

**ORDINARY MEETING OF COUNCIL
23 FEBRUARY 2009**

SUPPLEMENTARY REPORT

A9

**MID YEAR BUDGET 2008/2009 –
SUPPLEMENTARY REPORT**

LOCATION/ADDRESS:

RESPONSIBLE EXECUTIVE DIRECTOR:

**DAVID FILMALTER, CHIEF FINANCIAL
OFFICER**

AUTHOR:

**DAVID FILMALTER, CHIEF FINANCIAL
OFFICER**

FILE NO.:

ATTACHMENTS:

- 1. SUMMARY OF OPERATING BUDGET
FORECAST CHANGES (ATTACHMENT 1)**
 - 2. REVISED RATE DETERMINATION
STATEMENT (ATTACHMENT 2)**
 - 3. CAPITAL WORKS EXPENDITURE
VARIATIONS (ATTACHMENT 3)**
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1. KEY ISSUES

- 1.1.** Council officers carried out a structured mid year review of their budgets in accordance with directions from the Executive Team and the Chief Financial Officer.
- 1.2.** This review emphasised the importance of ensuring that the revenue and expenditure forecasts fairly present the expected full year financial results and the amended revenue and expenditure forecasts have been reviewed by the Executive Team and the Chief Financial Officer.
- 1.3.** Requests for additional funding from officers have been assessed by the Executive team against the following criteria:
 - 1.3.1.** Council policy decisions that will have a financial impact in the current financial year and were made after the adoption of the Annual Budget.
 - 1.3.2.** Unforeseen changes in the external environment, most notably the global financial crisis.
 - 1.3.3.** Demonstrated demand for Council services which is having an ongoing impact on costs.
 - 1.3.4.** Legislative compliance requirements that have a financial impact.
 - 1.3.5.** Improvements to controls and systems that have a financial impact.

- 1.3.6. In addition to these criteria, changes are made to capital works projects as a result of:
 - 1.3.6.1. Changes to the scope which could typically result from the detailed design of the project.
 - 1.3.6.2. Additional costs that come to light when the project is put out to tender.
 - 1.3.6.3. Cost overruns that could arise from unforeseen problems during the construction phase.
 - 1.3.6.4. Soil remediation costs.
- 1.4. Attachment 1 summarises the operating budget changes that have been recommended as a result of this review. The review has identified \$2.480M of expenditure savings and additional revenue which will be applied towards unfavourable permanent budget variances of \$2.905M.
- 1.5. The overall impact of the revenue and expenditure review (for both operating and capital budgets) combined with the 2007/08 carry over surplus is a projected \$371K accumulated budget surplus for the full year. This is a \$12K decrease on the original budget that projected a surplus of \$383K for the full year. This is summarised in Attachment 2.
- 1.6. The mid year budget includes a number of forecast changes to the original budget, with the most significant changes being categorised as follows:

Service Initiatives (External)

- 1.6.1. Increased service levels for the provision of Home Care - \$246K
- 1.6.2. A review of the Clarendon Child Care Centre's ability to expand available child car places in light of the collapse of ABC Child Care - \$20K
- 1.6.3. Increased administrative requirements in relation to the management of the child care waiting lists - \$63K
- 1.6.4. Drought mitigation costs for the South Beach Reserve - \$20K
- 1.6.5. Consultancy costs in relation to Council's Skate Parks - \$78K

Service Initiatives (Internal)

- 1.6.6. Development of a business case in regards to Council's "Records Knowledge Management" - \$50K.
- 1.6.7. Redevelopment of Council's intranet and internet - \$120K

Controls & Compliance

- 1.6.8. The purchase of additional TRIM (Records Management software) licenses - \$29K
- 1.6.9. Increased compliance costs in relation to Council's tendering processes - \$70K

1.6.10. Legal fees principally associated with Freedom Of Information requests - \$50K

1.6.11. Business continuity planning across the organisation - \$50K

1.6.12. Increased internal audit costs - \$40K

1.6.13. A review of Council's governance operations and requirements - \$50K

Global Financial Crisis

1.6.14. Reduced parking income as a result of higher petrol prices and the global economic slowdown - \$900K

Financial and Other

1.6.15. Increased rate income due to the impact of supplementary rates - \$800K

1.6.16. Greater than expected grant income from the Victorian Grants Commission - \$220K.

1.6.17. Reduced insurance premiums due to Council's favourable claims experience - \$220K

1.7. Full details of the proposed changes to the budget are set out in Attachment 1.

1.8. The proposed forecast changes will have an unfavourable impact on the 2008/09 operating budget of \$425K. This is partly offset by a net reduction of \$55K in funding requirements for the capital works program. The capital works program is also looking to defer several projects (thereby reducing the 2008/09 budget).

1.9. An additional transfer from general reserves of \$359K, being expenditure commitments completed in prior years, further offsets the unfavourable mid year adjustment for operating expenditure.

2. Elwood Park Sports Pavilion

2.1. Council had originally budgeted \$1M for 2008/09 and the 5 year program included \$1M in 2009/10 to complete this project. During the planning stages, a construction estimate of \$2M was prepared. While every effort was made to inform council of the estimated total cost of this project when they approved the capital works program, accurate cost plans are not always possible.

- 2.2.** At the tender stage it became apparent that the proposed budget of \$2M was inadequate. This was namely due to the cost of raw materials, in particular steel, having increased markedly since the budget was agreed upon and the project going to tender. Another impacting factor was the changing of design to accommodate stakeholders. Tender bids ranged from \$2.368M to \$3.078M and Council awarded the contract to the lowest tenderer at that time.
- 2.3.** At the Ordinary Meeting of Council on 22 September 2008, it was resolved that:
- 2.3.1. Council award Contract Number 1138 for the Elwood Park Sports Pavilion Redevelopment to Cetalee Pty Ltd at a total construction cost of \$2,368,648.
 - 2.3.2. Council approve the revised construction program period of October 2008 to May 2009 in order to complete the project in 2008/09 ahead of schedule.
 - 2.3.3. Council approve funding the second stage of the construction works (\$1,368,648) from 2 sources – access to \$1,000,000 from general reserves in 2008/09 and \$368,648 in savings from other capital works projects in 2008/09.
 - 2.3.4. The Capital Works Project Board report to council, as part of the quarterly reporting process, options to fund the identified shortfall of \$368,648 through 2008/09 capital works savings.

3. CONTEXT

The original 2008/2009 budget contained stringent expenditure targets that were set by the Executive Team and approved by Council, following the extensive reviews of past and future performance.

4. PROPOSAL

That Council adjusts its budget forecast to reflect the changes in the full year expenditure and revenue estimates that have arisen as consequence of this review.

5. POLICY IMPLICATIONS

This report and the recommendations arising from it do not have a direct impact on Council policy.

6. RESOURCE IMPLICATIONS

The operating variances identified by the mid year review have been classified as one offs (\$1.032M net favourable) and ongoing (\$1.457M net unfavourable).

All ongoing variances will be taken into account for the purpose of setting forward revenue and expenditure budget targets.

7. INTERNAL CONSULTATION

Councillors

Executive Team

8. EXTERNAL CONSULTATION

N/A.

9. IMPLEMENTATION

Council approval of the mid year budget forecasts will result in future financial performance being reported against the revised budget forecast.

This will be implemented with effect from the January Monthly Financial Report and March Quarterly Financial Report, which will be presented to Council in the April reporting cycle.

10. CONCLUSION

Financial performance for the balance of the financial year will be reported against the revised budget forecast.

11. COMMUNICATION

Following Council adoption of the mid year budget forecast, detailed advice will be provided internally to affected officers by the Finance & Investments department.

12. RECOMMENDATION

That Council adopt the 2008/09 mid year budget forecast as outlined in the body of this report and Attachments 1 and 2, and approve the favourable and unfavourable variances as outlined in these Attachments.

Council adopt the changes recommended to the Capital Works program as outlined in Attachment 3.