



QUALITY NATURE - QUALITY HERITAGE - QUALITY LIFESTYLE

ADDENDUM ITEMS FOR ORDINARY COUNCIL MEETING WEDNESDAY, 28 FEBRUARY 2018

Notice is hereby given pursuant to Clause 7(1) of Council's Code of Meeting Practice that an **Ordinary Council Meeting** will be held in the Urbenville Community Hall, on **Wednesday, 28 February 2018** commencing at **9.30 am**.

Terry Dodds
Chief Executive

AGENDA

7. URGENT, LATE & SUPPLEMENTARY ITEMS OF BUSINESS

(ITEM ENV3/18)	NEW WATER DISPENSING STATION	2
(ITEM GOV15/18)	BUDGET REVIEW AS AT 31 DECEMBER 2017 - VERSION 2.....	6

Department:	Infrastructure, Environment & Regulation
Submitted by:	Manager Water & Waste
Reference:	ITEM ENV3/18
Subject:	NEW WATER DISPENSING STATION

LINKAGE TO INTEGRATED PLANNING AND REPORTING FRAMEWORK

CSP Goal:	Environment - ENVO 11 - Secure, sustainable and environmentally sound infrastructure and services underpin Council service delivery.
CSP Strategy:	Water is used carefully in Council's buildings, parks, sporting grounds and daily operations.
Delivery Plan Action:	Ensure effective and efficient delivery of water services in accordance with existing service levels.
Operational Plan Action:	Water Mains Replacement Program – Tenterfield.

SUMMARY

The purpose of this report is to improve the efficiency and effectiveness of maintaining Council infrastructure.

OFFICER'S RECOMMENDATION:

That Council:

- (1) Approves the purchase of a custom water dispensing station; and**
- (2) Authorise \$35,000 reallocation from current Capex budget item Tenterfield Mains Replacement (#7484 506) to fund this capital purchase.**

BACKGROUND

Council has only one custom water dispensing station/ standpipe in Tenterfield. The electronic dispensing automation became inoperable during storms in December 2017. The filling station provides for many of the important works occurring in the area and services the local community to re-fill water tanks.

For optimal management of water services, the water dispensing system requires replacement.

Council staff have looked at options for system replacement, tested the market with quotations and is now in a position to effect timely cost effective change.

The existing facility is shown following.

Our Environment No. 3 Cont...

**REPORT:**

The current system employs an overhead filling pipe and meter system. To access the system, the user needs to have a swipe card that the system checks for available credit prior to water dispensing. People who have the swipe cards need to get credit from Council before use. Right now Council is providing water at this facility, but the service provision requires a burdensome costly inefficient process involving staff attending the standpipe with each use, manually overriding the meter system, taking photos before and after use, and then administration staff processing the usage bill through accounts payable.

The existing system has been damaged by electrical surge several times and there are issues of delay in repair as well as the ongoing costs of manual operation and associated administration as mentioned above.

The options to remedy the system include:

- (a) Continue doing more of the same by either repairing and or replacing the existing meter system with the expectation of similar ongoing reoccurring problems.
- (b) Replace the existing standpipe and meter with a new system that works on credit card access avoiding the need for manual and administrative intervention, that has inbuilt valve backflow protection, that comes with a surge protection system and battery backup in the event of power outage, and has a fixed coupling point for water off take as opposed to the overhead swing standpipe.

Our Environment No. 3 Cont...

At present the annual return from the standpipe has ranged from \$5,330 to \$8,428/annum, so based on a \$35,000 capital renewal spend, the payback period would be at most SEVEN (7) years.

In summary, the purchase of a new water dispensing station will:

- Reduce the administrative hours required to ensure right and proper operations;
- Provide an upgradeable system that will reduce management and maintenance;
- Allow for operational cost improvements and better use of limited staff time.

It is recommended that Council purchase a new water dispensing station that will accommodate Council's customers. If the order is placed in February, the new equipment can be in place by the end of March.

The intended new facility would be similar to the following.



COUNCIL IMPLICATIONS:

1. Community Engagement / Communication (per engagement strategy)

Nil

2. Policy and Regulation

Nil

Our Environment No. 3 Cont...

3. Financial (Annual Budget & LTFFP)

As Council has no current allocation for this Capex in the current 2017/2018 budget, if Council approved this Capex work, it has a choice of increasing the current 2017/2018 budget to accommodate this work, or Council can retain the existing total quantum of the 2017/2018 water capex budget, but authorise a \$35,000 capex reallocation to this project from the current mains replacement budget. As Council reserves in water fund are minimal, it is recommended Council approve the capex reallocation.

This new system will ultimately lead to a reduction in the annual operating budget.

4. Asset Management (AMS)

Nil

5. Workforce (WMS)

Less administrative duties.

6. Legal and Risk Management

Nil

7. Performance Measures

The equipment recommended will improve Council's ability to more effectively and efficiently deliver its water services to Tenterfield.

8. Project Management

This report does not deal with a major project.

Andre Kompler
Chief Operating Officer

Prepared by staff member:	Gillian Marchant, Manager Water & Waste
Approved/Reviewed by Manager:	Andre Kompler, Chief Operating Officer
Department:	Infrastructure, Environment & Regulation
Attachments:	There are no attachments for this report.

Department:	Corporate, Governance & Community
Submitted by:	Acting Finance Manager
Reference:	ITEM GOV15/18
Subject:	BUDGET REVIEW AS AT 31 DECEMBER 2017 - VERSION 2

LINKAGE TO INTEGRATED PLANNING AND REPORTING FRAMEWORK

CSP Goal:	Leadership - LEAD 14 - Resources and advocacy of Council are aligned support the delivery of the community vision outlined in the Community Strategic Plan.
CSP Strategy:	Council is a financially sustainable organisation, delivering value services to the Community.
Delivery Plan Action:	Ensure that financial sustainability and the community's capacity to pay inform adopted community service levels.
Operational Plan Action:	Ensure adequate and effective internal controls are in place for all financial management and purchasing functions.

SUMMARY

The purpose of this report is to submit to Council the Quarterly Budget Review for the period 1 October 2017 to 31 December 2017.

OFFICER'S RECOMMENDATION:

That Council adopt the Quarterly Budget Review, for the period 1 October 2017 to 31 December 2017 (QBR Dec-2).

BACKGROUND

The Office of Local Government has developed a set of minimum requirements for the Quarterly Budget Review Statements. The Quarterly Budget Review statement must show, by reference to the estimated income and expenditure that is set out in the operational plan adopted by Council, a revised estimate of income and expenditure for the year. It also requires the budget review statement to include a report by the responsible accounting officer as to whether or not they consider the statement indicates Council to be in a satisfactory financial position with regard to its original budget, and if not, to include recommendations for remedial action.

The Budget Review as presented has identified significant departures from expected outcomes. There are some items where the original budget was not sufficient to meet requirements. However of much greater concern is the level of underachievement.

Work-in-Progress (Capital under construction) is lagging significantly. According to the "actual" expenditure reported in this Spreadsheet the total is approximately \$4.4 million out of a budget of \$23.5 million.

On the flip side there is a significant shortfall in the "actual" receipts of Capital Grants and Contributions. A figure of \$8.1 million is given as the target however receipts to December 2017 only total \$1.7 million. By way of example, the Transport Network is flagging a budget of \$11.3 million but has only expended \$1.8 million to December. This is not a "saving" but represents a problem with the budget in the first place and perhaps an organisational capacity issue.

Our Governance No. 15 Cont...

On the income side there are two items that warrant close attention. The budget has a sum of \$3,450,000 shown as Loan Funds associated with the Water Fund. These monies are to be borrowed to cover the Council's expenditure on the Dam Wall between now and the 30th June 2017. The cash flow beyond 1 July 2017 would suggest that a further \$2,000,000 will need to be borrowed in the 2018-2019 financial year to cover the remaining outlays.

The second item warranting attention is the item within the budget summary dealing with property and plant sales. That is currently shown as a figure of \$2,123,000 and after some investigation has been identified with both plant and vehicle sales and the possible sale of a certain commercial site. The plant and vehicle sales data should be housed in the Plant cost centre. This relocation will occur in the March review, however the forecast acquisition and disposal estimates require adjustment now. The total value of Plant purchases has increased from \$2,783,000 to \$3,974,815 while disposals are estimated to be in the sum of \$2,152,528. An amount of \$868,267 has been recorded as sales of plant and vehicles as at 31 December 2017.

These movements in plant and vehicle acquisition costs are significant with a net increase in outlays of \$1.2 million over the original budget.

Another item of interest is the amount of money that has been moved from "reserves" which is simply a reclassification of money held in the bank as either externally or internally restricted. This review suggests that \$3.9 million will be reclassified as unrestricted, however there is a lack of detail at this time to support such a reclassification. Investigations will continue into this aspect between now and the preparation of the March Review to determine the extent of the reclassification of balances held in reserve.

Before getting on to the formality of the presenting the numbers, something needs to be noted about the current problems with the budget process from an accounting perspective. The Council is managing its budget within a spreadsheet environment and as such has real risks of propagating mistakes. Spreadsheets, by design, are seen as "personal" and have great flexibility and offer the user (designer) lots of choices. However that same strength is Excel's weakness for "corporate" reporting. Since this Review started, many reconciliation problems have arisen as regards the spreadsheet data and the general ledger data. An effort has been made to rectify these as they impinge directly on the information presented to Council.

After progressing these reconciliation efforts many corrections have been made. The Spreadsheet document used to present the Quarterly Budget Review as at 31 December, is now considered to be soundly based. The remaining differences that have yet to be resolved are not material.

The recent decision of Council to invest in a "corporate" Budget System is a step in the right direction.

A Quarterly Budget Review Statement for the December 2017 quarter has been prepared in accordance with the Code of Accounting Practice and Financial Reporting.

The Quarterly Budget Review Statement includes the following reports;

1. Report by Responsible Accounting Officer
2. Income & Expenses Budget Review Statement

Our Governance No. 15 Cont...

3. Capital Budget Review Statement
4. Budget Review Statement – Recommended Changes to Revised Budget
5. Cash & Investments Budget Review Statement
6. Key Performance Indicators Budget Review Statement
7. Contracts Budget Review Statement
8. Consultancy & Legal Expenses Budget Review Statement

A detailed budget review showing each budget item is attached to the report to support the December 2017 Quarterly Budget Review (Attachment 9 (Booklet 3)).

REPORT

The structure of the QBR Dec-2 financial reporting is preordained by the template that has been adopted by Council. The complexity of the reporting arises because of the archaic requirement to maintain fund accounting concepts within an accrual accounting environment. This form of reporting has its foundations in cash book accounting and was prescribed for NSW Local Government in 1913.

Given this requirement, the analysis presented in this report dissects the overall performance of the budget into fund perspectives. The first Table has its origins in the attempt to gauge the Council's capacity to survive financially if it were to be bereft of grant funding. The calculation of the figures requires the operational costs and revenues to be netted, including depreciation expense but excluding capital grants and contributions.

This is not the same as the calculation of the "Own Source Revenue" Ratio which is promoted by the Office of Local Government (OLG). The difference is that the operational grants are taken into account as well as capital grants when performing the "Own Source Revenue" calculation, which brings into consideration the Federal Assistance Grant (FAG). So that the calculation gives rise to a ratio of 24% which is well below the OLG's target ratio of 60%. It is worth noting that the State average is 70%.

Table 1 below compares the projected operating result with the amended budget. It shows that the projected consolidated deficit has increased by \$614,792 which is mainly due to an increase in the general fund deficit of \$567,586.

TABLE 1 – OPERATING RESULT EXCLUDING CAPITAL GRANTS AND CONTRIBUTIONS

Fund	Amended Budget-Sep QBR-1	Revised Budget-Dec QBR-2	Variance
General	\$ 835,520	\$ 267,934	(\$ 567,586)
Waste Management	\$ 479,720	\$ 493,554	\$ 13,834
Water	\$ 404,352	\$ 288,600	(\$ 115,751)
Sewerage	(\$ 10,897)	\$ 43,815	\$ 54,712
Storm water	(\$ 104,813)	(\$ 104,813)	
Total	\$ 1,603,882	\$ 989,090	\$ (614,792)

The following table (Table 2) details the principal variations accounting for the change in the operating result (variations to operating income which are offset by an equal increase in operating expenditure are disregarded as the net effect is zero). The variations in the waste, water, sewerage and storm water funds are not considered material. The main changes are listed in Table 2.

Our Governance No. 15 Cont...

TABLE 2 – MATERIAL BUDGET VARIATIONS – OPERATING RESULT EXCLUDING CAPITAL GRANTS AND CONTRIBUTIONS

Service	Account Description	Variation	Reason
Civic Office	Election Expenses	(27,000)	Increase to allow for Election Expenses for recent By Election
Organisation Leadership	Annual Leave	(22,292)	Adjusting allocation
	Non Vested leave	(14,490)	Adjusting allocation
	Redundancy	(168,525)	Redundancy payments
Economic	Contract Staff	(45,969)	Specialist resource
Finance		1,408,347	Transfer from Internal Restrictions- FAG
		794,377	Transfer from Internal-Restrictions-FAG
	Contract Staff	(43,264)	Backfill vacancies
Corporate	Salaries	(114,606)	Adjustment to allocation
		187,416	Adjustment to allocation
Workforce	Long Service Leave (N.E.I.)	(120,000)	Adjustment to allocation
	Innovation	(66,750)	Organizational capacity development
	Salaries	(22,248)	Adjustment to allocation
	Contract Staff	(116,139)	Adjustment to allocation
	Senior Staff Recruitment	(12,231)	Recruitment costs
	Staff Travel	10,000	Reduced travelling
Planning	Legal Expenses – Native Title	(10,000)	Adjustment to allocation
Buildings	Council Building - Maintenance	80,000	Transfer to Capital Expenditure
	Unscheduled Property Maintenance	10,000	Adjustment to allocation
Transport	Redundancy	20,147	Redundancy Payments

Our Governance No. 15 Cont...

Capital Budget

The capital expenditure budget shows in Table 3 below that projected capital expenditure will increase by \$329,784 above the amended budget. This additional expenditure will be funded either by grants or where a Council contribution has been required.

The Budget for 2017/18 included management costs which were to be allocated and capitalized against capital projects. This is important to note as the Council relies on getting overhead recovered against these Works-in-Progress.

TABLE 3 – CAPITAL EXPENDITURE BUDGET

Fund	Amended Budget-Sep QBR-1	Revised Budget-Dec QBR-2	Variance
General	\$ 15,157,747	\$ 16,752,491	\$ 1,594,744
Waste Management	\$ 1,042,996	\$ 1,042,996	\$ -
Water	\$ 5,600,532	\$ 5,600,532	\$ -
Sewerage	\$ 1,191,805	\$ 1,118,661	(\$ 73,144)
Storm water	\$ 245,000	\$ 245,000	\$ -
Total	\$ 23,238,080	\$ 24,759,680	\$ 1,521,600

Our Governance No. 15 Cont...

Table 4 below details the material variations in all funds and how the variation will be funded (note - immaterial variations are not included).

TABLE 4 – MATERIAL BUDGET VARIATIONS – CAPITAL EXPENDITURE BUDGET

All Funds

Function	Account Description	Variation	Reason
Buildings	Administration Centre	(\$80,000)	Transfer from maintenance
Parks	Rose Garden at Cemetery	(\$15,643)	Improvements to surrounds
Plant and Vehicles	Acquisition costs	(\$1,191,815)	Increase in vehicle purchases
Property	Sale of commercial site	\$300,000	A recent estimate of value.
	Shirley Park Amenities (SRV)	(\$25,000)	Improvement to surrounds
Transport	NDRRA-End March	(\$50,358)	Adjustment to allocation
	MR 622	(\$120,546)	Adjustment to allocation
	Jubullum - Road works	(\$18,188)	Public internal road upgrade
	Jubullum - Road works	(\$20,426)	Upgrade T intersection
	Jubullum - Road works	(\$75,995)	Upgrade access road
Sewerage	Capitalisation of Management Expenses	(\$73,145)	Reduction in Project scope this year.

Key Performance Indicators

The following table (Table 5) compares the key performance indicators on a consolidated funds basis with the original budget. A more detailed analysis is contained in the Quarterly Budget Review attachments.

TABLE 5 – KEY PERFORMANCE INDICATORS (CONSOLIDATED FUNDS)

Performance Indicator	OLG Benchmark	Projection 2017/18	Original Budget 2017/18
Operating Performance Ratio (%)	>0%	5.98%	10.29%
Own Source Operating Revenue Ratio (%)	>60%	28%	40.89%

Our Governance No. 15 Cont...

Budget Summary

A summary of the significant movements in the budget during the December 2017 Quarter forms part of the Quarterly Budget Review Statement.

The budget shows income from all sources (operating income, capital income, loan funds, and proceeds from the sale of assets, transfers from reserves, restricted funds) and operating expenditure, capital expenditure, transfers to reserves and restricted funds.

TABLE 6 - BUDGET SUMMARY AS AT 31 DECEMBER 2017 -ALL FUNDS

Amended Budget QBR Sep-1 Proposed Amendments Revised Budget QBR Dec-2

Operational Income

\$20,293,670	\$190840	\$20,484,510
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Operational Expenditure

(\$12,286,311)	(\$705,631)	(\$13,091,942)
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Net Surplus (Including Grants and before Depreciation)

\$14,541,625	\$982,051	\$15,523,676	TABLE 7
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Net Surplus on Operations

\$8,007,359	(\$614,791)	\$7,392,568
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Depreciation Expenses

(\$6,403,478)		(\$6,403,478)
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Net Surplus on Operations after Depreciation (excluding Grants)

\$1,603,881	(\$614,791)	\$989,090	TABLE 1
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Capital Income (Grants and Contributions)

\$6,534,266	\$1,596,842	\$8,131,108
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Capital Movements

Work-in-Progress		
(\$23,238,080)	(\$1,521,600)	(\$24,759,680)

Loan Proceeds		
\$5,573,000	\$300,000	\$5,873,000

Restricted Cash		
\$5,963,773	(\$2,008,974)	\$3,954,798

Balance Sheet Adjustments		
\$105,598		\$105,598

Available to Working Funds before Depreciation

\$2,845,916	(\$2,148,525)	\$697,392
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Surplus/ (Deficit)

After Depreciation Expense is applied		
(\$3,557,561)	(\$2,148,525)	(\$5,706,086)

Our Governance No. 15 Cont...

Working Funds

The reference to working funds is an estimate of the position that fairly represents the net movement in current assets and current liabilities.

Because in NSW local government has a formal practice of "restricting cash", then the reference usually means that it has taken into account the extent to which Council has restricted its cash.

The calculation of this position following the finalisation of the Statements as at 30 June 2017 was as follows:

Financial Statements rounded to nearest \$1000

Current Assets -	\$19,027
Less	
Current Liabilities -	\$ 4,376
Less	
Restricted Cash -	\$13,712

Working Capital would have been the resultant sum of \$939,000, which gets close to the carry value of Cash-at-Bank.

The OLG does use what it describes as the "Unrestricted Current Ratio" to make judgements about Councils liquidity. For this calculation, only the externally restricted cash is excluded.

The Working Funds Surplus forecast for the 30th June 2018 contained in the Summary All Funds (see Attachment 9 (Booklet 3)) is in the sum of \$697,392, BEFORE APPLYING DEPRECIATION EXPENSE.

The working funds table below (Table 7) outlines the flow of income and expenditure and is to be differentiated from a "point-in-time" position statement. And since Council started with about \$1 million in its bank (unrestricted) and the following ebb and flow of monies travelling in and out of that bank account, it approximates the Working Capital available as at 30 June 2018

TABLE 7- ESTIMATED WORKING FUNDS POSITION

Working Funds Surplus (flow to Bank)

FUND	Operation Surplus	Capital Movements	Balance Sheet Movements	Restricted Cash Movements
General	\$11,879,628	(\$16,752,492)	\$2,528,598	\$1,532,025
Waste	\$ 713,492	(\$1,042,995)		\$ 329,503
Water	\$ 2,042,860	(\$5,600,532)	\$3,450,000	\$ 107,672
Storm	\$ 61,383	(\$ 245,000)		\$ 183,617
Sewer	\$ 825,858	(\$1,118,661)		\$ 707,197
	\$15,523,676	(\$24,759,680)	\$5,678,598	\$3,557,406

Our Governance No. 15 Cont...

COUNCIL IMPLICATIONS:

1. Community Engagement / Communication (per engagement strategy)

Nil

2. Policy and Regulation

- Local Government Act 1993
- Local Government (General) Regulation 2005
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Circulars

3. Financial (Annual Budget & LTFP)

Recommended variations to the annual budget are detailed in this report.

4. Asset Management (AMS)

Nil

5. Workforce (WMS)

Nil

6. Legal and Risk Management

The Budget Review is submitted to Council in accordance with Clause 203(1) of the Local Government (General) Regulation 2005.

7. Performance Measures

The impact of the recommended budget variations on Councils key performance indicators is detailed in the Quarterly Budget Review Statement.

8. Project Management

Nil

Kylie Smith
Chief Corporate Officer

Prepared by staff member:	John McHugh, Acting Finance Manager; Belinda Savins, GIS Accountant
Approved/Reviewed by Manager:	Kylie Smith, Chief Corporate Officer
Department:	Corporate, Governance & Community
Attachments:	1 Attachment 15 (Booklet 6) - 63 Quarterly Budget Review to 31 December 2017 Pages