

5.3.7 LATE ITEM: Mid-Year Review of the Annual Budget 2016/17

Ward:	Both	Date:	27 February 2017
Precinct:	All	File Ref:	SC245
Attachments:	<u>1</u> – Mid-Year Budget Review – Statement of Comprehensive Income by Nature and Type <u>2</u> – Mid-Year Budget Review – Rate Setting Statement <u>3</u> – Supporting Schedule: Nature and Type Amendments <u>4</u> – Supporting Schedule: Operating Projects & Programs Amendments <u>5</u> – Supporting Schedule: Capital Expenditure Amendments <u>6</u> – Supporting Schedule: Reserve Schedule		
Tabled Items:	Nil		
Reporting Officers:	G Garside, Manager Financial Services		
Responsible Officer:	J Paton, Director Corporate Services		

RECOMMENDATION:

That Council:

- ADOPTS BY AN ABSOLUTE MAJORITY the Mid-Year Budget Review of the Annual Budget for the 2016/17 financial year as detailed in the report and Attachments 1 – 6, in accordance with Regulation 33A of the *Local Government (Financial Management) Regulations 1996*; and**
- NOTES the Revised Budget provides for a forecast Closing Balance of \$578,847, an improvement of \$484,106.**

PURPOSE OF REPORT:

To consider the Mid-Year Review of the Annual Budget for 2016/17.

BACKGROUND:

The *Local Government Act 1995* and Regulation 33A of the *Local Government (Financial Management) Regulations 1996* requires that a Local Government undertake a review of its annual budget for that year between 1 January and 31 March.

The budget review must then be submitted to the Department of Local Government and Communities (DLGC) within 30 days after Council has made its determination. The DLGC does not prescribe a format for the budget review, however the Regulations prescribe that the review must –

- 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
- consider the local government's financial position as at the date of the review; and
- review the outcomes for the end of that financial year that are forecast in the budget.

Council is to consider the review and is to determine whether or not to adopt the review, any parts of the review or any recommendations made in the review.

DETAILS:

A detailed review has been undertaken based on the actual year to date income and expenditure to 31 December 2016, with projections made to forecast the likely end of financial year result compared to the current Budget.

Based on the input from across the organisation, various adjustments have been proposed. The Proposed Revised Budget 2016/17, which is inclusive of previously endorsed amendments by Council together with recommendations from the Mid-Year Review is detailed in the following attachments:

- Statement of Comprehensive Income by Nature and Type (**Attachment 1**); and
- Rate Setting Statement (**Attachment 2**).

For comparison purposes, in addition to the 'Proposed Revised Budget 2016/17' the above statements include the following data:

- Previous Year Actuals 2015/16: the actual income and expenditure for the previous financial year;
- Adopted Full Year Budget 2016/17: the original 2016/17 budget adopted by Council in July 2016;
- Current Full Year Budget 2016/17: the original budget, plus (and minus) amendments subsequently approved by Council;
- YTD Actuals at Dec 2016: actual income and expenditure recorded for the period 1 July 2016 to 31 December 2016; and
- Revised Budget Change 2016/17: the net difference between the Current Full Year Budget 2016/17 and the Proposed Revised Budget 2016/17.

The forecast Net Result from Operations, as detailed in **Attachment 1** is a surplus of - \$1.179 million, which is an improvement of \$0.164 million over the Current Budget. Similarly, the Net Result is being forecast as \$2.496 million, an improvement of \$0.183 million over the Current Budget.

The major factors in the improvement in the net operating result (revenue less expenditure) of \$0.164 million is a projected Revenue reduction from 'Contributions' and 'Fees and Charges', offset by Expenditure reductions in 'Materials & Contracts', 'Depreciation Expense' ('non-cash item') and 'Other Expenditure'. Details of operating budgets proposed to be revised are listed on **Attachment 3 – Supporting schedule: Nature and Type Amendments**.

As a result of the review of the Capital Works Program, the Proposed Revised Capital Budget is projected to be \$13.246 million, which represents a reduction of \$0.365 million. The major influence in this reduction is the identification of projects that are being delivered under budget, particularly from the Plant Replacement Program. Full details of capital projects where the budget is being reviewed are listed on **Attachment 5 – Supporting Schedule: Capital Expenditure Amendments**.

Budgeted Transfers from Reserves is proposed to be reduced by \$35,000 linked to the reduction in capital works. Transfers to Reserves are forecast to reduce by \$0.225 million, which is directly linked to the reduction in Contribution income.

Surplus

As shown in the Rate Setting Statement (**Attachment 2**), the overall impact of all proposed Budget amendments on Municipal funds is a projected surplus as at 30 June 2017 of \$0.579 million, an increase of \$0.484 million on the Current Budget and \$0.579 million increase over the Adopted Budget. The Closing Balance represents the amount that is expected to be carried forward at the end of the current financial year into the next year as an opening balance.

Through the financial year, the forecast Closing Balance for 2016/17 has reflected the following progressive change:

Adopted Budget	\$0.0m
Carry forward adjustments (OMC 13/12/2016)	\$0.152m
Extraordinary Election expenditure approval (SMC 19/12/2016)	\$0.095m
Mid-Year Review	\$0.579m

CONSULTATION/ADVERTISING:

The Chief Executive Officer, Directors and Managers, as well as other Officers where required, have been consulted and involved in the detailed review.

LEGAL/POLICY:

The *Local Government Act 1995* requires that a budget review be undertaken each financial year, in the period between January and March of a financial year.

Regulation 33A of the *Local Government (Financial Management) Regulations 1996* requires:

- (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.*

RISK MANAGEMENT:

High: Failure to undertake a Budget review in the period between January and March in any financial year would be a breach of the *Local Government Act (1995)*.

STRATEGIC IMPLICATIONS:

Plan for the Future Strategic Plan 2013-2023 - Key Result Area 4 – Leadership, Governance and Management:

“4.1 Provide Good Strategic Decision-Making, Governance, Leadership and Professional Management:

4.1.2 Manage the organisation in a responsible, efficient and accountable manner

- (a) *Adopt “best practice” to manage the financial resources and assets of the City.”*

FINANCIAL/BUDGET IMPLICATIONS:

The overall result of the Mid-Year Budget Review is a Proposed Revised Budget for 2016/17 reflecting a moderate improvement, with the forecast surplus Closing Balance increasing from \$0.095 million to \$0.579 million.

COMMENTS:

The Mid-Year Review of the Annual Budget was undertaken during January and February 2016 and based on data as at 31 December 2016. Overall, the performance has tracked relatively well to the Budget and is reflecting a moderate improvement.

Commentary on the Proposed Revised Budget 2016/17 arising from the Mid-Year Budget Review is summarised below. A detailed schedule of Operating Budget Amendments is included as **Attachment 3 – Supporting Schedule: Nature and Type Amendments**, which lists all amendments that propose a change to the budget greater than +/- 10% on items more than \$10,000 (consistent with Council's adopted monthly reporting variance).

Operating Revenue

As detailed below, which is extracted from the Statement of Comprehensive Income by Nature and Type (**Attachment 1**), operating revenue is expected to reduce by \$0.821 million to \$54.194 million, which represents a 1.5% reduction.

	Previous Year Actuals	Current Revised Budget	YTD Actuals at Dec 2016	Proposed Revised Budget	Change	% Change
	2015/16	2016/17	2016/17	2016/17	2016/17	
OPERATING REVENUE						
Rates	\$29,601,379	\$31,075,530	\$31,143,373	\$31,208,530	\$133,000	0.4%
Operating Grants, Subsidies and Contributions	\$966,658	\$1,643,565	\$691,703	\$1,431,535	(\$212,030)	-12.9%
Fees and Charges	\$19,285,579	\$19,937,890	\$9,551,245	\$19,157,720	(\$780,170)	-3.9%
Interest Earnings	\$1,106,722	\$864,460	\$576,320	\$936,200	\$71,740	8.3%
Other Revenue	\$1,503,561	\$1,493,420	\$640,674	\$1,460,360	(\$33,060)	-2.2%
	\$52,463,900	\$55,014,865	\$42,603,315	\$54,194,345	(\$820,520)	-1.5%

Rates

The full year forecast has increased Rates income by \$0.133 million (0.4%) to \$31,209 million. This is due to growth in the rate base during the year, resulting in increased interim rates being levied.

Operating Grants, Subsidies and Contributions

The forecast has been reduced by \$0.212 million (12.9%) due to a reduction in cash in lieu payments for Parking and Percent for Art. This is offset by a corresponding reduction in Transfers to Reserves.

Fees and Charges

The full year forecast has been revised down by \$0.780 million (3.9%), with the major areas contributing to the reduction being Car Parking and Beatty Park Leisure Centre.

Interest Earnings

This revenue is being revised up by \$0.72 million to \$0.936 million, due to more competitive interest rates being offered for investments, together with the portfolio balance.

Other Revenue

Other revenue is being revised down by \$0.33 million to \$1.460 million.

Operating Expenditure

As detailed below, operating expenditure is expected to reduce by \$0.984 million to \$55.373 million. This represents a 1.7% reduction.

	Previous Year Actuals	Current Revised Budget	YTD Actuals at Dec 2016	Proposed Revised Budget	Change	% Change
OPERATING EXPENDITURE	2015/16	2016/17	2016/17	2016/17	2016/17	
Employee Costs	(\$24,323,430)	(\$25,112,680)	(\$12,089,786)	(\$25,139,415)	(\$26,735)	0.1%
Materials and Contracts	(\$14,999,748)	(\$17,025,930)	(\$7,478,016)	(\$16,765,570)	\$260,360	-1.5%
Utilities Charges	(\$1,927,414)	(\$1,947,070)	(\$845,082)	(\$1,947,070)	\$0	0.0%
Interest Expenses	(\$1,093,320)	(\$1,048,240)	(\$474,614)	(\$1,048,240)	\$0	0.0%
Insurance Expenses	(\$923,484)	(\$908,370)	(\$437,073)	(\$908,370)	\$0	0.0%
Depreciation on Non-Current Assets	(\$10,089,839)	(\$10,087,180)	(\$4,857,113)	(\$9,833,560)	\$253,620	-2.5%
Other Expenditure	\$206,804	(\$227,795)	\$443,108	\$268,995	\$496,790	-218.1%
	(\$53,150,431)	(\$56,357,265)	(\$25,738,576)	(\$55,373,230)	\$984,035	-1.7%

Employee Costs

A minor increase of \$27,000 (0.1%), due mainly to recognition of non-billable wages. This is offset by an increase in recoveries in 'Other Expenditure', which pushes this line-item into a positive result. If the non-billable wages item is removed (as it has no impact on the bottom-line cash balance), the overall impact on employee costs is a reduction of \$0.383 million. This is mainly due to vacancies in staff positions and a reduction in demand for casual staff at Beatty Park due to reduced attendance levels.

Materials and Contracts

Overall, this expenditure area is being forecast to decrease by \$0.260 million to \$16.766 million.

Depreciation

A reduction of \$0.254 million to \$9.834 million (-2.5%), which is a direct outcome from the revaluation of plant, furniture and equipment assets at the end of the last financial year.

Other Expenses

This expense category which includes a range of expenditure types, including recoveries is forecast to be reduced by \$0.497 million. Of this, recoveries have increased to account for non-billable wages (in 'Employee Costs') by \$0.410 million. This adjustment does not impact the bottom-line cash balance.

Operating Summary

	Previous Year Actuals	Current Revised Budget	YTD Actuals at Dec 2016	Proposed Revised Budget	Change	% Change
OPERATING SUMMARY	2015/16	2016/17	2016/17	2016/17	2016/17	
Operating Revenue	\$52,463,900	\$55,014,865	\$42,603,315	\$54,194,345	(\$820,520)	-1.5%
Operating Expenditure	(\$53,150,431)	(\$56,357,265)	(\$25,738,576)	(\$55,373,230)	\$984,035	-1.7%
Net Operating Result	(\$686,531)	(\$1,342,400)	\$16,864,739	(\$1,178,885)	\$163,515	-12.2%

The change (improvement) in the net operating result (revenue less expenditure) is a reduction of net expenditure of \$0.163 million. As previously noted, a major factor in this change is the reduction in Depreciation of \$0.254 million, so operationally, there is a moderate demand for cash increase of \$0.090 million.

Proposed amendments to those budget items that were included in one of the Supporting Schedules in section 6 of the Adopted Budget have been recorded in **Attachment 4 – Supporting Schedule: Operating Projects and Programs – Listing of Amendments** for further information.

Capital

An important part of the Mid-Year Budget Review is an update of the status of all projects on the 2016/17 Capital Works Program. This review has identified a requirement for a number of

adjustments to the project budgets, as detailed in **Attachment 5 - Supporting Schedule: Capital Project Amendments**.

The Proposed Revised Budget for the Capital Works Program, as detailed in Attachment 5 and summarised in the following table is projected to be \$13.246 million, which represents a reduction of \$0.365 million.

CAPITAL EXPENDITURE	Actual	Adopted Budget	Current Budget	YTD Actual to	Proposed Revised Budget	Budget Increase/ (Decrease)
	2015/16	2016/17	2016/17	31 Dec 16	2016/17	
Land and Buildings	\$1,782,335	\$1,597,398	\$1,613,374	\$821,943	\$1,595,624	(\$17,750)
Infrastructure Assets	\$5,595,750	\$7,890,081	\$7,446,414	\$2,376,648	\$7,407,868	(\$38,546)
Plant and Equipment	\$347,205	\$3,537,050	\$3,817,489	\$993,205	\$3,551,799	(\$265,690)
Furniture and Equipment	\$277,601	\$737,070	\$733,670	\$148,834	\$690,845	(\$42,825)
Total	\$8,002,892	\$13,761,599	\$13,610,947	\$4,340,631	\$13,246,136	(\$364,811)

As demonstrated in the above table, the most significant contributor to the overall reduction in the Capital Works Budget is a reduction in the funding required for the Plant Replacement Program arising from competitive pricing of tenders.

The proposed amendments result in a reduction in demand for Municipal funding of \$0.285 million as detailed below:

CAPITAL FUNDING	Actual	Adopted Budget	Current Budget	YTD Actual to	Proposed Revised Budget	Budget Increase/ (Decrease)
	2015/16	2016/17	2016/17	31 Dec 16	2016/17	
Municipal	\$5,055,098	\$9,389,210	\$9,229,269	\$2,661,628	\$8,944,048	(\$285,221)
Reserves	\$1,539,571	\$1,287,534	\$1,213,321	\$311,306	\$1,198,221	(\$15,100)
Grant	\$1,318,935	\$2,551,355	\$2,634,857	\$1,198,563	\$2,570,367	(\$64,490)
Contribution	\$89,287	\$533,500	\$533,500	\$169,134	\$533,500	\$0
Total	\$8,002,892	\$13,761,599	\$13,610,947	\$4,340,631	\$13,246,136	(\$364,811)

Transfers to and from Reserves

As a result of the overall proposed amendments to the budget, the transfers to and from Reserves have been adjusted. Full details are included in **Attachment 6 – Supporting Schedule: Reserves Schedule**, however in summary, relate to the following movements between Reserves and Municipal.

- **Transfer from Reserves down \$0.035m** – this is contributed by:
 - transfers from reserves (to Municipal) to fund capital projects is reduced by \$0.015m due to savings on those projects.
 - transfers from reserves (to Municipal) to operating projects is reduced by \$0.02m due to the timing of completion of the Leederville Oval Master Plan falling into 2017/18.
- **Transfer to Reserves down \$0.225m** – this is due to an estimated reduction in revenue from ‘Percent for Art’ and ‘Cash in lieu of Parking’ contributions