

## C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)

Ward : All  
 Category : Operational  
 Subject Index : Budgeting – Review  
 Customer Index : Not Applicable  
 Disclosure of any Interest : No Officer involved in the preparation of this report has a declarable interest in this matter.  
 Previous Items : Item C22/6191 Special Meeting of Council held 21 June 2022 – Consideration and Adoption of the 2022-2023 Budget.  
 Works Programme : Not Applicable  
 Funding : Not Applicable  
 Responsible Officer : Debbie Whyte  
 Manager Financial Services

### AUTHORITY / DISCRETION

#### DEFINITION

<input type="checkbox"/>	Advocacy	<i>When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.</i>
<input checked="" type="checkbox"/>	<b>Executive</b>	<b><i>The substantial direction setting and oversight role of the Council. e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i></b>
<input type="checkbox"/>	Legislative	<i>Includes adopting local laws, town planning schemes &amp; policies.</i>
<input type="checkbox"/>	Review	<i>When the Council operates as a review authority on decisions made by Officers for appeal purposes.</i>
<input type="checkbox"/>	Quasi-Judicial	<i>When the Council determines an application/matter that directly affects a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (e.g. under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.</i>
<input type="checkbox"/>	Information	<i>For the Council/Committee to note.</i>

## C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)

### KEY ISSUES / SUMMARY

- A Mid-Year Budget Review (the Review) is required to be undertaken in accordance with the *Local Government (Financial Management) Regulations 1996*.
- This report presents the results of the Review for the period 1 July 2022 to 31 December 2022 and highlights the significant positive and negative variations that require budget amendment.
- The revised closing position indicates a balanced budget, which has been achieved by using temporary cost savings and a transfer from the Rates Equalisation Reserve to fund several permanent requests for increased funding – this approach is not financially sustainable and therefore not recommended in the longer term which will now be addressed in the review of the Long Term Financial Plan.
- This report recommends that the Council notes the results of the Review, and by Absolute Majority, approves the recommended budget amendments required to the 2022-2023 Budget as a result of the Review.

### BACKGROUND

The City of Melville reviews its actual versus budget position on an ongoing basis and a budget variation listing is submitted to Council in the monthly Statements of Financial Activity Report.

The Financial Management Regulations (33A) specify that Local Governments must at the least undertake a formal budget review between 1 January and 31 March each year, have it reviewed and adopted by the Council and submit the findings to the Department of Local Government, Sport and Cultural Industries. The City of Melville has undertaken the Review within this period based on the financial year to date revenue and expenditure position as at 31 December 2022.

### DETAIL

A review of budgets has been undertaken by Budget Responsible Officers, and then reviewed by Financial Services and the Executive and Management Leadership Teams.

As presented, the amended financial position for the City as at 31 December 2022 will have no impact to the closing position. This is the net result of both positive and negative variances across both operating and capital budgets and funds to be set aside and funds to be used from specific purpose reserve accounts.

## C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)

The following table is a summary of the 2022-2023 Mid-Year Review results, with positive variances shown as \$xxx and negative variances shown as (\$xxx) i.e. in red parentheses:

	Variance between Revised Budget and Budget Review \$
<b>Revenue from Operating Activities (excluding rates)</b>	
Operating Grants, Subsidies and Contributions	52,641
Fees and Charges	(50,549)
Interest Earnings	4,203,500
Other Revenue	1,304,247
<b>Expenditure from Operating Activities</b>	
Employee Costs	(524,198)
Materials and Contracts	(680,994)
Utility Charges	(23,300)
Other Expenditure	(46,329)
<b>Net Operating Variance</b>	<b>4,235,018</b>
<b>Operating Activities Excluded from Budget - (Profit)/loss on asset disposals</b>	<b>(25,900)</b>
<b>Investing Activities</b>	
Non-operating grants, subsidies and contributions	812,250
Proceeds from disposal of assets	25,900
Purchase of furniture and equipment	(417,000)
Purchase of plant and equipment	(407,183)
Purchase of land and buildings	(635,637)
Purchase of infrastructure assets	1,097,767
<b>Net Investing Variance</b>	<b>476,097</b>
<b>Financing Activities</b>	
Net Reserve Fund Transfers	(4,885,215)
<b>Net Financing Variance</b>	<b>(4,885,215)</b>
Rates	200,000
<b>Net Variance as at 31 December 2022 surplus/(deficit)</b>	<b>0</b>

Key findings are shown below and amendments are shown in line with the Adopted Annual Budget format in attachment: [6193A Mid Year Budget Review 2022-2023 Summary Amendments](#).

Whilst the reporting levels adopted by the Council when adopting the 2022-2023 Budget, at its Ordinary Meeting of Council held on 21 June 2022, were 10% or \$100,000 (whichever is greater), some commentary has been provided on variances less than these amounts where considered necessary to gain a full understanding of the amended net position resulting from the Mid-Year Review.

## **C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)**

### **Key material findings in the Operating Budget:**

#### **Operating Grants, Subsidies and Contributions Income - \$52,641 Positive Variance**

- Increase of \$20,000 for Lotterywest grant funding for various cultural development events.
- Increase of \$40,000 for grant funding from the Southwest Aboriginal Land & Sea Council for the Aboriginal Ranger Program. This funding partly offsets the employment cost increase required for the Aboriginal Ranger trainee positions.

#### **Fees and Charges Income – (\$50,549) Negative Variance**

- Increase in fees and charges income for Leisurefit Centres by \$121,483 in line with the higher activity levels expected. This increase partly offsets the employment cost increase required for Leisurefit Centres to meet the demands of the higher activity levels.
- Reduction of \$180,000 to income from the Public Tree levy due to the staff position to coordinate the assessment of this fee not yet being recruited.

#### **Interest Earnings - \$4,203,500 Positive Variance**

- Increase of \$1,175,000 to interest income from investment of municipal funds due to significant increases to the market interest rate after the 2022-2023 budget adoption.
- Increase of \$2,990,000 to interest income from investment of reserve funds due to significant increases in the market interest rate after the 2022-2023 budget adoption. 100% of this increase and a further \$553,716 which was not set aside to reserves due to affordability at the time of the 2022-2023 budget adoption is now being set aside to reserves.

#### **Other Revenue - \$1,304,247 Positive Variance**

- Increase of \$675,346 to reflect the final recovery of Lehman Brothers managed CDO investment losses dating back to the 2008 Global Financial Crisis. This amount is set aside to various reserves using the distribution basis applied for previous recoveries.
- Increase of \$80,000 to reflect the unplanned income received from the sale of excess bin liners from a previous year purchase to the City of Nedlands.
- Increase of \$512,001 relating to the recoup of expenditure of the Perth South West Metropolitan Alliance based on their adopted budget. This amount is fully offset by increases to employment, materials and contracts and other expenditure budgets for the Perth South West Metropolitan Alliance.

#### **Employee Costs - (\$524,198) Negative Variance**

- Increase of \$315,000 relates to the Perth South West Metropolitan Alliance and fully offset by increased revenue.
- Increase of \$42,000 for a permanent Senior Governance Position with ongoing annual commitments.
- Increase of \$86,000 in People and Culture for two permanent staff positions in relation to Organisational Development and Learning and Development with ongoing annual commitments.
- Increase of \$40,000 in People and Culture for the Employee Assistance Program.

## **C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)**

- Increase of \$12,000 in Community Development for a permanent Child Safety Officer position with ongoing annual commitments.
- Increase of \$11,000 in Community Development for a contract Youth Programming and Digital Engagement Officer position.
- Increase of \$89,000 in Natural Areas for two trainees on contract for the Aboriginal Ranger Program.
- Increase of \$30,000 in Ranger and Emergency Management for a contract Parking Officer position in relation to Canning Bridge.
- Increase of \$30,000 in Community Safety Services for a contract Community Safety Officer position.
- Increase of \$40,000 in First Nations Engagement for training costs for Elected Members and the Executive Leadership Team in relation to Cultural Awareness - Uluru Statement from the Heart.
- Increase of \$144,984 for additional staffing levels required at the Leisurefit Centres.
- Increase of \$23,000 in Urban Planning for a contract Business Support Trainee position.
- Increase of \$119,000 in Urban Planning for additional costs related to staff resignations and temporary assistance.
- Reduction of \$411,000 relating to temporary savings such as vacant staff positions, excess leave replacement budgets and lower actual hours worked than budgeted.

### **Materials and Contracts Expenditure - (\$680,994) Negative Variance**

- Increase of \$171,000 relates to the Perth South West Metropolitan Alliance and fully offset by increased revenue.
- Increase of \$190,000 in Information Technology (IT) services relates to outsourcing costs associated with the delivery of IT projects.
- Increase of \$30,000 in Place Facilitation for professional consultancy costs for the trial Future Town Square – Canning Bridge Markets.
- Increase of \$80,000 in People and Culture for Legal Fees.
- Increase of \$80,000 to IT services licencing costs budget for Domain Based Message Authentication, Reporting and Conformance (DMARC) and Network Detect & Respond (NDR).
- Increase of \$55,000 in Healthy Melville for professional consultancy costs for Tennis and Wheeled Sports strategies and the Bill Elson master plan.
- Increase of \$40,000 in Cultural Services for professional consultancy costs related to the detailed design of the new Canning Bridge Library and Creative Studios.
- Increase of \$50,160 in Ranger and Emergency Services for the purchase and installation of vehicle mounts.
- Increase of \$100,000 in Civil Asset Maintenance for additional costs required to respond to findings of the path audit.
- Net reduction of \$142,005 relating to temporary minor increases and decreases to various budgets.

## **C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)**

### **Key material findings in the Capital Budget:**

#### **Non Operating Grants, Subsidies and Contributions - \$812,250 Positive Variance**

- Increase of \$100,000 for CSRFF funding for the Mt Pleasant Bowling Club.
- Increase of \$149,097 for Main Roads Regional Grant (MRRG) funding for the Riseley Street - Almondbury to Marmion Road project.
- Increase of \$354,025 for National Black Spot funding for the Marmion Street/Norma Road Stage 1 project.
- Increase of \$145,000 for Federal Government election funding for the Karoonda Reserve – Netball project.
- Increase of \$64,128 for funding from Main Roads Direct Grants.

#### **Purchase of Furniture and Equipment - (\$417,000) Negative Variance**

- Information Technology Capital Equipment – Increase of \$137,000 due to additional funds required for printers and the Intranet Future Vision project. This amount is offset by an increase to funds used from the Information Technology Reserve.
- Parking Meters – Increase of \$300,000 for equipment purchases for the purchase of 48 new ticketless parking meters to replace the older meters due to the unavailability of 3G from Optus. This amount is offset by an increase to funds used from the Parking Facilities Reserve.

#### **Purchase of Plant and Equipment - (\$407,183) Negative Variance**

- Increase of \$97,000 to the Heavy Vehicles replacement budget due to market prices increases for two Isuzu Crew Cabs.
- Increase of \$166,073 to the Light Vehicles budget due to the upgrade of a utility for the Point Walter golf course maintenance, two tool tray canopies to be fitted to two works vehicles and the purchase of a new utility for the Aboriginal Ranger Program.
- Increase of \$144,110 to the Heavy Plant budget due to market price increases for two trailers and a spraying unit, the advancing of the replacement of a mower for Point Walter maintenance and the purchase of a new sprayer and trailer for the Aboriginal Ranger Program.

The above increases are partly offset by an increase of \$207,520 to funds used from the Fleet Services Vehicles, Plant and Equipment Replacement Reserve to cover the amendments related to replacements only.

#### **Purchase of Land and Buildings – (\$635,637) Negative Variance**

A detailed listing of budget amendments is included in attachment [6193B Significant Capital Works Project Budget Amendments 2022-2023](#).

Key amendments include:

- Increase of \$383,607 for the Mount Pleasant Bowling Club project as approved by council at OMC 13/12/2022. This increase is partially offset by increased CSRFF funding.

## **C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)**

- Increase of \$209,030 for the Civic Centre Main Hall – MTC Conversion - \$159,000 of this increase is as per council approval at OMC 19/07/2022 while a further \$50,000 is required for sustainability amendments.
- Increase of \$150,000 for the Bicton Boy Scouts Roof/Air Conditioning works as per the latest quotes.
- Increase of \$102,282 for the Heathcote Swan House Airconditioning works due to price escalations.
- Decrease of \$50,000 due to the cancellation of the Leisurefit Booragoon – New Pool Business Case project.
- Reduction of \$298,434 from various projects that are anticipated to be under budget to offset additional funding requests.

These budget adjustments are offset against amendments to funds used from the Community Facilities, Land and Property and New and Upgrade Reserves.

### **Purchase of Infrastructure Assets – \$1,097,767 Positive Variance**

A detailed listing of budget amendments is included in attachment [6193B Significant Capital Works Project Budget Amendments 2022-2023](#).

Key amendments include:

- Increase of \$165,442 for the Karoonda Reserve – Netball project – this increase is partially offset by increased Federal Government election funding.
- Increase of \$135,000 required for further drainage improvement works at various locations to protect verges.
- Increase of \$200,00 for the Archibald Street path renewal project due the path being identified as high risk.
- Increase of \$151,529 for the new Fenced Dog Play at Piney Lakes due to cost escalations linked with delays arising from additional community engagement, further Council requirements and supply issues.
- Increase of \$150,000 to the Footpath Panel Replacement project to replace panels as identified in the path condition audit.
- Increase of \$354,025 for the Marmion Street/Normal Road stage 1 road project due to consolidation of two projects – this increase is fully offset by an increase to the National Black Spot funding budget.
- Increase of \$210,000 for the Riseley Street - Almondbury to Marmion Road project due to night works and materials cost escalation – this increase is partially offset by an increase to the MRRG funding budget.
- Increase of \$204,746 for the Archibald Street - Stacey to North Lake Road project due to materials cost escalation and issues with sub grade break through.
- Decrease of \$118,885 to the Bridges Road (Prinsep Road -Money Road) – this project is to be added to the 2023-2024 capital works program due to the lack of contractor resources and increased cost estimate.
- Decrease of \$230,259 to the Leeming Recreation Centre Carpark - Stage 1 project due to completion under budget.
- Decrease of \$237,315 to the Point Walter Western Boat Ramp/Groyne project – this amount will be quarantined in the Infrastructure Asset Management reserve to be drawn down in 2023-2024 when negotiations with Department of Biodiversity, Conservation and Attractions have been finalised.

## **C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)**

- Decrease of \$1,794,012 to the Mount Henry Design/Construction project – this amount will be quarantined in the Infrastructure Asset Management reserve to be drawn down in 2023-2024 when works are due to commence.
- Net decrease of \$445,320 from various infrastructure projects to offset additional funding requests.

These budget adjustments are offset against amendments to funds used from the Infrastructure Asset Management, Public Open Space and New and Upgrade Reserves.

The delivery of the capital works program by the end of the financial year is still subject to the timing of procurement processes, availability of contractors and various other unforeseen events and factors beyond the control of the City. A few projects have been fully budgeted to meet the requirements of a tender process but may be cash flowed over subsequent financial years. Therefore, based on historical trends it is possible that approximately \$20m of the capital works program budget will be carried forward to the next financial year.

### **Key material findings in relation to Reserve Accounts:**

#### **Net Funds Used/Funds Set Aside – (\$4,885,215) Negative Variance**

- Increase of \$3,543,716 representing interest income being set aside to various reserves.
- Increase of \$675,346 representing recovered Lehman Brothers managed CDO investments losses being set aside to various reserves.
- Increase of \$36,000 and \$144,000 to funds set aside to the Community Facilities Reserve and New and Upgrade Reserve respectively to reflect 90% of the \$200,000 increase in interim rates income.
- Increase of \$207,520 to funds used from the Fleet Services Vehicles, Plant and Equipment Replacement Reserve to fund replacement costs of heavy vehicles and heavy plant.
- Increase of \$137,000 to funds used from the Information Technology Reserve to fund additional costs related to Printer purchases and the Intranet Future Vision project.
- Increase of \$300,000 to funds used from the Parking Facilities reserve to fund the purchase of 48 new ticketless parking meters.
- Increase of \$84,733 to funds drawn from the Rates Equalisation Reserve to fund the deficit resulting from the 2022-2023 mid-year budget review.
- Increase of \$605,995 to funds used from the Community Facilities reserve in line with amendments made to the expenditure and income budgets related to the buildings capital works program, including the Mount Pleasant Bowling Club Improvements, Civic Centre Main Hall - MTC Conversion and Bicton Boy Scouts Roof /Air Conditioning Works projects.
- Reduction of \$1,996,042 to the funds used from the Infrastructure Asset Management Reserve in line with amendments made to the expenditure and income budgets related to the Infrastructure Assets capital works program including the Mount Henry Jetty Design / Construction, Point Walter Western Boat Ramp/Groyne and Leeming Rec Centre Carpark - Stage 1 projects.
- Increase of \$203,354 to the funds used from the New and Upgrade Works reserve in line with amendments made to the expenditure and income budgets related to the Buildings and Infrastructure Assets capital works program including the New Fenced Dog Play - Piney Lakes and New POS Extension Davis Lawlor.

## **C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)**

- Increase of \$40,000 to funds used from the Land and Property Reserve for the New Library and Cultural Centres Business Case.
- Reduction of \$75,687 to funds used from the Public Open Space and Urban Forest reserve in line with amendments made to the Urban Forest Tree renewal program and Goolugatup Heathcote Lower Development project.

### **STAKEHOLDER ENGAGEMENT**

#### **I. COMMUNITY**

Not Applicable.

#### **II. OTHER AGENCIES / CONSULTANTS**

Not Applicable.

### **STATUTORY AND LEGAL IMPLICATIONS**

#### **Local Government (Financial Management Regulations) 1996:**

##### **33A. Review of budget**

*(1) Between 1 January and 31 March in each financial year a local government is to carry out a review of its annual budget for that year.*

*(2A) The review of an annual budget for a financial year must —*

- (a) consider the local government's financial performance in the period beginning on 1 July and ending no earlier than 31 December in that financial year; and*
- (b) consider the local government's financial position as at the date of the review; and*
- (c) review the outcomes for the end of that financial year that are forecast in the budget.*

*(2) Within 30 days after a review of the annual budget of a local government is carried out it is to be submitted to the council.*

*(3) A council is to consider a review submitted to it and is to determine\* whether or not to adopt the review, any parts of the review or any recommendations made in the review.*

*\*Absolute majority required.*

*(4) Within 30 days after a council has made a determination, a copy of the review and determination is to be provided to the Department.*

### **FINANCIAL IMPLICATIONS**

After taking into account the various positive and negative variances and Reserve Funds adjustments, the mid-year Budget Review has identified an overall balanced budget after Reserve transfers.

However, this is based on the accrual accounting concept and not necessarily reflective of the cash position. At the time of writing this report, the City had outstanding debtors of \$22.2m. The cash position of the City will continue to be monitored to ensure there is adequate cash flow to fund operations.

## **C23/6193 – 2022-2023 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)**

Furthermore, it must be noted that a balanced budget has been maintained by redirecting many short term budget surpluses in the form of employment cost savings from vacant positions and temporary underspends in maintenance budgets for civil assets and natural areas and parks towards many funding requests that create ongoing additional funding commitments to the foreseeable future. While in the short term this approach presents as practical, a continuation of similar measures in the longer term is not recommended due to being financially unsustainable. A key focus of the current review of the Long-Term Financial Model and Plan will be ensuring the City is operating in a sustainable manner over the long term.

### **STRATEGIC, RISK AND ENVIRONMENTAL MANAGEMENT IMPLICATIONS**

There are no specific strategic, risk and environmental management implications associated with the Review.

### **POLICY IMPLICATIONS**

The Review has been conducted in accordance with the Accounting Policy CP-025 using the Programme and Sub Programme categories and Financial Sustainability – Forward Financial Planning and Funding Allocation Policy CP-008.

### **ALTERNATE OPTIONS AND THEIR IMPLICATIONS**

After considering the review the Council is to determine whether or not to adopt the review, any parts of the review, or any recommendations in the review.

### **CONCLUSION**

The Budget Review has identified several areas requiring budget amendments. Overall, the net impact of the 2022-2023 Budget Review is represented by a balanced budget after Reserve transfers.

### **OFFICER RECOMMENDATION (6193)**

### **ABSOLUTE MAJORITY APPROVAL**

**That the Council:**

- 1. Notes the 2022-2023 Mid-Year Budget Review and attachments [6193A Mid Year Budget Review Summary Amendments](#) and [6193B Significant Capital Works Project Budget Amendments](#); and**
- 2. By Absolute Majority decision adopts the budget review with the following amendments to be made to the Rate Setting Statement adopted in the 2022-2023 Annual Budget.**

	Variance between Revised Budget and Budget Review \$
<b>Revenue from Operating Activities (excluding rates)</b>	
Operating Grants, Subsidies and Contributions	52,641
Fees and Charges	(50,549)
Interest Earnings	4,203,500
Other Revenue	1,304,247
<b>Expenditure from Operating Activities</b>	
Employee Costs	(524,198)
Materials and Contracts	(680,994)
Utility Charges	(23,300)
Other Expenditure	(46,329)
<b>Net Operating Variance</b>	<b>4,235,018</b>
<b>Operating Activities Excluded from Budget - (Profit)/loss on asset disposals</b>	<b>(25,900)</b>
<b>Investing Activities</b>	
Non-operating grants, subsidies and contributions	812,250
Proceeds from disposal of assets	25,900
Purchase of furniture and equipment	(417,000)
Purchase of plant and equipment	(407,183)
Purchase of land and buildings	(635,637)
Purchase of infrastructure assets	1,097,767
<b>Net Investing Variance</b>	<b>476,097</b>
<b>Financing Activities</b>	
Net Reserve Fund Transfers	(4,885,215)
<b>Net Financing Variance</b>	<b>(4,885,215)</b>
Rates	200,000
<b>Net Variance as at 31 December 2022 surplus/(deficit)</b>	<b>0</b>