

Please note: These minutes are yet to be confirmed as a true record of proceedings

**CITY OF BUSSELTON**

**MINUTES FOR THE FINANCE COMMITTEE MEETING HELD ON 20 JUNE 2019**

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## MINUTES

MINUTES OF FINANCE COMMITTEE HELD IN THE COMMITTEE ROOM, ADMINISTRATION BUILDING, SOUTHERN DRIVE, BUSSELTON, ON 20 JUNE 2019 AT 9.30AM.

1. **DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS**

The Presiding Member opened the meeting at 9.33am.

2. **ATTENDANCE**

Presiding Member:

Cr Robert Reekie

Members:

Cr Grant Henley Mayor  
Cr John McCallum  
Cr Paul Carter (Remote)  
Cr Ross Paine

Officers:

Mr Mike Archer, Chief Executive Officer  
Mr Tony Nottle, Director, Finance and Corporate Services  
Mr Jeffrey Corker, Acting Manager Financial Services  
Mrs Emma Heys, Governance Coordinator

Apologies:

Cr Coralie Tarbotton

3. **PUBLIC QUESTION TIME**

4. **DISCLOSURE OF INTERESTS**

Nil

5. **CONFIRMATION OF MINUTES**

5.1 **Minutes of the Finance Committee Meeting held 16 May 2019**

**COMMITTEE DECISION**

**F1906/029**

Moved Councillor P Carter, seconded Councillor G Henley

That the Minutes of the Finance Committee Meeting held 16 May 2019 be confirmed as a true and correct record.

**CARRIED 5/0**

## 6. REPORTS

### 6.1 FINANCIAL ACTIVITY STATEMENTS - PERIOD ENDING 31 MAY 2019

<b>SUBJECT INDEX:</b>	Budget Planning and Reporting
<b>STRATEGIC OBJECTIVE:</b>	Governance systems, process and practices are responsible, ethical and transparent.
<b>BUSINESS UNIT:</b>	Finance and Corporate Services
<b>ACTIVITY UNIT:</b>	Financial Services
<b>REPORTING OFFICER:</b>	Acting Manager Financial Services - Jeffrey Corker
<b>AUTHORISING OFFICER:</b>	Director Finance and Corporate Services - Tony Nottle
<b>VOTING REQUIREMENT:</b>	Absolute Majority
<b>ATTACHMENTS:</b>	Attachment A Statement of Financial Activity - Period Ended 31 May 2019 
	Attachment B Investment Report for the month of May 2019 

### PRÉCIS

Pursuant to Section 6.4 of the Local Government Act ('the Act') and Regulation 34(4) of the Local Government (Financial Management) Regulations ('the Regulations'), a local government is to prepare, on a monthly basis, a statement of financial activity that reports on the City's financial performance in relation to its adopted / amended budget.

This report has been compiled to fulfil the statutory reporting requirements of the Act and associated Regulations, whilst also providing the Council with an overview of the City's financial performance on a year to date basis for the period ending 31 May 2019.

### BACKGROUND

The Regulations detail the form and manner in which financial activity statements are to be presented to the Council on a monthly basis; and are to include the following:

- Annual budget estimates
- Budget estimates to the end of the month in which the statement relates
- Actual amounts of revenue and expenditure to the end of the month in which the statement relates
- Material variances between budget estimates and actual revenue/ expenditure/ (including an explanation of any material variances)
- The net current assets at the end of the month to which the statement relates (including an explanation of the composition of the net current position)

Additionally, and pursuant to Regulation 34(5) of the Regulations, a local government is required to adopt a material variance reporting threshold in each financial year. At its meeting of 25 July 2018, the Council adopted (C1807/138) the following material variance reporting threshold for the 2018/19 financial year:

"That pursuant to Regulation 34(5) of the *Local Government (Financial Management) Regulations*, the Council adopts a material variance reporting threshold with respect to financial activity statement reporting for the 2018/19 financial year as follows:

- Variances equal to or greater than 10% of the year to date budget amount as detailed in the Income Statement by Nature and Type/ Statement of Financial Activity report, however variances due to timing differences and/or seasonal adjustments are to be reported on a quarterly basis; and
- Reporting of variances only applies for amounts greater than \$25,000.”

### **STATUTORY ENVIRONMENT**

Section 6.4 of the Act and Regulation 34 of the Regulations detail the form and manner in which a local government is to prepare financial activity statements.

### **RELEVANT PLANS AND POLICIES**

There are no plans or policies directly relevant to this matter.

### **FINANCIAL IMPLICATIONS**

Any financial implications are detailed within the context of this report.

### **LONG-TERM FINANCIAL PLAN IMPLICATIONS**

Any long term financial implications are detailed within the context of this report.

### **STRATEGIC COMMUNITY OBJECTIVES**

This matter principally aligns with Key Goal Area 6 – ‘Leadership’ and more specifically Community Objective 6.1 - ‘Governance systems, process and practices are responsible, ethical and transparent’.

The achievement of the above is underpinned by the Council strategy to ‘ensure the long term financial sustainability of Council through effective financial management’.

### **RISK ASSESSMENT**

Risk assessments have been previously completed in relation to a number of ‘higher level’ financial matters, including timely and accurate financial reporting to enable the Council to make fully informed financial decisions. The completion of the monthly Financial Activity Statement report is a control that assists in addressing this risk.

### **CONSULTATION**

Consultation is not applicable in relation to this matter.

### **OFFICER COMMENT**

In order to fulfil statutory reporting requirements, and to provide the Council with a synopsis of the City’s overall financial performance on a full year basis, the following financial reports are attached here to:

- Statement of Financial Activity

This report provides details of the City’s operating revenues and expenditures on a year to date basis, by nature and type (i.e. description). The report has been further extrapolated to include details of non-cash adjustments and capital revenues and expenditures, to identify the City’s net current position; which reconciles with that reflected in the associated Net Current Position report.

▪ Net Current Position

This report provides details of the composition of the net current asset position on a full year basis, and reconciles with the net current position as per the Statement of Financial Activity.

▪ Capital Acquisition Report

This report provides full year budget performance (by line item) in respect of the following capital expenditure activities:

- Land and Buildings
- Plant and Equipment
- Furniture and Equipment
- Infrastructure

▪ Reserve Movements Report

This report provides summary details of transfers to and from reserve funds, and also associated interest earnings on reserve funds, on a full year basis.

Additional reports and/or charts are also provided as required to further supplement the information comprised within the statutory financial reports.

### COMMENTS ON FINANCIAL ACTIVITY TO 31 MAY 2019

The Statement of Financial Activity for the period ending 31 May 2019 shows an overall Net Current Position "Surplus" of \$4.1M. The following summarises the major variances in accordance with Council's adopted material variance reporting threshold that collectively make up the above difference:

Description	2018/2019 Actual	2018/2019 Amended Budget YTD	2018/2019 Amended Budget	2018/19 YTD Bud Variance	2018/19 YTD Bud Variance
	\$	\$	\$	%	\$
<b>Revenue from Ordinary Activities</b>					
Other Revenue	1,072,055	326,826	362,981	228.02%	745,229
Profit on Asset Disposal	103,947	82,137	82,137	26.55%	21,810
<b>Expenses from Ordinary Activities</b>					
Materials & Contracts	(14,909,912)	(18,454,420)	(20,225,500)	19.21%	3,544,508
Depreciation	(20,253,479)	(17,519,304)	(19,070,922)	-15.61%	(2,734,175)
Asset Adjustments as per Changes to Regulations (OAG)	(1,147,545)	0	0	0	(1,147,545)
Insurance Expenses	(713,980)	(591,974)	(698,808)	-20.61%	(122,006)
Other Expenditure	(2,603,180)	(4,329,729)	(4,862,439)	39.88%	1,726,549
Allocations	1,838,344	1,574,778	1,723,162	-16.74%	263,566
Loss on Asset Disposals	(46,370)	(33,134)	(34,577)	-39.95%	-13,236
<b>Non-Operating Grants, Subsidies and Contributions</b>					
	4,265,125	16,502,588	32,471,094	-74.15%	(12,237,463)
<b>Capital Revenue &amp; (Expenditure)</b>					
Land & Buildings	(1,093,178)	(16,626,044)	(17,986,501)	93.42%	15,532,866
Plant & Equipment	(2,735,555)	(6,462,900)	(6,900,100)	57.67%	3,727,345
Furniture & Equipment	(318,768)	(771,258)	(890,640)	58.67%	452,490
Infrastructure	(20,386,022)	(34,435,366)	(37,644,708)	40.80%	14,049,344
Proceeds from Sale of Assets	773,141	974,550	1,045,950	-20.67%	(201,409)
Proceeds from New Loans	2,730,000	3,150,000	3,150,000	-13.33%	(420,000)

Advances to Com. Groups	0	(150,000)	(150,000)	100.00%	150,000
Transfer to Restricted Assets	(1,155,151)	(505,326)	(551,000)	-128.60%	(649,825)
Transfer from Restricted Assets	8,652,354	11,663,540	14,530,252	-25.82%	(3,011,186)
Transfer from Reserves	5,400,819	12,958,790	27,075,171	-58.32%	(7,557,971)

### **Revenue from Ordinary Activities:**

YTD actual income from ordinary activities is \$700K more than expected when compared to YTD budget with the following items meeting the material variance reporting threshold being;

1. Other Revenue is \$745K better than YTD budget. In part this variance is due to better than expected returns on the sale of scrap metal by \$240k. IT lease buybacks reflect additional income of \$544k which is offset by additional expenses in the IT leasing account 3381. There are many other variances however they are all below the reporting threshold.
2. Profit on asset disposal is \$22k better than YTD budget. This line item is an accounting book entry to recognise profit on asset disposal and as a consequence will not affect the City's "cash" position.

### **Expenses from Ordinary Activities**

Expenditure from ordinary activities, excluding depreciation, allocations and asset adjustments as per amended regulations (i.e. remove assets less than \$5k from assets register and place in portable and attractive register), is \$6.1M less than expected when compared to YTD budget with the following items meeting the material variance reporting threshold;

#### **1. Materials and Contracts:**

The main items affected are listed below:

Cost Code	Cost Code Description / GL Activity	Variance YTD \$
<b><u>Finance and Corporate Services</u></b>		
10250	Information & Communication Technology Services	(461,279)
10300	Records	32,749
10251	Business Systems	56,645
10500	Legal and Compliance Services	79,469
<b><u>Community and Commercial Services</u></b>		
10630	Property and Business Development	29,872
B1361	YCAB (Youth Precinct Foreshore)	35,101
11151	Airport Operations	42,760
10590	Naturaliste Community Centre	51,543
10380	Busselton Library	70,247
10600	Busselton Jetty Tourist Park	92,831
<b><u>Planning and Development Services</u></b>		
10925	Preventative Services - CLAG	38,439
10931	Protective Burning & Firebreaks-Reserves	47,548
10820	Strategic Planning	64,608
10830	Environmental Management Administration	69,846
11170	Meelup Regional Park	108,270

Cost Code	Cost Code Description / GL Activity	Variance YTD \$
<b><u>Engineering and Works Services</u></b>		
M9998	Street Side Spraying Urban Areas	(39,152)
C8500	Cycle Ways Maintenance Busselton	(37,727)
G0031	Dunsborough Waste Facility	(36,895)
M0005	Ludlow-Hithergreen Road	(34,014)
G0030	Busselton Transfer Station	(33,732)
M9970	Tree Removal and Clean-up	(26,161)
11300	Sanitation Waste Services Administration	25,371
R0750	Barnard Park Ovals	28,004
12600	Street & Drain Cleaning	28,008
10115	Major Projects Administration	29,700
R0822	Lavender Park (Provence)	30,094
R0821	Avignon Park (Provence)	30,853
11162	Busselton Jetty - Underwater Observatory	34,816
F9999	Footpaths Maintenance	36,330
G0010	Domestic Recycling Collections	36,884
G0034	External Waste Disposal	37,768
<b><u>Engineering and Works Services</u></b>		
B1000	Administration Building- 2-16 Southern Drive	39,079
R0820	Almond Green Park (Provence)	42,715
11108	Rural Intersection (Lighting) Compliance	43,768
11106	Street Lighting Installations	49,472
R2001	Tree Planting - Urban Verges	57,270
G0033	Green Waste	58,560
A6004	Pedestrian Bridge (Port Geographe)	58,663
B1514	Asbestos Removal & Replacement	68,750
12620	Rural-Tree Pruning	75,617
R0004	Busselton Foreshore Precinct (not including Skate Park)	76,659
G0032	Rubbish Sites Development	91,663
11301	Regional Waste Management Administration	110,000
A9999	Miscellaneous Bridge Maintenance	115,676
11101	Engineering Services Administration	126,577
M9999	Road Maintenance Bal Of Budget	351,421
11160	Busselton Jetty	649,266
B1401	Old Butter Factory	801,570

## 2. Depreciation:

There is an overall variance in depreciation of \$2.7M, however it should be noted that this is a non-cash item and does not impact on the City's surplus position. The variance can be attributed to the final adjustments made at year end for donated assets, Airport infrastructure additions and Fair Valuation of infrastructure assets being completed post budget adoption and the increase in valuation was unable to be included in the 2018/2019 budget.

### 3. Asset Adjustments as per Changes to Regulations:

Amendments to Regulation 17A will now exclude assets in a local Government annual financial report if valued under \$5000. Regulation 17 (5) states “An asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5 000”.

A full review has now been conducted and in consultation with the Office of Auditor General and the City auditors an accepted methodology has been now endorsed in order to ensure that the City’s financial reports do not contravene the requirement of the amended Regulations. It was determined that all assets equal to or below the \$5k threshold will be removed from the asset register and placed in the City’s portable and attractive register in order to assist in stock takes and the security of City’s property. The exception to this, is where assets fall below the \$5K threshold, but form part of “parent” asset (i.e. an asset that is made of many individual components that are all required in order to function as a unit) then these assets will remain within the asset register and be capitalised accordingly.

The end result of this process initiated the expensing of assets in accordance with Regulations to the amount of \$1,147,545.

### 4. Insurance:

There is a year to date variance in insurance costs of \$122K. This is a timing issue only which relates to the fleet management business unit insurance budget being projected to occur in period 12 (i.e. June) whereas the actual expenditure was incurred in period 1 (i.e. July).

### 5. Other Expenditure:

There is an YTD variance in other costs of \$1.7M less than year to date budget. The main items affected are listed below:

Cost Code	Cost Code Description / GL Activity	Variance YTD
<b><u>Executive Services</u></b>		
10001	Executive Services	52,926
<b><u>Finance and Corporate Services</u></b>		
10618	Winderlup Court Aged Housing	52,357
10700	Public Relations	63,188
10000	Members of Council	81,299
<b><u>Community and Commercial Services</u></b>		
12631	Peel Terrace Building & Surrounds	(33,216)
10540	Recreation Administration	35,758
10548	Half Iron	42,350
10530	Community Services Administration	133,798
11156	Airport Development Operations	1,375,000
<b><u>Planning and Development Services</u></b>		
10942	Bushfire Risk Management Planning - DFES	(39,283)
10805	Planning Administration	45,590
<b><u>Engineering and Works Services</u></b>		
G0042	BTS External Restoration Works	(226,517)
11160	Busselton Jetty	25,000
B1223	Micro Brewery - Public Ablution	110,000

With regard to the \$1.375M variance associated with the Airport marketing incentive, it is not anticipated that this expense will be incurred this year. However this will not constitute a saving as this



cost is reserve backed, hence if expenditure is not incurred, then it follows that the transfer from reserve will also not be processed. All other items above have been classified as timing differences.

#### **6. Allocations**

In addition to administration based allocations which clear each month, this category also includes plant and overhead related allocations. Due to the nature of these line items, the activity reflects as a net offset against operating expenditure, in recognition of those expenses that are of a capital nature (and need to be recognised accordingly). It should be noted that performance in the category has no direct impact on the closing position.

#### **7. Loss on Sale of Assets**

Loss on asset disposal is \$13k higher than YTD budget. This line item is an accounting book entry to recognise loss on asset disposal and as a consequence will not affect the City's "cash" position.

#### **8. Non-Operating Grants, Subsidies and Contributions:**

Non-Operating Grants, Subsidies and Contributions are less than YTD budget by \$12.2M with the main items impacting on the above result being the timing of the receipt of funding which is also offset with less than anticipated capital expenditure at this time;

Cost Code	Cost Code Description	Variance YTD
<b><u>Finance and Corporate Services</u></b>		
10239	Contributions - Public Art (Percent for Art)	(1,073,747)
10240	Contributions - Contribution to Works	(150,405)
10250	Capital Grants-Other (Federal)	140,044
<b><u>Community and Commercial Services</u></b>		
C6099	Capital Grants-Other (Federal)	(8,946,609)
10900	Donated Assets	37,000
C6086	Capital Grants-Other (Federal)	675,556
<b><u>Planning and Development Services</u></b>		
B9109	Hithergreen Building Renovations	(68,886)
B1013	Dunsborough Bushfire Brigade	(178,300)
B1024	Willyabrup Bushfire Brigade	(178,300)
B1015	Hithergreen District Bushfire Brigade	(465,200)
B1026	Yallingup Rural Bushfire Brigade	(597,600)
<b><u>Engineering and Works Services</u></b>		
C3168	Capital Grants-Other (Federal)	(308,221)
S0051	Capital Grant-Department of Main Roads	(258,337)
S0064	Capital Grant-Department of Main Roads	(172,225)
S0035	Capital Grant-Department of Main Roads	(165,000)
C0049	Capital Grants - Other (State)	(157,443)
C2528	Capital Grants - Other (State)	(125,000)
C3112	Capital Grants - Other (State)	(100,000)
C3150	Contributions - Capital Activities	(96,715)
S0069	Capital Grant-Department of Main Roads	(86,112)
C2523	Capital Grants - Other (State)	(75,000)
C2512	Capital Grants - Other (State)	(55,000)
D0017	Capital Grant-Department of Main Roads	(46,500)
F1018	Capital Grants - Other (State)	(32,087)
S0068	Contributions - Capital Activities	74,500
W0026	Capital Grant-Department of Main Roads	120,000

### **9. Capital Expenditure**

As at 31 May 2019, there is a variance of -58% or -\$33.8M in total capital expenditure with YTD actual at -\$24.5M against YTD budget of -\$58.3M.

The airport development makes up for \$14.5M (main variance relates to the Airport terminal \$11.8M), Busselton Tennis Club infrastructure \$1.38M, Plant and Equipment \$3.7M, Council roads initiative projects \$0.9M, Eastern link Busselton traffic study \$2.5M, Dunsborough land purchase for parking \$1.3M, Main roads projects \$1.4M, parks, gardens and reserves \$685K, sanitation infrastructure \$1.2M, beach restoration \$1.1M, Busselton Senior Citizens \$678K, Dunsborough cycleway CBD to Our Lady of the Cape School -\$154K (i.e. over YTD budget), furniture and equipment \$452K, Busselton jetty tourist park upgrade \$208K, beach front infrastructure \$72K, Geographe Leisure Centre pool relining \$50K, energy efficiency initiatives (various buildings) \$84K, boat ramp construction \$362K, major projects Lou Weston oval \$625K, Busselton foreshore infrastructure \$770K, Busselton foreshore buildings \$219K, bridge construction \$222k, and depot wash down facility upgrade \$100k.

These items of under expenditure also assists in explaining the above current YTD shortfall in Non-Operating Grants.

The attachments to this report include detailed listings of the following capital expenditure (project) items, to assist in reviewing specific variances.

### **10. Proceeds from Loans/ Advances to Community Groups**

As at 31 May 2019, there is a variance of \$420K which relates to the budgeted drawdown of loans that has now mainly occurred, however to a lesser extent than anticipated. The two main loans raised that varied from the budget are;

- Busselton Tennis Club loan budgeted to drawdown \$1.5M, however actual drawdown was \$1.25M (variance \$250k); and
- Air Freight Hub Stage 1 loan budgeted to drawdown \$1.5M, however actual draw down was \$1.48M (variance \$20k);

With regard to the self-supporting loan for community groups, it is not expected that this will occur, hence the contra entry "advances to community groups" as a consequence will also not be required. The transactions associated with self-supporting loans is ordinarily cost neutral to the City, therefore this transaction will have no effect on the City's net current position.

### **11. Transfer to Restricted Assets**

There is a YTD variance for transfer to restricted assets of \$649k more than year to date budget. The reason for this is as follows:

- Transfer to deposits and bonds of \$1M as opposed to a budget of \$0. These funds do not have a budget allocation as they are not able to be reliably measured and will be subject to a Council report in June 2019;
- Transfer to contributions to works has fallen short of anticipated budget by -\$150K,
- Transfer to restricted grants (interest) has fallen short of budget by -\$200k.

### **12. Transfer from Restricted Assets**

There is a YTD variance for transfer from restricted assets of \$3M less than year to date budget. The reason for this is as follows:

- Transfer for Airport noise mitigation of \$869k will not proceed this year and has been relisted on the 2019/20 budget;
- Transfer for Airport marketing of \$1.5M will not proceed this year and has been relisted on the 2019/20 budget;
- Transfer for unspent loans relating to Busselton Tennis Club is under budget by \$955K.

### **13. Transfer from Reserves**

There is a YTD variance for transfer from reserves of \$7.5M less than year to date budget. The reason for this is mainly due to the need to do a full analysis at the end of year in order to determine the authorised final expenditure that can be recouped in accordance with the purpose of the reserve. Traditionally the City has made any transfers possible during the year (once acquisitions/ works are completed) with the bulk of the transfers being made in June.

### **Investment Report**

As at 31st May 2019 the value of the City's invested funds totalled \$71.95M, down from \$73.95M as at 30th April March. The decrease is due to the withdrawal of funds from Term Deposits as required to meet expenditure.

During the month of April five term deposits held with four different institutions totalling \$13.5M matured. Three, totalling \$7.5M; were renewed for a further 110 days at 2.26% (on average). Two, totalling \$6.0M; were closed to provide readily available cash for the coming months.

The balance of the 11am account (an intermediary account which offers immediate access to the funds compared to the term deposits and a higher rate of return compared to the cheque account) increased by \$4.0M with funds from closed term deposits temporarily held there.

The balance of the Airport Development ANZ accounts remained steady.

The RBA left official rates on hold during May but decreased them by 0.25% in June. Term deposit renewal rates had been pricing in a drop for some weeks and returns are noticeably lower. The drop will decrease the return on cash accounts including the 11am account. Financial markets are predicting further falls. The Interest return on Council's investments will fall accordingly.

### **Chief Executive Officer – Corporate Credit Card**

Details of monthly (April to May) transactions made on the Chief Executive Officer's corporate credit card are provided below to ensure there is appropriate oversight and awareness of credit card transactions made.

<b>Date</b>	<b>Amount</b>	<b>Payee</b>	<b>Description</b>
		No expenses recorded during the period	

### **CONCLUSION**

As at 31 May 2019, the financial performance for the City of Busselton is considered satisfactory based on the information received from directorates and the recent budget review.

### **OPTIONS**

The Statements of Financial Activity are presented in accordance with Section 6.4 of the Act and Regulation 34 of the Regulations and are to be received. Council may wish to make additional resolutions as a result of having received these reports.

**TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION**

Not Applicable.

**COMMITTEE RECOMMENDATION**

**F1906/030** Moved Councillor G Henley, seconded Councillor J McCallum

That the Council receives the statutory financial activity statement reports for the period ending 31 May 2019, pursuant to Regulation 34(4) of the Local Government (Financial Management) Regulations.

**CARRIED 5/0**

## 6.2 BUDGET AMENDMENT REQUEST / REVIEW

<b>SUBJECT INDEX:</b>	Budget Planning and Reporting
<b>STRATEGIC OBJECTIVE:</b>	Governance systems, process and practices are responsible, ethical and transparent.
<b>BUSINESS UNIT:</b>	Finance and Corporate Services
<b>ACTIVITY UNIT:</b>	Financial Services
<b>REPORTING OFFICER:</b>	Acting Manager Financial Services - Jeffrey Corker
<b>AUTHORISING OFFICER:</b>	Director Finance and Corporate Services - Tony Nottle
<b>VOTING REQUIREMENT:</b>	Absolute Majority
<b>ATTACHMENTS:</b>	

### PRÉCIS

This report seeks recommendation of the Finance Committee to Council for the approval of budget amendments as detailed in this report. Adoption of the Officers recommendation will result in no change to the City's current amended budgeted surplus position of \$0.

### BACKGROUND

Council adopted its 2018/2019 municipal budget on Wednesday, 25 July 2018 with a balanced budget position.

Since this time Council has been advised of certain expense changes that have impacted the original budget and Council is now being asked to consider budget amendments for the following key areas/projects:

#### 1. West Street Drainage

### STATUTORY ENVIRONMENT

Section 6.8 of the *Local Government Act 1995* refers to expenditure from the municipal fund that is not included in the annual budget. In the context of this report, where no budget allocation exists, expenditure is not to be incurred until such time as it is authorised in advance, by an absolute majority decision of the Council.

### RELEVANT PLANS AND POLICIES

There are multiple plans and policies that support the proposed budget amendments.

### FINANCIAL IMPLICATIONS

Budget amendments being sought will result in no change to Council's budget surplus position of \$0.

### LONG-TERM FINANCIAL PLAN IMPLICATIONS

There are no Long Term Financial Plan implications in relation to this item.

### STRATEGIC COMMUNITY OBJECTIVES

This matter principally aligns with Key Goal Area 6 – 'Leadership' and more specifically Community Objective 6.1 - 'Governance systems, process and practices are responsible, ethical and transparent'.

**RISK ASSESSMENT**

There is a risk to the City, as there is with all projects undertaken, that the final cost could exceed budget. If this looks to be the case Council will be notified so a suitable offset / project scope back can be identified.

**CONSULTATION**

No external consultation was considered necessary in relation to the budget amendments.

**OFFICER COMMENT**

The Officer recommends the following requested budget amendment to the Finance Committee for consideration and recommendation to Council.

**1. West Street Drainage**

This budget amendment seeks to transfer \$30,000 of the Glenmeer Ramble Drainage Project budget (D0020) to a new project titled West Street Drainage.

During a high rainfall event in May 2018 localised flooding occurred on West Street adjacent the recently developed Aldi and Kmart complex. Stormwater from the road (West Street) and overflow from the new carpark inundated 100 (Lot 16) West Street causing flood damage to the property. A design to bypass the flow of stormwater through to the existing wetland has been completed. These mitigation works are estimated to cost in the order of \$30,000. Due to the high risk of further stormwater flooding these works have been identified as urgent.

The drainage work at Glenmeer Ramble scheduled for this financial year have been postponed and relisted in the 2019/2020 budget.

**Planned Expenditure Item**

Officers propose that the 2018/2019 adopted budget be amended to reflect the following funding changes, shown in Table 1.

**Table 1:**

<i>Cost Code</i>	<i>Description</i>	<i>Current Budget</i>	<i>Change</i>	<i>Resulting Proposed Amended Budget</i>
<b>Expenditure</b>				
541.D0020.3035.0000	Glenmeer Ramble drainage project - Wages	\$11,780	-\$6,431	\$5,349
541.D0020.3280.0000	Glenmeer Ramble drainage project - Contractors	\$28,520	-\$15,337	\$13,183
541.D0020.6180.0000	Glenmeer Ramble drainage project - Overheads	\$15,000	-\$8,232	\$6,768
	<b>Total from Glenmeer Ramble</b>	<b>\$55,300</b>	<b>-\$30,000</b>	<b>25,300</b>

541.D0022.3035.0000	West Street Drainage - Wages	0	\$6,431	\$6,431
541.D022.3280.0000	West Street Drainage project - Contractors	0	\$15,337	\$15,337
541.D022.6180.0000	West Street Drainage project - Overheads	0	\$8,232	\$8,232
	<b>Total to West Street</b>	<b>\$0</b>	<b>\$30,000</b>	<b>\$30,000</b>
	<b>Net Total</b>	<b>\$55,300</b>	<b>0</b>	<b>\$55,300</b>

## CONCLUSION

Council's approval is sought to amend the budget as per the details contained in this report. Upon approval the proposed works will be planned, organised and completed.

## OPTIONS

The Council could decide not to go ahead with any or all of the proposed budget amendment requests.

## TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

Should the Officer Recommendation be endorsed, the associated budget amendment will be processed within a month of being approved.

**COMMITTEE RECOMMENDATION****F1906/031**

Moved Councillor J McCallum, seconded Councillor P Carter

That Council endorse the requested budget amendment outlined in Table 1 below resulting in no change to an amended budget surplus position of \$0.


**Table 1:**

<i>Cost Code</i>	<i>Description</i>	<i>Current Budget</i>	<i>Change</i>	<i>Resulting Proposed Amended Budget</i>
<b>Expenditure</b>				
541.D0020.3035.0000	Glenmeer Ramble drainage project - Wages	\$11,780	-\$6,431	\$5,349
541.D0020.3280.0000	Glenmeer Ramble drainage project – Contractors	\$28,520	-\$15,337	\$13,183
541.D0020.6180.0000	Glenmeer Ramble drainage project - Overheads	\$15,000	-\$8,232	\$6,768
	<b>Total from Glenmeer Ramble</b>	<b>\$55,300</b>	<b>-\$30,000</b>	<b>25,300</b>
541.D0022.3035.0000	West Street Drainage - Wages	0	\$6,431	\$6,431
541.D022.3280.0000	West Street Drainage project - Contractors	0	\$15,337	\$15,337
541.D022.6180.0000	West Street Drainage project - Overheads	0	\$8,232	\$8,232
	<b>Total to West Street</b>	<b>\$0</b>	<b>\$30,000</b>	<b>\$30,000</b>
<b>Net Total</b>		<b>\$55,300</b>	<b>0</b>	<b>\$55,300</b>

**CARRIED 5/0**



### 6.3 LIST OF PAYMENTS MADE - MAY 2019

<b>SUBJECT INDEX:</b>	Financial Operations
<b>STRATEGIC OBJECTIVE:</b>	Governance systems, process and practices are responsible, ethical and transparent.
<b>BUSINESS UNIT:</b>	Finance and Corporate Services
<b>ACTIVITY UNIT:</b>	Financial Services
<b>REPORTING OFFICER:</b>	Acting Manager Financial Services - Jeffrey Corker
<b>AUTHORISING OFFICER:</b>	Director Finance and Corporate Services - Tony Nottle
<b>VOTING REQUIREMENT:</b>	Simple Majority
<b>ATTACHMENTS:</b>	Attachment A List of Payments Made - May 2019 

#### **PRÉCIS**

This report provides details of payments made from the City's bank accounts for the month of May 2019, for noting by the Council and recording in the Council Minutes.

#### **BACKGROUND**

The Local Government (Financial Management) Regulations 1996 (Regulations) require that when the Council has delegated authority to the Chief Executive Officer to make payments from the City's bank accounts, that a list of payments made is prepared each month for presentation to, and noting by, Council.

#### **STATUTORY ENVIRONMENT**

Section 6.10 of the Local Government Act and more specifically, Regulation 13 of the Regulations refer to the requirement for a listing of payments made each month to be presented to the Council.

#### **RELEVANT PLANS AND POLICIES**

There are no relevant plans or policies to consider in relation to this matter.

#### **FINANCIAL IMPLICATIONS**

There are no financial implications associated with the officer recommendation.

#### **LONG-TERM FINANCIAL PLAN IMPLICATIONS**

There are no long term financial plan implications associated with the officer recommendation.

#### **STRATEGIC COMMUNITY OBJECTIVES**

This matter principally aligns with Key Goal Area 6 – 'Leadership' and more specifically Community Objective 6.1 - 'Governance systems, process and practices are responsible, ethical and transparent'.

#### **RISK ASSESSMENT**

Not Applicable.

#### **CONSULTATION**

Not Applicable.

**OFFICER COMMENT**

In accordance with regular custom, the list of payments made for the month of May 2019 is presented for information.

**CONCLUSION**

The list of payments made for the month of March 2019 is presented for information.

**OPTIONS**

Not Applicable.

**TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION**

Not Applicable.

**COMMITTEE RECOMMENDATION**

**F1906/032** Moved Councillor J McCallum, seconded Councillor G Henley

That the Committee notes payment of voucher numbers M116844 - 116985, EF064795 – EF065401, T007444 – T007449, and DD003777 – DD003817 together totalling \$8,313,817.07.

**CARRIED 5/0**

#### 6.4 ACCOUNTING TREATMENT OF DEPOSITS AND BONDS

<b>SUBJECT INDEX:</b>	Budget Planning and Reporting
<b>STRATEGIC OBJECTIVE:</b>	Governance systems, process and practices are responsible, ethical and transparent.
<b>BUSINESS UNIT:</b>	Finance and Corporate Services
<b>ACTIVITY UNIT:</b>	Financial Services
<b>REPORTING OFFICER:</b>	Acting Manager Financial Services - Jeffrey Corker
<b>AUTHORISING OFFICER:</b>	Director Finance and Corporate Services - Tony Nottle
<b>VOTING REQUIREMENT:</b>	Simple Majority
<b>ATTACHMENTS:</b>	Nil

#### **PRÉCIS**

As a result of the interim audit of the City's affairs recently conducted by the Office of the Auditor General (OAG), it has been identified in the draft Interim Audit Report that in their opinion the City is accounting for the receipt of funds for deposits and bonds incorrectly.

The City's current treatment is in accordance with Council resolution C1004/115 from April 2010 and is so disclosed in the City's stated significant Accounting Policies contained within the Annual Financial Report. This resolution required that the funds were to be held in the City's Municipal Account. As a result, the City earned interest from the funds.

The OAG Interim Audit report identifies that in their opinion these funds are to be held in Trust, and if interest is earned that it be paid to the person/persons who lodged the payment. If enacted, this change will result in the loss of interest earnings to the City on an ongoing annual basis. Based upon the balance of funds held as at 31 May, this annual loss is in the region of \$70K per annum.

As the current treatment is in accordance with a prior Council resolution, Council will be required to review its previous decision as to the Accounting treatment of these funds into the future. As any changes need to be effective 30 June for Accounting and Budgetary purposes, this guidance is sought as soon as practicable.

#### **BACKGROUND**

At the Council meeting of 14 April 2010, via the Audit Committee meeting held 11 March 2010; the issue of the treatment of Deposits and Bonds paid to the City was considered.

At the time staff had identified that the existing treatment of Deposits and Bonds as part of the City's Municipal Funds was no longer appropriate. This was supported in writing by the City's then Auditor. Accordingly it was recommended by staff that the City's accounting treatment of deposits and bonds should be amended so that all existing, and any new deposits and bonds; were to be recognised as part of the City's Trust Fund.

After discussions with staff and the Auditor at the March 2010 Audit Committee meeting, in due course and contrary to the staff recommendation, Resolution C1004/115 was passed that stated:

1. That Council continues the accounting treatment for deposits and bonds as part of the Shire's Municipal Fund, subject to 2 and 3 below.
2. The deposits and bonds be brought to account as part of the restricted funds in the Municipal Fund.

3. In the Annual Financial Report the deposits and bonds are disclosed as being restricted and additional commentary provided in Note 1A indicating that the Council considers the requirement of control to have been met by the accounting treatment described.
4. That Council notes the requirement for monies held as cash in lieu of public open space to be recognised and reported as part of the Shire's Trust Fund.

As a result of the Interim Audit conducted in May 2019, the Officer of Auditor General (OAG) has found that the City's treatment of deposits and bonds remains inappropriate. In their draft Interim Management Letter, which has only been informally received by email at this point in time; the OAG found that:

*We noted that the City has been holding Bond and Security deposit monies within its municipal fund and recognising an asset on the Statement of Financial Position along with a corresponding liability. Interest earned on these funds has been retained by the City.*

*The City has no control of these funds until a damage event occurs. Consequently, they do not meet the definition of an asset in accordance with Australian Accounting Standards, and should not be reflected on the City's Statement of Financial Position. Any interest earned on these funds also should not be reflected in the City's accounts.*

*The Local Government Act 1995 (Act) requires:*

*Where money or other property is held in the trust fund, the local government is to — in the case of money, pay it to the person entitled to it together with, if the money has been invested, any interest earned from that investment;*

This finding is rated as significant by the OAG, and as per their advice has the following implication:

*Assets and Liabilities are both overstated by the value of Bond and Security deposits. In retaining interest earned on invested trust fund moneys, the City is keeping and utilising moneys that it is not entitled to under the Act.*

*As a further consequence, the recognition of trust moneys on the Statement of Financial Position is not compliant with Australian Accounting Standards.*

The OAG makes the following Recommendation:

*To facilitate accurate reporting for 30 June 2019 the City should:*

- *report bond/security monies as trust funds in the Notes to the financial report*
- *reliably estimate past interest earned that is payable to persons entitled to receive it.*

*The Local Government Act 1995 (Act) states:*

*Where money has been held in the trust fund for 10 years it may be transferred by the local government to the municipal fund but the local government is required to repay the money, together with any interest earned from its investment, from that fund to a person claiming and establishing a right to the repayment.*

*The City needs to account and manage trust fund moneys in accordance with the Act.*

*The City should undertake the necessary steps to identify any obligations it has to return moneys that it has incorrectly retained from the current and previous years.*

Accordingly, the issue of the treatment of Deposits and Bonds is once again tabled with Council to seek guidance as a result of the OAG finding.

## **STATUTORY ENVIRONMENT**

The Local Government Act includes reference to Financial Reports (Section 6.4), Municipal Funds (Section 6.7) and also Trust Funds (Section 6.9). However, the Act and associated Regulations are not specific in respect of the accounting treatment for deposits and bonds.

Previously, the Shire's Auditor has clarified that whilst Australian Accounting Standard AASB1004 (Contributions) does not specifically relate to deposits and bonds, it does provide commentary and guidance on the concept of "control" (a determinant in assessing whether funds are to be held in trust or otherwise).

## **RELEVANT PLANS AND POLICIES**

The City's Long Term Financial Plan will be impacted as identified in the relevant section following.

## **FINANCIAL IMPLICATIONS**

As the change will be effective 30 June it will have nil impact upon the 2018/19 budget, other than that, funds will be accounted for in a different section of the accounts in the year end reports. As at 31 May the balance of the applicable funds was \$2.851M. This pool of funds is cash backed in its entirety, with the majority being Roadworks Bonds (\$1.916M) and Town Planning Bonds (\$697K). Other categories of bonds held include Building Bonds, Crossover Deposits, Hall Deposits, Kerb & Verge Deposits, Key Deposits, Sundry Liabilities and Unclaimed Monies; which together total \$238K.

The change will however have effect upon the 2019/20 Budget and those into the future, as outlined in the following section relating to Long-Term Financial Plan (LTFP) Implications. Additionally, as interest may need to be paid retrospectively on currently held deposits and bonds, a further expense may be incurred. Initial calculations suggest this liability could be in the region of \$250K.

## **LONG-TERM FINANCIAL PLAN IMPLICATIONS**

The current adopted LTFP includes income from the interest earned on the deposit and bonds funds. If the funds are relocated to trust as per the OAG report, then based upon the balance as at 31 May of \$2.851M the City's interest earnings will reduce by approx. \$70K per annum (based upon a notional interest rate of 2.5%). When adopted, the current draft LTFP will need to be adjusted to allow for this reduction in income.

## **STRATEGIC COMMUNITY OBJECTIVES**

This matter principally aligns with Key Goal Area 6 – 'Leadership' and more specifically Community Objective 6.1 - 'Governance systems, process and practices are responsible, ethical and transparent'. The achievement of the above is underpinned by the Council strategy to 'ensure the long term financial sustainability of Council through effective financial management'.

## **RISK ASSESSMENT**

A formal risk assessment of the proposal has not been conducted at this time. If Council chooses to not agree to the change in accounting treatment the City will risk receiving further negative audit findings. Additionally the City will risk having the payee of a bond or deposit that is currently held take action against the City to recover their funds and interest. Accepting the recommended change that is in accordance with the OAG finding will result in the loss of income as detailed.

**CONSULTATION**

Consultation is not applicable in relation to this matter.

**OFFICER COMMENT**

Once finalised and formally received, the complete OAG Interim Management Letter will be tabled with the City's Audit Committee at the next available opportunity. However, in order to enact the change effective June 30 staff are tabling this report directly with Council (via the Finance Committee) so as to be in the position to make the required changes in a timely manner.

As acknowledged by the OAG in writing to the reporting Officer, the treatment of deposits and bonds across the Local Government industry has not been consistent, and through their auditing regime it was apparent that many Local Governments were accounting for the monies differently. The OAG did approach the Department of Local Government for their input, however they were unable to make a decision on this. Therefore the Auditor General has now stated her position in how she believes these monies should be accounted for, and the wording in the City's draft Interim Audit report is the standardised wording they are now utilising.

As such the City is not alone with this finding. The resolution of Council in 2010 was made contrary to staff and Auditor recommendation at the time, however it was not invalid due to the lack of clarity on the proper treatment available at the time.

As the OAG is now responsible for the audit of all Local Government authorities across the State, standardisation of accounting principles can be enacted. Whilst it must be acknowledged that the City will see a reduction in annual interest earning income, failure to apply their findings will result in ongoing negative Audit Reports which may impact Council.

**CONCLUSION**

The finding of the OAG is significant. Whilst acknowledging the City will forgo interest earnings as a result of altering its accounting treatment of the funds, refusal to do so will likely result in further negative findings from the OAG. In the opinion of staff, the City must change its accounting treatment of deposits of bonds to align with the requirements of the Office of the Auditor General, and therefore with current Industry practice. Therefore, the City's accounting treatment of deposits and bonds should be altered so that they are included in Trust.

**OPTIONS**

Council may not agree with the findings of the OAG and therefore not agree to change the accounting treatment of funds held for Deposits and Bonds.

**TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION**

If a change to the Accounting treatment of the funds held in the City's accounts for deposits and bonds is approved, the funds will be relocated to Trust effective 30 June 2019.

**OFFICER RECOMMENDATION**

That the Council:

1. Endorses an amendment to the current accounting treatment for deposits and bonds such that all existing, and any new, deposits and bonds are recognised and reported as part of the City's Trust fund;

2. Continue to liaise and negotiate with the Officer of the Auditor General in relation to the treatment of interest earnings on funds held; and
3. Agree that in a timely manner, a systematic review be undertaken of all deposits and bonds held, ensuring that where the conditions for the return of a bond have been met that they be duly refunded.

**COMMITTEE RECOMMENDATION AND ALTERNATIVE OFFICER RECOMMENDATION**

**F1906/033**

Moved Councillor P Carter, seconded Councillor J McCallum

That the Council:

1. Advise the Officer of the Auditor General that based on peer legal advice the Council believes that no fiduciary relationship exists in respect of bond payments in the context within which they are collected by the City.
2. Agree that the CEO will liaise and negotiate with the Office of the Auditor General in relation to the treatment of interest earnings and the holding of deposits and bonds within the City's Municipal Fund as a result of receiving peer legal advice; and
3. Agree to amend the current treatment for deposits and bonds from the 1<sup>st</sup> July 2019 so that the deposits and bonds are reported as part of the City's Trust fund until a final outcome is determined between the Officer of the Auditor General and the City of Busselton.
4. Amend the Timeline for Implementation of Officer Recommendation from 30<sup>th</sup> June 2019 to the 1<sup>st</sup> July 2019.

**CARRIED 5/0**

Reason: Officers believe that a fiduciary relationship is non-existent; Officers agree to the suggested treatment in the interim until clarification is sought; and negotiation and discussion should occur between the OAG and the City.

## 7. GENERAL DISCUSSION ITEMS

Council has received a request from Port Geographe Marina representative Con Keane of 2/19 Spinnaker Boulevard to waive 100% of their 2019-2020 rate charges.

The Port Geographe Marina has had their property revalued by Landgate Valuation Services. The sea bed area on which the boat pens are located within the Geographe Marina are to be rated effective from the 1<sup>st</sup> July 2019.

As a result of the revaluation, the following impacts will be realised from the 1<sup>st</sup> July 2019:

Rating information on the above property is as follows:

• Current GRV	\$66,152
• New GRV 01/07/2019	\$790,000
• Rates at proposed Rate in \$ & current GRV	\$7,523
• <u>SAR at proposed Rate in \$ &amp; current GRV</u>	<u>\$1,040</u>
• TOTAL	\$8,563
• Rates at proposed Rate in \$ & new GRV	\$89,848
• <u>SAR at proposed Rate in \$ &amp; new GRV</u>	<u>\$12,418</u>
• TOTAL	\$102,266
• <b>TOTAL RATES &amp; SAR INCREASE</b>	<b>\$93,703</b>

The Port Geographe Marina has indicated that such an increase that was unexpected would create significant business risks and requested a full waiver of the rates for the 2019/20 financial year.

In considering the impacts of the sudden increase in rates, the Committee agreed to consider a phased in waiver as follows:

2019/20	66% waiver
2020/21	33% waiver
2021/22	No waiver

As a result, officers will prepare a report/recommendation for Council's consideration in the agenda of the 31 July Meeting of Council.



**8. NEXT MEETING DATE**

Thursday, 25 July 2019

**9. CLOSURE**

The meeting closed at 10.45am.

THESE MINUTES CONSISTING OF PAGES 1 TO 25 WERE CONFIRMED AS A TRUE AND CORRECT RECORD ON THURSDAY, 25 JULY 2019.

DATE: \_\_\_\_\_ PRESIDING MEMBER: \_\_\_\_\_