

**C22/6189 – 2021-2022 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 C21/5840 Special Meeting of Council held 22 June 2021 – Consideration and Adoption of the 2021-2022 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>

**C22/6189 – 2021-2022 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 2021 to 31 December 2021 and highlights the significant positive and negative variations that require budget amendment.
- This report recommends that the Council notes the results of the Review, and by absolute majority decision, approves the recommended budget amendments required to the 2021-2022 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 2021.

**DETAIL**

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

As presented, the amended financial position for the City as at 31 December 2021 will have a negative net budget variance of \$31,076. 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.

This position gives consideration to COVID-19 and the potential financial impact to the City. It is difficult to forecast the impact of additional expenditure and reduced income. However, a provisional sum of \$100,000 has been provided for. This has been funded by the Rates Equalisation Reserve which contains surplus funds from previous years.

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The following table is a summary of the 2021-2022 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	(407,477)
Fees and Charges	1,449,571
Service Charges	(37,837)
Interest Earnings	(567,000)
Other Revenue	185,328
<b>Expenditure from Operating Activities</b>	
Employee Costs	(787,238)
Materials and Contracts	(373,384)
Utility Charges	(10,350)
Interest Expenses	(339)
Other Expenditure	(110,337)
<b>Net Operating Variance</b>	<b>(659,063)</b>
<b>Operating Activities Excluded from Budget - (Profit)/loss on asset disposals</b>	<b>(20,690)</b>
<b>Investing Activities</b>	
Non-operating grants, subsidies and contributions	11,739
Proceeds from disposal of assets	20,690
Purchase of furniture and equipment	(756,487)
Purchase of plant and equipment	(87,140)
Purchase of land and buildings	(756,757)
Purchase of infrastructure assets	337,988
<b>Net Investing Variance</b>	<b>(1,229,967)</b>
<b>Financing Activities</b>	
Net self-supporting loans	(19,693)
Net Reserve Fund Transfers	1,898,337
<b>Net Financing Variance</b>	<b>1,878,644</b>
<b>Net Variance as at 31 December 2021 surplus/(deficit)</b>	<b>(31,076)</b>

Key findings are shown below and amendments are shown in line with the Adopted Annual Budget format in attachment: [6189A Mid Year Budget Review 2021-2022 Summary Amendments](#).

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Whilst the reporting levels adopted by the Council when adopting the 2021-2022 Budget, at its Ordinary Meeting of Council held on 22 June 2021, 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.

**Key material findings in the Operating Budget:****Operating Grants, Subsidies and Contributions Income - (\$407,477) Negative Variance**

- Reduction of \$30,000 as a result of cancellation of the Point Walter Concert and Kidchella events.
- Reduction of \$35,000 due to the cessation of grant funding for the Volunteer Resourcing Centre.
- Reduction of \$357,914 due to the Better Bins grant for Waste for 2021-2022 being received in advance at the end of the previous financial year. This reduction is offset by an increase to budgeted funds used from the Refuse Facilities Reserve.

**Fees and Charges Income - \$1,449,571 Positive Variance**

- Increase in fees and charges income for Leisurefit centres by \$1,019,972 in view of the delayed refurbishment of the pool facility, which has led to higher patronage, and the temporary closure of a competitor recreation facility.
- Increase of \$102,822 to income from infringements and penalties related to Environmental Health and Ranger and Emergency Management.
- Increase of \$96,100 to income from animal control fees due to higher than expected volumes for dog and cat registrations.
- Increase of \$109,500 to income from parking fees mainly due to the impending introduction of paid parking along a section of the Esplanade and changes to the fee structure at Deep Water Point parking station.
- Increase of \$100,000 to income from Building fees in line with the higher actual trend seen over the past months.
- Increase of \$100,000 to income from Planning fees in line with the higher actual trend seen over the past months.

**Service Charges Income - (\$37,837) Negative Variance**

- Income from specified rates for the Kardinya South Underground Power Project reduced by \$54,882 to align with actual income at end of December 2021.
- Income from community security services increased by \$17,045 in view of the actual income at end of December 2021. This amount is offset by an increase to funds set aside in the Community Surveillance and Security Reserve.

**Interest Earnings - (\$567,000) Negative Variance**

- Reduction of \$89,000 to interest income from investment of municipal funds due to the market interest rate being lower than expected.
- Reduction of \$478,000 to interest income from investment of reserve funds due to the market interest rate being lower than expected. 50% of this reduction (\$239,000) is offset against the interest set aside to reserves.

**C22/6189 – 2021-2022 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)****Other Revenue - \$185,328 Positive Variance**

- Increase of \$190,000 to reflect insurance reimbursements in relation to the damage caused by the fire in August 2021 at the Civic Centre.

**Employee Costs - (\$787,238) Net Negative Variance**

- Reduction of \$63,213 due to a vacated position in legal services which will not be filled this financial year.
- Reduction of \$25,000 due to an unfilled vacant position in Property Services.
- Increase of \$89,800 in Information Technology to cover costs of project backfilling and increased demand for services as well as the recruitment of a voice engineer.
- Increase of \$574,942 to cover higher employment costs that will arise due to the delay in the closure of Leisurefit Booragoon for refurbishments, changes to lifeguard sessions, additional training for pool operators and additional shifts required for enrolments and proof of vaccination checks.
- Increase of \$100,000 to cover employee costs at the Libraries due to some incorrect staffing allocations and also additional hours worked by existing staff to cover a higher level of customer demand than expected.
- Increase of \$28,216 for a new administration position created in Ranger Services and Emergency Management.
- Increase of \$37,930 for employment costs related to the Noongar Place Names project.
- Increase of \$64,284 to labour hire expenses in Waste Services.

**Materials and Contracts Expenditure - (\$373,384) Net Negative Variance**

- Increase of \$35,000 to cover costs related to the Financial Management Review scheduled to take place in February 2022.
- Increase of \$39,363 for costs related to the Organisational Review and Independent Review of Building and Planning complaints.
- Reduction of \$53,000 across various Organisational Development projects due to commencement of some projects being delayed
- Increase of \$100,000 for costs related to COVID-19 risk mitigation measures that are to be implemented over the coming months. This will be funded from the Rates Equalisation Reserve.
- Increase of \$258,029 to Information Technology licencing costs budget due to additional costs required for supplier licence model changes including Software as a Service migrations and new applications.
- Increase of \$95,167 for Leisurefit Booragoon related to building maintenance and competitive swim program costs due to the delay in the closure of the facility for refurbishments.
- Increase of \$141,020 in Waste Services as a result of increases for truck hire for bulk verge collection, increased costs associated with illegal asbestos dumping and office relocation for COVID-19 mitigation.
- Reduction of \$235,058 to contractor and stores and materials costs budgets in Natural Areas and Parks.
- Decrease of \$50,000 due to the delay in commencement of the Canning Highway Corridor Planning special project. This amount is offset by a reduction to funds used from the Special Projects Reserve.

**C22/6189 – 2021-2022 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)****Utility Charges – (\$10,350) Negative Variance**

- Increase of \$63,000 to utility expenses at Leisurefit Booragoon due to the delay in the closure of the facility for refurbishments.
- Reduction of \$38,000 to utility expenses at Shirley Strickland Clubhouse since it will be in operation for fewer months than originally budgeted.

**Other Expenditure – (\$110,337) Negative Variance**

- Increase of \$114,544 as a result of a recalculation by Southern Metropolitan Regional Council of the Education Contribution to be paid by the City of Melville.

**Key material findings in the Capital Budget:****Non Operating Grants, Subsidies and Contributions - \$11,739 Positive Variance**

- Increase includes minor adjustments to Roads to Recovery grant funding and Reimbursements from residents for works carried out.

**Purchase of Furniture and Equipment - (\$756,487) Negative Variance**

- Information Technology Capital Equipment – Increase of \$603,663 due to additional funds required for racking equipment at the data centre, implementation costs for the Asset Management Process and System project and Melville Office Online project. This amount is offset by an increase to funds used from the Information Technology Reserve.
- Recreation Centre Equipment – Increase of \$42,824 for equipment purchases for Leisurefit Facilities and \$80,000 for audio visual equipment purchases for Shirley Strickland Clubhouse. These amounts are offset by increases to funds used from the Recreation Centres Specialised Plant, Equipment and Structures Reserve and Community Centre Fitout, Furniture and Equipment Reserve, respectively.
- Parking Metres – Increase of \$30,000 for installation of parking metres at Deep Water Point Car Park and Mount Pleasant street parking. This amount is offset by an increase to funds used from the Parking Facilities Reserve.

**Purchase of Plant and Equipment - (\$87,140) Negative Variance**

- Increase of \$57,140 relates to the purchase cost of \$57,140 of a mower which was originally scheduled to take place in 2022-2023, but is now being brought forward to this financial year in order to manage longer delivery times. This amount is funded from the Fleet Services Vehicles, Plant and Equipment Replacement Reserve.
- Increase of \$30,000 for the purchase of a drainage pole camera.

**Purchase of Land and Buildings – (\$756,757) Negative Variance**

- A detailed listing of budget amendments is included in attachment [6189B Significant Capital Works Project Budget Amendments 2021-2022](#).

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Key amendments include:

- The deferment of the refurbishment of the LeisureFit Booragoon pool (\$1,098,130) to allow for additional consideration to be given to the options and design. The operational impacts of this decision have also been reflected within the operating income and expenditure budgets.
- The design of the Library and Cultural Centre (\$500,000) has also been deferred due to the timing of the Westfield Booragoon redevelopment.
- Additional funding required for the redevelopment of change rooms at Melville Reserve (\$623,526), Marmion Reserve (\$412,826) and Winthrop Park (\$325,156) due to the increased cost of labour and materials.
- Additional funding required for a change in scope to the improvement works at the Mount Pleasant Bowling Club (\$429,109).

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 – \$337,988 Positive Variance**

- A detailed listing of budget amendments is included in attachment [6189B Significant Capital Works Project Budget Amendments 2021-2022](#).

Key amendments include:

- Additional funding required for roadworks on Murdoch Drive and Riseley Street due to the need for additional investigation for service locations and stabilisation design, and economic conditions. Stabilisation costs are also significantly higher than estimated and civil costs have escalated due to skills shortage and material availability.
- Additional funding of \$304,491 required for the Norma Road/Canning Highway roadworks project due to the scope of works being increased to meet Main Roads specifications.
- Additional funding of \$220,295 required for the Winnacott floodlighting project due to the increased scope to meet external funding requirements.
- A number of projects have been deferred to due to the need for further consultation, design or a lack of contractor resourcing.

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, impact of COVID-19 and various other unforeseen events and factors beyond the control of the City. A number of projects have been fully budgeted to meet the requirements of a tender process but may be cash flowed over subsequent financial years. Therefore, it is possible that approximately \$20m of the capital works program budget will be carried forward to the next financial year.

**C22/6189 – 2021-2022 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)****Net self supporting loans – (\$19,693) Net Negative Variance**

The negative variance of (\$19,693) relate to minor adjustments to the Kardinya Bowling Club self supporting loan.

**Key material findings in relation to Reserve Accounts:****Net Funds Used/Funds Set Aside – \$1,898,337 Positive Variance**

- Community Facilities Reserve – Negative variance of (\$478,559) relates to reduction to funds used due to the net decrease in current year spend on reserve funded building renewal projects in the capital works program. A significant amount of the reduction relates to the funds being returned to the reserve to be held in quarantine for the Leisurefit Booragoon Major Refurbishment Works project.
- Community Surveillance and Security Reserve – Negative variance of (\$17,570) relates to the increase to funds set aside to the reserve due to the higher surplus to be generated from the Community Safety Service operations.
- Commercial Refuse Reserve – Positive variance of \$19,026 relates to the reduction to funds set aside to the reserve due to the lower surplus expected from the commercial refuse and recycling operation.
- Community Centre Fitout, Furniture and Equipment Reserve – Nil variance is a result of an increase of \$80,000 to funds set aside being a one off transfer from the Rates Equalisation Reserve to fund the temporary shortfall and an increase of \$80,000 to funds used from the reserve for the purchase of Audio Visual equipment for the Shirley Strickland Clubhouse.
- Fleet Services Vehicles, Plant and Equipment Replacement Reserve – Positive variance of \$36,450 relates to the increase to funds used from the reserve to cover the net purchase cost of a mower.
- Information Technology Reserve – Positive variance of \$603,663 relates to increase in funds used for data centre racking equipment, Asset Management Process and System Project and Melville Office Online project.
- Infrastructure Asset Management Reserve – Negative variance of (\$348,697) relates to reduction to funds used due to the net decrease in current year spend on reserve funded Infrastructure Assets renewal projects in the capital works program. Significant amounts of the reductions relates to the Fredrick Baldwin Wetland Project and Sporting Renewal program.
- Land and Property Reserve – Negative variance of (\$500,000) relates to the decrease to funds used for the New Library Cultural Centre Design Project.
- New/Upgrade Works Reserve – Positive variance of \$1,984,285 relates to the increase to funds used for net increase in current year spend on reserve funded Infrastructure Assets New and Upgrade projects in the capital works program. Significant amounts of the increase relate to the Melville Reserve Redevelopment project and the change room upgrade projects.

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- Parking Facilities Reserve – Positive variance \$30,000 relates to the increase to funds used from the reserve for the installation of new parking metres.
- Public Open Space and Urban Forest Reserve – Negative variance of (\$250,000) relates to reduction to funds used for the Urban Forest Tree Renewal project in the capital works program.
- Rates Equalisation Reserve – Positive variance of \$180,000 relates to increase to funds used for additional costs of \$100,000 that will be incurred specifically for COVID mitigation measures and a one off transfer of \$80,000 to the Community Centre Fitout, Furniture and Equipment Reserve to cover a temporary shortfall of funding in that reserve.
- Recreation Centres Specialised Plant, Equipment and Structures Reserve – Positive variance of \$42,824 relates to increase to funds used for equipment purchases for Leisurefit Facilities.
- Refuse Facilities Reserve – Positive variance of \$357,914 relates to the increase to funds used due to grant income budgeted for the 2021-2022 financial year being received in advance in June 2021 and set aside to the Refuse Facilities Reserve in the 2020-2021 financial year.
- Reserve Interest – Positive variance of \$239,000 relates to the reduction to interest income set aside as a result of lower market interest rates.
- Risk Management and Insurance Equalisation Reserve - Positive variance of \$60,000 relates to the increase to funds used to cover the excess in relation to the damage caused by the fire in August 2021 at the Civic Centre.
- Special Projects Reserve – Negative variance of (\$60,000) relates to the reduction to funds used by \$50,000 due to the delay in commencement of the Canning Highway Corridor Planning special project and a further reduction of \$10,000 due to the actual Election expenses being lower than budgeted.

**STAKEHOLDER ENGAGEMENT****I. COMMUNITY**

Not Applicable.

**II. OTHER AGENCIES / CONSULTANTS**

Not Applicable.

**C22/6189 – 2021-2022 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)****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 net negative budget variance of \$31,076 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 \$25.7m. The cash position of the City will continue to be monitored to ensure there is adequate cash flow to fund operations.

**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.

**C22/6189 – 2021-2022 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)****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 a number of areas requiring budget amendments. Overall the net positive impact of the 2021-2022 Budget Review is represented by a deficit of \$31,076 after Reserve transfers.

C22/6189 – 2021-2022 MID YEAR BUDGET REVIEW (AMREC) (ATTACHMENT)

**OFFICER RECOMMENDATION (6189)**

**ABSOLUTE MAJORITY**

**That the Council:**

1. **Notes the 2021-2022 Mid Year Budget Review and attachments [6189A Mid Year Budget Review Summary Amendments](#) and [6189B Significant Capital Works Project Budget Amendments](#)**
2. **By Absolute Majority decision adopts the budget review with the following amendments to be made to the Rate Setting Statement adopted in the 2021-2022 Annual Budget.**

	Variance between Revised Budget and Budget Review \$
<b>Revenue from Operating Activities (excluding rates)</b>	
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Purchase of infrastructure assets	337,988)
<b>Net Investing Variance</b>	<b>(1,229,967)</b>
<b>Financing Activities</b>	
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<b>Net Financing Variance</b>	<b>1,878,644</b>
<b>Net Variance as at 31 December 2021 surplus/(deficit)</b>	<b>(31,076)</b>