

5.3.4 LATE ITEM: Mid-Year Review of the Annual Budget 2015/2016

Ward:	Both	Date:	29 February 2016
Precinct:	All	File Ref:	SC245
Attachments:	1 – Mid-Year Budget Review – Statement of Comprehensive Income by Nature and Type 2 – Mid-Year Budget Review – Rate Setting Statement 3 – Supporting Schedule: Nature and Type Amendments 4 – Supporting Schedule: Operating Projects & Programs Amendments 5 – Supporting Schedule: Capital Expenditure Amendments 6 – Supporting Schedule: Reserve Schedule		
Tabled Items:	Nil		
Reporting Officers:	N Makwana, Accounting Officer B Wong, Accountant G Garside, Manager Financial Services		
Responsible Officer:	J Paton, Director Corporate Services		

OFFICER RECOMMENDATION:

That Council:

1. **APPROVES BY AN ABSOLUTE MAJORITY the Mid-Year Budget Review of the Annual Budget for the 2015/16 financial year as detailed in the report and Attachments 1 – 6, in accordance with Regulation 33A of the *Local Government (Financial Management) Regulations 1996*, inclusive of:**
 - a new Capital project for the 'Fitout and Relocation Expenses – Admin Building' \$85,800; and
2. **NOTES the Revised Budget provides for a Closing Balance of \$768,299, an improvement of \$515,571, which is achieved subsequent to the reimbursement of \$875,631 plus interest to the Aged Persons and Senior Citizens Reserve.**

PURPOSE OF REPORT:

To consider the Mid-Year Review of the Annual Budget for 2015/2016.

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 –

- (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.

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 2015, with projections made to forecast the likely end of financial year result compared to Budget.

Based on the input from across the organisation, various adjustments have been proposed. The Proposed Revised Budget 2015/16, which are inclusive of previously endorsed amendments by Council and the Mid-Year Review are 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 2015/16' the above statements include the following data:

- Previous Year Actuals 2014/15: the actual income and expenditure for the previous financial year;
- Adopted Full Year Budget 2015/16: the original 2015/16 budget adopted by Council in July 2015;
- Current Full Year Budget 2015/16: the original budget, plus (and minus) amendments separately approved by Council up to 31 December 2015;
- YTD Actuals at Dec 2015: actual income and expenditure recorded for the period 1 July 2015 to 31 December 2015; and
- Revised Budget Change 2015/16: the net difference between the Current Full Year Budget 2015/16 and the Proposed Revised Budget 2015/16.

The forecast Net Result from Operations, as detailed in **Attachment 1** is a deficit of - \$1.306 million, which is an improvement of \$1.189 million over the Adopted Budget. Similarly, the Net Result is being forecast as \$3.943 million, an improvement of \$0.816 million over the Adopted Budget.

The major factor in the improvement in the net operating result (revenue less expenditure) of \$1.189 million is a projected reduction in Depreciation Expense of \$0.955 million. As this is a 'non-cash item', the cash improvement, which represents a reduction in Municipal cash required to fund operations is \$0.233 million. 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 \$11.682 million, which represents a reduction of \$0.887 million. The major influence in this reduction is the identification of projects that are unlikely to commence this financial year, with the funding therefore identified as being carried forward to the following financial year. This also impacts on Capital Grants, which have also been revised. Full details of capital projects where the budget is being reviewed are listed on **Attachment 5 - Supporting Schedule: Capital Expenditure Amendments**.

Budgeted transfers to Reserves are forecast to increase by \$0.605 million, which includes the \$0.876 million (plus interest) reimbursement of the Aged Persons and Senior Citizens Reserve, offset by a reduction to the Beatty Park Reserve to align with the projected surplus from the Beatty Park operations.

Surplus

As shown in the Rate Setting Statement (**Attachment 2**), the overall impact of all proposed Budget amendments on Municipal funds is an increase of the projected surplus as at 30 June 2016 of \$0.516 million to \$0.768 million. This 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.

As detailed later in this report, approximately \$0.468 million of this closing balance represents the capital funding for projects that are listed on the Capital Budget for 2015/16 but are deferred until the next financial year and should therefore be carried forward into 2016/17.

The main reasons for the increases in the surplus at the end of the year are:

- Opening balance up by \$0.431 million – an increase in the opening balance at 1 July 2015 from the estimate in the Adopted Budget of \$0.577 million to \$1.008 million. This was reported to Council as part of the adoption of the Annual Financial Report 2014/15 on 8 December 2015.
- Capital Expenditure down \$0.453 million – a net reduction in the cost of capital works funded by Municipal funds attributable mainly to the deferral of works into the 2016-17 financial year. Further explanation of the reduction is provided in the Capital section of this report and **Attachment 5**.
- Transfers to Reserves up \$0.605 million
- Operating result improvement of \$0.233 million – the improvement in net operating result after adjusting for depreciation (non-cash item).

Through the financial year, the forecast Closing Balance for 2015/16 has reflected the following progressive improvement:

Adopted Budget	\$0.0m
Post carry forward adjustments (OMC 8/12/2016)	\$0.253m
Mid-Year Review	\$0.768m

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 2015/16 reflecting a moderate improvement, with the forecast surplus Closing Balance increasing from \$0.252 million to \$0.768 million. Of that, \$0.468m relates to the funding for deferred projects.

COMMENTS:

The Mid-Year Review of the Annual Budget was undertaken during January and February 2016 and based on data as at 31 December 2015. Overall, the performance has tracked relatively well to the Budget and is reflecting a moderate improvement.

Commentary on the Proposed Revised Budget 2015/16 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 \$0.144 million to \$53.212 million, which represents a 0.3% reduction.

	Actual 2014/15	Current Full Year Budget	Actual at 31 Dec 15	Proposed Revised Budget	Change
Rates	\$ 27,478,028	\$ 29,396,786	\$ 29,533,919	\$ 29,596,786	\$ 200,000
Operating Grants, Subsidies & Contributions	\$ 2,138,565	\$ 987,530	\$ 636,475	\$ 1,029,740	\$ 42,210
Fees & Charges	\$ 19,654,668	\$ 20,984,415	\$ 10,111,501	\$ 20,271,607	\$ (712,808)
Interest Earnings	\$ 907,919	\$ 785,980	\$ 642,508	\$ 920,645	\$ 134,665
Other revenue	\$ 1,418,990	\$ 1,201,655	\$ 786,257	\$ 1,393,944	\$ 192,289
	\$ 51,598,170	\$ 53,356,366	\$ 41,710,660	\$ 53,212,722	\$ (143,644)

Rates

The full year forecast has increased Rates income by \$0.200 million (0.7%) to \$29.597 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

Minor increase due to additional grants and contributions to be received.

Fees and Charges

The full year forecast has been revised down by \$0.713 million (3.4%), with the major areas contributing to the reduction being Parking (\$0.335m), Development Applications (\$0.200m) and Beatty Park (\$0.219m). It is noted with Beatty Park, that the revised forecast remains 7% higher than the previous financial year.

Interest Earnings

This revenue is being revised up by \$0.135 million to \$0.921 million, due to more competitive interest rates being offered for investments, together with the portfolio balance.

Other Revenue

Other revenue is being revised up by \$0.192 million to \$1.394 million, with major areas contributing to the increased performance being; an improvement in recovery of lease variable outgoings (\$0.130m) and Centrelink payments for Parental Leave (offset by increased employee costs for those staff on parental leave).

Operating Expenditure

Operating expenditure is expected to reduce by \$1.332 million to \$54.518 million. This represents a 2.4% reduction.

	Actual 2014/15	Current Full Year Budget	Actual at 31 Dec 15	Proposed Revised Budget	Change
Employee Costs	\$ (23,287,895)	\$ (24,790,490)	\$ (11,890,010)	\$ (24,584,527)	\$ 205,963
Materials & Contracts	\$ (14,237,564)	\$ (15,773,385)	\$ (7,356,818)	\$ (15,883,111)	\$ (109,726)
Utilities Charges	\$ (1,913,034)	\$ (1,946,150)	\$ (889,099)	\$ (2,012,555)	\$ (66,405)
Interest Expenses	\$ (1,163,983)	\$ (1,096,280)	\$ (495,341)	\$ (1,096,280)	\$ -
Insurance Expenses	\$ (1,137,988)	\$ (1,009,145)	\$ (459,790)	\$ (921,380)	\$ 87,765
Depreciation	\$ (11,214,551)	\$ (11,058,555)	\$ (3,595,070)	\$ (10,103,230)	\$ 955,325
Other Expenses	\$ (173,107)	\$ (176,650)	\$ 252,276	\$ 82,810	\$ 259,460
	\$ (53,128,122)	\$ (55,850,655)	\$ (24,433,852)	\$ (54,518,273)	\$ 1,332,382

Employee Costs

A forecast reduction of \$0.206 million (0.8%), due mainly to various vacancies throughout the organisation and a reduction in Beatty Park personnel to meet the reduced demand. However, this has been partially offset by additional costs for parental leave and termination payments.

Materials and Contracts

Overall, this expenditure area is being forecast to increase by \$0.110 million to \$15.883 Million (0.7%).

Utilities Charges

An increase of \$0.066 million to \$2.013 is forecast (3.4%), which is split between gas and electricity. The majority of this relates to the operation of Beatty Park.

Insurance Expenses

A reduction of \$0.088 million to \$0.921 million (8.7%) reflecting lower premiums and improvements to policy coverage.

Depreciation

A reduction of \$0.955 million to \$10.103 million (8.6%), which is a direct outcome from the revaluation of infrastructure assets at the end of the last financial year.

Other Expenses

This expense category which includes a range of expenditure types, including recoveries is being forecast to be reduced by \$0.259 million.

Operating Summary

	Actual 2014/15	Current Full Year Budget	Actual at 31 Dec 15	Proposed Revised Budget	Change
Operating Revenue	\$ 51,598,170	\$ 53,356,366	\$ 41,710,660	\$ 53,212,722	\$ (143,644)
Operating Expenditure	\$ (53,128,122)	\$ (55,850,655)	\$ (24,433,852)	\$ (54,518,273)	\$ 1,332,382
Net Operating Result	\$ (1,529,952)	\$ (2,494,289)	\$ 17,276,808	\$ (1,305,551)	\$ 1,188,738

The change (improvement) in the net operating result (revenue less expenditure) is a reduction of net expenditure of \$1.189 million. As previously noted, the largest factor in this change is the reduction in Depreciation of \$0.955 million, so the actual cash improvement is a moderate \$0.233 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 2015/16 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**.

	Actual 2014/15	Current Full Year Budget	Actual at 31 Dec 15	Proposed Revised Budget	Change
Purchase of Land and Buildings	\$ 2,858,272	\$ 2,921,606	\$ 733,497	\$ 2,198,201	\$ (723,405)
Purchase Infrastructure assets	\$ 7,498,125	\$ 7,319,288	\$ 2,629,523	\$ 7,109,538	\$ (209,750)
Purchase Plant and Equipment	\$ 1,831,650	\$ 1,837,635	\$ 145,596	\$ 1,872,979	\$ 35,344
Purchase Furniture and Equipment	\$ 469,300	\$ 490,219	\$ 82,601	\$ 501,219	\$ 11,000
	\$ 12,657,347	\$ 12,568,748	\$ 3,591,217	\$ 11,681,937	\$ (886,811)

The Proposed Revised Budget for the Capital Works Program, as summarised above is projected to be \$11.682 million, which represents a reduction of \$0.887 million. In reviewing projects, particularly where an increase is required, Administration has endeavoured to identify opportunities where the funds to be allocated from savings, generally within the same area of responsibility. These 'recommendations' are listed in the comments section of **Attachment 5 - Supporting Schedule: Capital Expenditure Amendments**.

The overall Capital Budget reduction (\$0.887m) reflects:

- a net decrease of \$0.147 million due to a combination of project savings and review of project requirements, partially offset by some permanent increases; and
- \$0.739 million due to timing variances (deferral) – projects which are not expected to be commenced by 30 June 2016 and will carry forward into the 2016/17 financial year.

In respect to deferred projects, this relates to the following 'Buildings' projects:

Litis Stadium (\$0.090m)

The original budget provided for \$0.150m for remediation of the grandstand, however Council approved the reduction of the budget by \$0.060m to facilitate the refurbishment of a changeroom. Plans for the refurbishment of the grandstand are on hold.

Cheriton Street Redevelopment (\$0.650m)

The work on this property has a project budget of \$0.650 million, of which \$0.271 million would be funded from a Lotterywest grant. This project is unlikely to commence in the current financial year. As the grant can only be claimed after the work is completed and paid for, this grant (and the capital project) will be carried forward into 2016/17. A separate report is proposed to be presented to Council to provide a status update.

It is also noted, that the 2015/16 Budget included a project for the 'Depot Fitout and relocation expenses'. The works associated with this project were greater than originally anticipated, that has required an increase in funding, which has been included in the amendments.

In addition to this, it has also been recognised that works are required at the Civic Centre to enable a subsequent realignment of work areas, associated with internal restructuring, relocation of staff and additional positions being brought on in 2015/16.

To enable this to occur, the review has identified the requirement for an additional project as detailed below:

Fitout and relocation expenses – Admin Building \$85,800

Funding Amendments

The funding impact of the proposed amendments to project Budgets as detailed below identifies a net reduction in Municipal funding of \$0.453 million.

Reason for Change	Municipal	Reserve	Grant	Total
Project Budget	58,921	0	(101,273)	42,352
	(44,000)	(61,200)	0	(105,200)
Timing	(467,812)	0	(271,447)	(739,259)
Total	(452,891)	(61,200)	(372,720)	(886,811)

Grant revenue is expected to reduce by \$0.373 million from the current budget due primarily to the changed status of the following capital projects:

- **Cheriton Street property redevelopment**
The deferral of this project means the \$0.271 million Lotterywest funding would also be deferred.
- **Roadworks - Beaufort Street (Brisbane to Parry)**
The original Beaufort St Improvement Project was listed at \$0.153 million, to be 2/3 MRWA funded (\$0.102 million). Subsequent to the budget adoption, the Public Transport Authority agreed to undertake elements of the project so as to incorporate Peak Period Bus lanes. The MRWA funding has subsequently been withdrawn, and the City will use the remaining Municipal funds on the Beaufort/Brisbane Street intersection.

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 \$0.061m** – transfers from reserves (to Municipal) to fund capital projects is reduced due to savings on those projects.
- **Transfer to Reserves up \$0.605m** – this is contributed by:
 - the original budget included a transfer to the Beatty Park Leisure Centre reserve (i.e.: Municipal expenditure) of \$0.473m. This has been reduced to \$0.147m to match the expected operating surplus from Beatty Park; and
 - the approved reimbursement of the Aged Persons and Senior Citizens reserve of \$0.876 plus interest.

In undertaking the Mid-Year Budget Review, reference is also made to previous requests from Council. In that respect, the following is noted:

- Council Chambers - Video Streaming

An estimate has been received for the provision of equipment to implement live video and audio streaming of Council meetings. The setup and installation is estimated to be in the order of \$9,000 plus a monthly charge of approximately \$500 for the 'live stream' hosting service. Costing is based on off-site storage by a live stream vendor.

It is recognised however, that the Chamber equipment is in need of upgrading to provide more effective management of meetings. A Budget item is proposed to be listed as part of the 2016/17 budget development for consideration to undertake this project. There may well be advantages in undertaking the live streaming project at the same time to achieve efficiencies and integration.
