average of a 6.10% yield increase (as reported in the media in late June 2011 - and verified by peer surveys).

Interestingly, the actual rate in the dollar used by the City in 2011/2012 is the **lowest** in the last 12 years. That is, rates increases over the years are actually due to increases in property valuations - not the Council determined rate in the dollar.

The Minimum Rate (determined to be the minimum equitable cost of servicing lots within the district) increases from \$685.00 to \$750.00 in 2011/2012. Approximately 2,323 properties (11.9%) are expected to be minimum rated in 2010/2011. This is a much lower

proportion than last year (18.6%) - and is well below the threshold of 50% 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 \$257.45 which is a bigger concession than last year's \$249.95. 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 against 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 \$210.00 to \$220.00 for 2011/2012. The City's rubbish service charge continues to be set 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 \$305.00 service and commercial services (1100 litre) will incur a \$1,100.00 charge.

The rubbish service charge reflects the principles of full cost recovery. As contractor charges and landfill levies have increased, so therefore must the associated rubbish levy. The charge also acknowledges the need to provide future funding to secure access to one of 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 - this year these will form part of the Rates Notice rather than being separate passes. Two bulk kerbside rubbish collections funded by the City will again be provided to ratepayers this year.

Overall, the combined increase for a typical (average) property in the City will be 4.81% or \$1.54 per week.

Emergency Services Levy (ESL)

The State Government ESL charge will again appear on all local government rate notices in 2011/2012. This charge will be calculated based on the GRVs supplied to the City using a rate nominated by the Fire & Emergency Services Authority. The 2011/2012 rate has been determined to be 1.14 cents in the dollar. FESA has indicated that the levy will be capped at \$280.00 for vacant residential land and all other properties in 2010/2011. 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 \$16.22M for the year - including the expected impact of the City's EBA, award increases, statutory superannuation contributions and new approved positions.

Whilst this represents an increase over the previous year's level, it remains well within the acceptable industry benchmark 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 227.2FTE (full time equivalent) positions made up of 188 full time employees and an additional 53 part time employees. This is compared to 224.2 FTE approved positions in 2010/2011.

The budget includes 3 new (approved) staff positions (IT System Development Coordinator, Applications Administrator and a Trainee Admin Officer in Infrastructure Services). There have also been some minor amendments to roster levels in several other areas to ensure that desired service levels and customer responsiveness standards can be achieved.

Council Member Entitlements

Entitlements for Council Members for 2011/2012 will remain at 100% of 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 remain at \$50,000 and \$12,500 respectively (as determined at the June 2011 Council meeting). 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.

Loan Borrowings

Council will be undertaking planned new loan borrowings in 2011/2012 as part of a responsible and prudent financing package. All borrowings will be undertaken in accordance with Section 6.20 of the Local Govt Act and Council Policy P604 - Use of Debt as a Funding Option. Loans are undertaken at competitive rates from WA Treasury Corporation who have worked directly with senior Financial Services staff to determine the most advantageous funding arrangements.

Proposed Borrowings for 2011/2012 are:

Loan 225B	\$1.0M of General Capital Project Funding Borrowings (deferred from 2010/2011)	10 Year term - monthly repayments met from general Municipal Funds.
Loan 226	\$2.0M to accommodate the deferred payment (instalment) options relating to the Stage 5 UGP Project.	3 Year term - monthly repayments met by interest charged to ratepayers in the affected area taking up the deferred payment option.
Loan 227	\$4.76M to support major capital upgrades of the Collier Park Golf Course	15 Year term - all repayments to be met directly from the CPGC Reserve & Operating Surplus annually. (Self Supporting Loan - no impost on City ratepayers)

All borrowings are secured against the general revenue of the City - but only Loan 225B will involve a direct draw on City funds. Gross loan capital repayments on all loans (including self supporting loans to community groups) are disclosed in the Budget - but all Self Supporting Loans are reimbursed to the City by the beneficiary sporting clubs and community hospital.

Fees & Charges Schedule

The attached Fees & Charges Schedule reflects a responsible assessment of the costs of providing services to our community whilst recognising community service obligations. As appropriate, the fee schedule recognises fees determined on a variety of fee bases:

- Full cost recovery
- Benchmarked / reference pricing
- Statutory fees
- Partial recovery - based on community service obligations

Where fees are determined in accordance with statutory limits, the City's practice is that it will always adopt the maximum allowable fee at the time of adopting the Annual Budget and related Fees & Charges Schedule. In the event that the statutory fee is adjusted upwards after the budget is adopted, the City's practice will be to immediately advertise the increased fee structure and to implement the revised statutory fee basis as soon as the statutory fee advertising requirements have been completed.

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 decrease in 2011/2012 to an estimated operating loss of \$118,555 compared to a projected operating loss of approximately \$231,174 in 2010/2011 (additional revenue from vehicle trade-in and interest revenue in 2011/2012). However, this result 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 discussion with a representative of the Collier Park Residents Committee in June, it is recommended that the Monthly Maintenance Fee for the Collier Park Village remain at \$300 per month for the July to September 2011 period (inclusive) - before increasing to the figure of \$310 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 to implement the alternative payment method that allows the residents to pay a lesser amount in cash each month - and have the remaining \$80 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 \$152,155 to the Collier Park Hostel in 2011/2012. 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 increase by \$5.55M in net terms over the year - after reinvesting some \$2.20M worth of interest revenue back to the cash backed reserves. The increase in the Reserves balance represents a planned accumulation of cash backed reserves from strategic land sales and funding for future building projects, infrastructure, plant & equipment and technology to avoid the dramatic fluctuations in rates that would otherwise occur in the individual years that those projects occurred. Some previously accumulated cash reserves will also be drawn down during the year as part of a prudent and sustainable financial management approach - resulting in a strengthening of the City's overall financial position.

Cash backed reserves are expected to have a balance of \$35.97M at 30 June 2012 - including those quarantined for the purposes of the Collier Park Retirement Complex, Golf Course and Waste Management. Quarantined Reserves make up 71% (\$25.60M) worth of this amount and the remaining 29% (\$10.37M) relates to Discretionary City Reserve Funds.

Capital Program

A Capital Expenditure program of some \$21.81M is proposed for 2011/2012 - including \$5.30M for the Stage 5 UGP project and around \$5.62M for the Collier Park Golf Course upgrade. Incomplete capital works (and related funding) with an estimated value of approximately \$0.95M will be carried forward for inclusion in the 2011/2012 Budget. Details of projects making up the 2011/2012 capital program (and the likely carry forward works) 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 2010/2011 budget and contains a number of specified schedules including:

- Comprehensive Income 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 Land Sales, Capital Grants & Rates \$ 24.12M
 - Strategic Land Sale Proceeds \$ 6.25M
 - Grants for Acquisition of Assets \$ 0.88M
 - Loan Borrowings - City \$ 1.00M
 - Loan Borrowings - UGP Project \$ 2.00M
 - Loan Borrowings - City \$ 4.76M
 - Transfers from cash backed Reserves \$ 6.75M
 - Opening Funds \$ 0.21M
 - Accrual Funding Movements \$ (1.68M)
 - Closing Funds \$ (0.21M)
- Expenditures
 - Operating Expenditures (excluding non cash items) \$ 42.67M
 - Capital Expenditure (according to statutory principles) \$ 13.53M
 - Transfers to cash backed Reserves \$ 12.30M
 - (excluding transfers to CPV / CPH refundable monies) \$ (0.70M)
 - Loan Capital Payments \$ 1.45M

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 (\$25.15M) to produce a balanced budget in the 2011/2012 year. The Rate Setting Statement demonstrates the full impact of the Budget to the community.

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 during the year.
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 to the Community Visioning Process, previous Strategic Financial Plans, Council Member and community feedback received by the City through various 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 2011/2012 Budget are as disclosed in **Attachment 7.1** of this report.

Strategic Implications

This report deals with matters of sustainable financial management which directly relate to the key result area of Governance identified in the City's Strategic Plan - *'To ensure that the City's governance enables it to respond to the community's vision and deliver on its promises in a sustainable manner'*.

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 8.1

That...

- (a) a General Rate in the Dollar of **5.9325** cents be applied to the GRV of all rateable property within the City for the year ending 30 June 2012;
- (b) a Minimum Rate of **\$750.00** be set for the year ending 30 June 2012 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 2012
 - (i) a standard Rubbish Service Charge of **\$220.00** be levied;
 - (ii) a non rateable property Rubbish Service Charge of **\$305.00** be levied;
 - (iii) a commercial (1100 ltr Bin) Rubbish Service Charge of **\$1100.00** be levied;
- (d) a Swimming Pool Inspection Fee of **\$26.50** be levied for the year ending 30 June 2012
- (e) the following dates be set for payment of rates by instalments:

First instalment	24 August 2011
Second instalment	03 November 2011
Third instalment	05 January 2012
Fourth instalment	08 March 2012
- (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 **\$300.00** (treated as 'Input Taxed' for the purposes of the GST) be applied to all units in the Collier Park Village for the period July 2011 to September 2011 inclusive;
- (j) a Monthly Maintenance Fee of **\$310.00** (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 2011 to June 2012 inclusive;

AGENDA : SPECIAL COUNCIL MEETING : 12.7.11

- (k) the Statutory Annual Budget for the year ending 30 June 2012 comprising Sections 1 & 2 of the 2011/2012 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 2012 as set out in Section 3 of the Annual Budget be endorsed;
- (m) the Capital Expenditure Budget for the financial year ending 30 June 2012 as set out in Section 4 of the Annual Budget be adopted;
- (n) the budgeted Carried Forward Capital Expenditure to 2011/2012 - as set out in Section 5 of the Annual Budget be approved (subject to final confirmation of unexpended balances after the City's final 2010/2011 financial accounts are completed);
- (o) the Reserve Fund transfers for the financial Year ending 30 June 2012 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 2012 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 **24 August 2011**,
 - (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 **24 August 2011** (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*

9. CLOSURE

10. RECORD OF VOTING