

Audit & Risk Committee Minutes

17 April 2023

Our Vision

*A City which values its heritage, cultural diversity,
sense of place and natural environment.*

*A progressive City which is prosperous, sustainable
and socially cohesive, with a strong community spirit.*

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City of
Norwood
Payneham
& St Peters

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VENUE Mayors Parlour, Norwood Town Hall

HOUR 7.00pm

PRESENT

Committee Members Mayor Robert Bria (Presiding Member)
Cr Grant Piggott
Cr Claire Clutterham
Ms Sandra Di Blasio (Independent Member)
Ms Stefanie Eldridge (Independent Member)

Staff Mario Barone (Chief Executive Officer)
Lisa Mara (General Manager, Governance & Civic Affairs)
Sharon Francis (Acting Manager, Finance)
Teri Hopkins (Manager, Governance & Legal)

APOLOGIES Nil

ABSENT Nil

TERMS OF REFERENCE:

The functions of the Audit & Risk Committee include:

- (a) reviewing Annual Financial Statements to ensure that the Statements present fairly the state of affairs of the Council; and*
- (b) proposing, and providing information relevant to, a review of the Council's strategic management plans or annual business plan; and*
- (c) monitoring the responsiveness of the Council to recommendations for improvement based on previous audits and risk assessments, including those raised by the Council's External Auditor; and*
- (d) proposing, and reviewing, the exercise of powers under Section 130A of the Local Government Act 1999; and*
- (e) liaising with the Council's External Auditor in accordance with any requirements prescribed by the regulations; and*
- (f) reviewing the adequacy of the accounting, internal controls, reporting and other financial management systems and practices of the Council on a regular basis; and*
- (g) providing oversight of planning and scoping of the Internal Audit work plan; and*
- (h) reviewing and commenting on reports provided by the person primarily responsible for the Internal Audit function at least on a quarterly basis; and*
- (i) reviewing and evaluating the effectiveness of policies, systems and procedures established and maintained for the identification, assessment, monitoring, management and review of strategic, financial and operational risks on a regular basis; and*
- (j) reviewing any report obtained by the Council pursuant to Section 48(1) of the Local Government Act 1999; and*
- (k) performing any other function determined by the Council or prescribed by the regulations.*

1. CONFIRMATION OF MINUTES OF THE AUDIT & RISK COMMITTEE MEETING HELD ON 27 MARCH 2023

Ms Sandra Di Blasio moved that the minutes of the Audit & Risk Committee meeting held on 27 March 2023 be taken as read and confirmed. Seconded by Cr Piggott and carried unanimously.

2. PRESIDING MEMBER'S COMMUNICATION

Nil

3. QUESTIONS WITHOUT NOTICE

Nil

4. QUESTIONS WITH NOTICE

Nil

5. WRITTEN NOTICES OF MOTION

Nil

6. STAFF REPORTS

6.1 DRAFT 2023-2024 BUDGET

REPORT AUTHOR: Manager, Finance
GENERAL MANAGER: General Manager, Governance & Civic Affairs
CONTACT NUMBER: 8366 4585
FILE REFERENCE: qA83737
ATTACHMENTS: A - D

PURPOSE OF REPORT

The purpose of the report is to present the Draft 2023-2024 Budget to the Audit & Risk Committee to enable the Committee to provide comment and/or recommendations to the Council, prior to the Council's "in principle" endorsement of the Draft 2023-2024 Annual Business Plan, the Draft 2023-2024 Budget and the Draft Rating Policy for the purpose of undertaking public consultation.

BACKGROUND

Section 123(8) of the *Local Government Act 1999*, requires the Council to adopt an Annual Business Plan and a Budget for the ensuing financial year after 31 May and except in a case involving extraordinary administrative difficulty, before 15 August.

The Draft Budget comprises the Recurrent Budget, which incorporates the revenue and expenditure which is required to provide the "Business as Usual" services. The second component incorporates the Capital and Operating Project Budget. The Operating Projects Budget encompasses services, programs and activities that are outside the "Business as Usual" services and are considered discretionary in nature, (i.e. the Council is under no obligation to provide the services, activities or programs or if required to undertake the activity, for example the Representation Reviews are irregular in nature). Operating Projects generally include one off activities or programs, an expansion of an existing service or program or proposals to introduce a new service or program. Operating Projects are funded from Rate Revenue or a fee for service charge.

The Capital Works Budget encompasses projects which renew, upgrade or create new infrastructure assets. Examples of some projects are the Civil Infrastructure Whole-of-Life Program (renewal), Playground/Reserve Redevelopment (upgrade). Renewal Capital Projects are funded through Rate Revenue, via the depreciation charge, with new or upgrade works funded through borrowings or cash reserves.

At its Special meeting held on 11 April 2023, the Council considered the Draft 2023-2024 Budget and following consideration of the Draft 2023-2024 Budget, the Council resolved the following:

1. *That the proposed Operating and Capital Projects as set out in Attachment A be endorsed "in principle".*
2. *That the Council endorses "in principle", the Draft 2023 -2024 Budget set out in the Financial Statements contained in Attachment D, which incorporates the proposed Operating and Capital Projects;*
3. *The Council requests that the following information be provided to the Council at its meeting to be held on 1 May 2023 as part of the Council's consideration of the Draft 2023-2024 Annual Business Plan and Budget:*
 - a. *review of projected income from Statutory Charges, User Charges & Other Income, noting their overall decline and to include any income gains achievable from planned resource increase noting that statutory charges for 2023-2024 will not be known until the State Budget has been handed down;*
4. *The Council requests that a meeting of the Audit & Risk Committee be convened to enable the Committee to provide comment on the Draft 2023-2024 Budget prior to the Council Meeting to be held on 1 May 2023.*

The Draft 2023-2024 Annual Business Plan, the Draft 2023-2024 Budget and the Draft Rating Policy, is scheduled to be considered at the Council Meeting on 1 May 2023.

The Draft 2023-2024 Annual Business Plan and Budget will be released for public consultation for a period of twenty-one (21) days as required by the *Local Government Act 1999*.

RELEVANT POLICIES & STRATEGIC DIRECTIONS

The Council's long term strategic direction is outlined its Strategic Management Plan in *City Plan 2030: Shaping our Future*. The Draft 2023-2024 Annual Business Plan and supporting Draft 2023-2024 Budget, set out the proposed services and programs and explains how the Council intends to finance its continuing and new activities which are proposed to be undertaken during the year.

The Council's Long Term Financial Plan (LTFP), is a key document in the Council's Planning Framework. It is the primary financial management tool which links the Council's Strategic Plan, *City Plan 2030: Shaping our Future*, Whole-of-Life Assets Management Plans and the Annual Business Plan and Budget.

Financial sustainability underpins the Council's Financial Goals and Outcomes, which are set out in the Long-Term Financial Plan. In general terms, financial sustainability is ensuring that the Council has the financial resources to meet the long-term service and infrastructure needs of the community, without any severe increases in rate revenue or cuts in service provision and standards.

From an operational perspective, financial sustainability is being able to manage the conflict between keeping rate revenues increases to a reasonable level, maintaining existing service standards and financing new services and major capital investments.

The Draft 2023-2024 Budget has been developed on the basis of ensuring that it will assist in delivering on the Council's Long Term Strategic direction and financial objectives set out in the LTFP.

FINANCIAL AND BUDGET IMPLICATIONS

For the 2023-2024 Financial Year, the LTFP estimates an Operating Surplus of \$1.355 million, based on a Rate Revenue increase of 4.55%.

To ensure that the Council can deliver on its financial objectives as set out in the Council's Long Term Financial Plan, the Draft Recurrent Budget has been prepared with reference to the budget parameters which were adopted by the Council at its meeting held on 16 January 2023.

The Draft Budget, as presented in this report, based on the 4.55% Rate Revenue increase as set out in the Long-Term Financial Plan, will deliver an Operating Deficit of \$141,624.

To achieve an Operating Surplus of \$1.355 million as set out in the Long-Term Financial Plan, a Rate Revenue Increase of 8.78% would be required.

At the time of writing this report, the Rate increase for the average residential ratepayer is not available.

EXTERNAL ECONOMIC IMPLICATIONS

The South Australian economy has continued to perform solidly across a number of economic indicators, although the pace of growth appears to be moderating. Following growth of 4.7% in 2020-21, Gross State Product (GSP) remained strong in 2021-2022, growing by 5.1 per cent. State Final Demand (SFD) was also strong, increasing by 5.6% in 2021-2022 following an increase of a 5.3% in 2020-2021. Growth in both GSP and SFD, however, is expected to moderate in 2022-23 and 2023-24 as higher interest rates and inflation flow through to moderate spending and investment decisions.

The outlook for inflation has been revised upwards, reflecting the high rates of inflation being experienced in many (mainly advanced) nations, including Australia. The Adelaide Consumer Price Index (CPI) is now forecast to grow by 7.25% in 2022-2023, reflecting dwelling construction price pressures, the recent strong fuel price growth and the high prices for fruit and vegetables due to recent flooding events.

The Adelaide CPI is forecast to moderate to 4 per cent growth in 2023-2024 partly due to the effectiveness of monetary tightening in dampening demand, and to fall back within the RBA's target range from 2024-2025.

SOCIAL ISSUES

No Applicable.

CULTURAL ISSUES

Not Applicable.

ENVIRONMENTAL ISSUES

Not Applicable.

RESOURCE ISSUES

Not Applicable.

RISK MANAGEMENT

The Draft 2023-2024 Budget will be impacted upon by the decisions made by the Federal Government and State Government in their respective budgets. At the time of writing this report, no information regarding these budgets is available.

As a result, the Draft 2023-2024 Budget presented in this report, has been developed on the following assumptions:

- that the Financial Assistance Grants, comprising of the General Assistance Grant and the Road Funding Grant, will be provided based on the current funding arrangements of four (4) quarterly instalments. The value of these payments has not been indexed;
- State Government Charges, which are set by Legislation, are yet to be indexed;
- no further increase in the Solid Waste Levy beyond the current fee of \$146 per tonnes; and
- no new fees and charges will be introduced.

Any adjustments to the Draft Budget arising from the State Budget will be incorporated into the Council Budget when this information becomes available.

Notwithstanding this, the preparation of the Draft 2023-2024 Annual Business Plan and Budget has been prepared to ensure the Council meets its legislative responsibility in accordance with the requirements of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*.

CONSULTATION

- **Elected Members**
Elected Members have been apprised of the Draft 2023-2024 Recurrent Budget, Capital Works Program and Operating Projects at an Information Briefing held on 14 March 2023 and considered the Draft 2023-2024 Budget at the Special Council Meeting held on 11 April 2023.
- **Audit Committee**
The Audit Committee considered a report on the 2023-2024 Annual Business Plan and Budget Objectives and Parameters at its Meeting held on 27 March 2023. (This report was also considered by the Council at its meeting held on 16 January 2023).
- **Community**
Citizens will be provided the opportunity have input into the Draft 2023-2024 Budget through public consultation on the Draft Annual Business Plan, which is scheduled to be undertaken from 5 May 2023 through to 29 May 2023.

- **Staff**

The preparation of the Draft 2023-2024 Budget has been completed with the involvement of the Chief Executive Officer, General Managers and staff responsible for management of the Budget.

- **Other Agencies**

Not Applicable.

DISCUSSION

The Draft 2023-2024 Budget is based on the continuation of existing services and priorities, as determined by the Council, being appropriately resourced and that the Council can maintain the service standards for its existing services to support the delivery of the Strategic Objectives outlined in *CityPlan 2030: Shaping our Future* and that those services receive appropriate funding.

The key objective therefore is to develop a Budget that not only contributes to the Council's broader strategic objectives of achieving *Community Well-being*, but also ensures that the Council is managing its financial resources in a sustainable, prudent and equitable manner and to ensure that future financial impacts can either be avoided or managed in a measured way, so that the funding requirements are balanced with ensuring that the community does not face unreasonable increases in their annual rates contribution.

Budget Parameters/Assumptions

In developing the Draft 2023-2024 Budget, the following principles and assumptions have been applied:

- the Recurrent Budget be prepared based on the provision of existing services, programs and activities;
- the cost escalation for Material, Contracts and Other Expenses has been set at a maximum of 8.0%;
- Wages and Salaries increases are based on the Council's Enterprise Agreements;

Budget Overview

Table 1 below sets out the Draft Budget, based on the LTFP recommended Rate Revenue increase of 4.55% which will deliver an Operating Deficit of \$141,624.

The Recurrent Budget and programs, which incorporates the revenues and expenditure required to provide the "Business as Usual" services, provides a surplus of \$1.548 million, which will be used to fund the delivery of the proposed Operating Projects, which are set out **Attachment A**, and additional interest costs to cover the additional finance costs associated with borrowings required to fund the delivery of the proposed Capital Works Program, which is contained in **Attachment A**.

The total Operating Expenditure is \$51.13 million, with \$38.2 million (75%) being more readily influenced by the decisions made as part of the budget process. The remaining \$12.9 million (25%) of expenditure relates to Ownership Costs, which are a result of past investment decisions in respect to the upgrading of existing assets or building new assets. While the ownership expenditure associated with the Council's past Capital Works program cannot be influenced or changed in the current year, the annual increase in future ownership costs is influenced by the decisions made in respect to the amount of expenditure incurred in 2023-2024 on the investment in the renewed, new and upgraded assets. As such decisions regarding the current year projects need to be made in the context of the future impact on operating expenditures and Rate increases.

It should be noted that while the cost to finalise or undertake the 2022-2023 Operating Projects to be carried forward into the 2023-2024 Draft Budget are included to determine the Draft 2023-2024 Operating Surplus, the funding to undertake these projects will be sourced from cash reserves.

In addition, the draft budgets from Regional Subsidiaries have not at this stage been incorporated into the Draft Operating result. The Council is required to report the Council's share of the Regional Subsidiaries operating results and while this will have an impact on the Council's reported Operating Result, this is a non-cash transaction that does not have an impact on the Council's cash position.

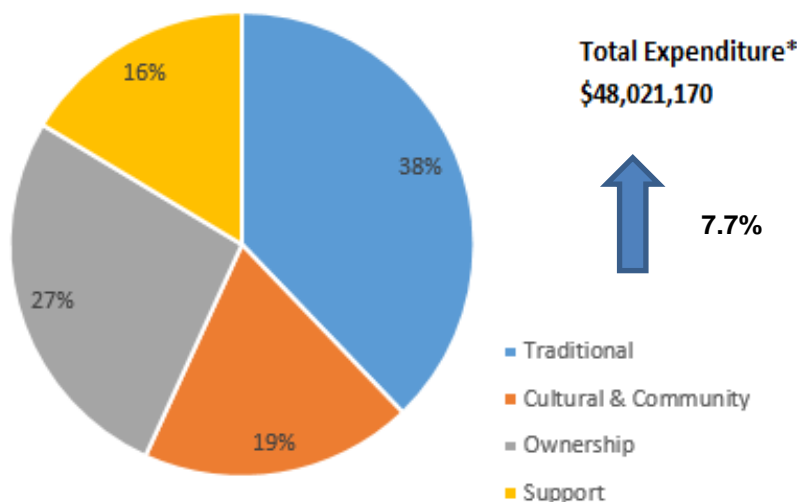
TABLE 1: 2023-2024 PROPOSED STATEMENT OF COMPREHENSIVE INCOME

	Recurrent Budget 2023-2024	Carry Forwards 2023-2024	Operating Projects 2023-2024	Capital Projects 2023-2024	Proposed 2023-2024
	\$	\$	\$	\$	\$
INCOME					
Rates	41,792,412	-	-	-	41,792,412
Statutory charges	2,100,000	-	-	-	2,100,000
User charges	3,836,788	-	-	-	3,836,788
Grants, subsidies and contributions	2,612,226	-	42,446	-	2,654,672
Investment income	120,000	-	-	-	120,000
Other income	491,110	-	-	-	491,110
Net loss joint ventures & associates	-	-	-	-	-
Total Income	50,952,536	0	42,446	0	50,994,982
EXPENSES					
Employee costs	17,418,099	-	370,682	-	17,788,781
Materials, contracts & other expenses	19,359,823	-	1,070,500	-	20,430,323
Finance costs	165,000	-	-	290,901	455,901
Depreciation & amortisation	12,461,601	-	-	-	12,461,601
Net loss Joint Ventures & Associates	-	-	-	-	-
Total Expenses	49,404,523	0	1,441,182	290,901	51,136,606
OPERATING SURPLUS / (DEFICIT)	1,548,013	0	-1,398,736	-290,901	-141,624
Net gain (loss) on disposal or revaluation of assets	-	-	-	25,000	25,000
Amounts specifically for new or upgraded assets	-	-	-	10,147,474	10,147,474
NET SURPLUS (DEFICIT)	1,548,013	0	-1,398,736	9,881,573	10,030,850

As set out in Figure 1 below, services, programs and activities delivered through the Recurrent Budget (excludes operating projects), can be classified into *Traditional Services*, which are the provision of a range of services, programs and infrastructure to meet the needs and expectations of the community. A number of these services are the responsibility of the Council by virtue of the requirements of the *Local Government Act 1999* and other relevant legislation. Other services, which are classified into *Cultural and Community*, are provided by the Council in response to the community's expectations and/or needs. Together, these services represent 57% (\$27.3 million) of the draft Recurrent Budget. These services, programs and activities are supported by the Council's *Governance and Administration* structure. These support services represent 16% (\$7.9m) of the draft Recurrent Budget.

The final component of the Recurrent Budget is Ownership Costs (\$12.9m). As previously mentioned, these costs are being now incurred as a result of past investment decisions in long term assets and as such, the Council has little control over the value of these costs for the current year. These future costs can however, be influenced by the decisions that are made regarding the level of capital investment in new and upgraded assets when considering the 2023-2024 Projects Budget.

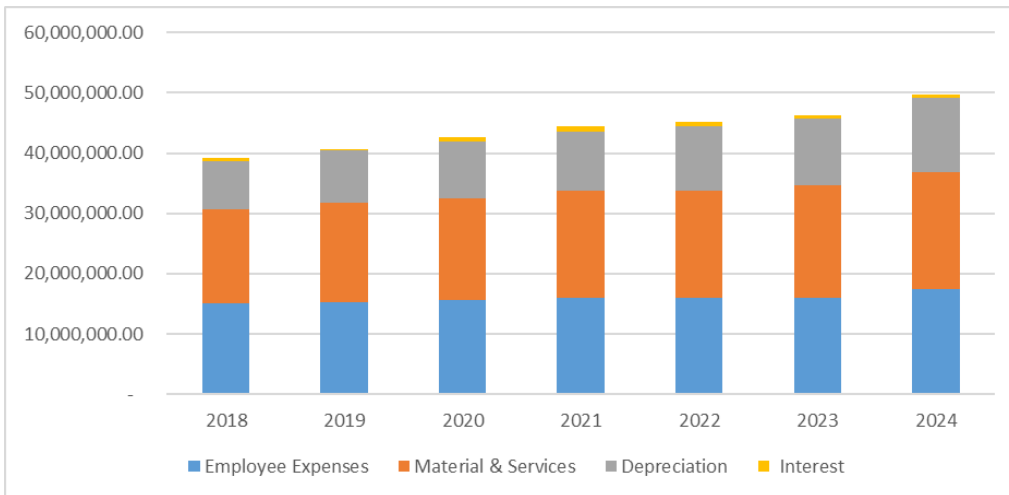
FIGURE 1: COMPONENTS OF THE DRAFT 2023-2024 RECURRENT BUDGET



The services, programs and activities which make up each element of draft Recurrent Budget is contained in Table 2 below and **Attachment B**.

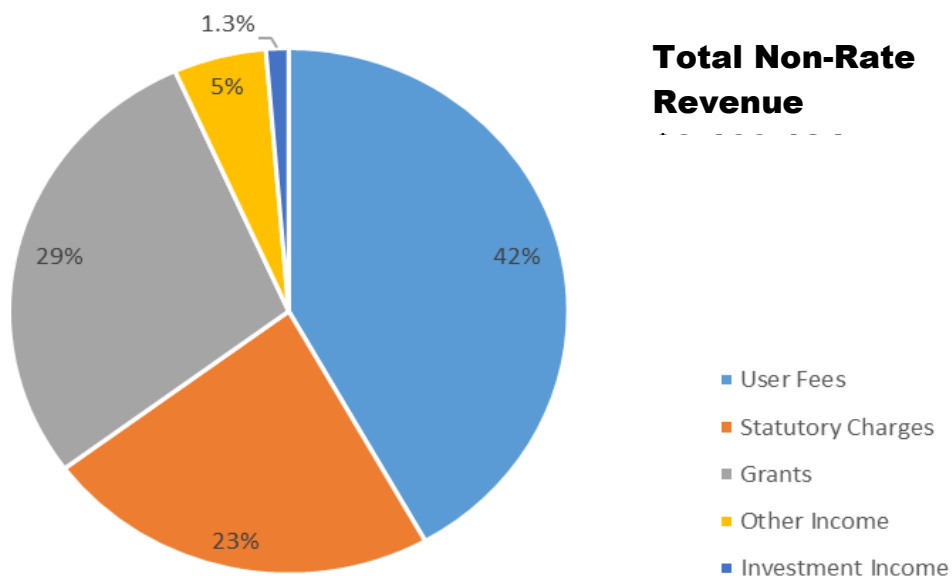
The cost elements of the Recurrent Budget as set out in Figure 2 below, are Employee Expenses, which represent 35%, Material, Contracts & Other Expenses, which represent 39%, Depreciation which represents 25% and Finance Costs (excluding any new borrowings) which represent 1% of the total draft Recurrent Budget. Over the past five (5) years, Material, Contracts & Other Expenses and Finance costs, as a percentage of the total recurrent budget have been consistent, where as Employee Expenses have been decreasing from 37% of the total budget to 35%. The overall Recurrent Budget increase for 2023-2024 is 4.87%, with the increase being driven predominately by depreciation expense.

FIGURE 2 : COST ELEMENTS



Rate revenue is the Council's major source of income and funds in the order of **82%** of the Council's Operating expenditure. The balance is funded from non-rate revenue which is predominately made up of User Charges (43%) which incorporate Child Care Centre fees, Swimming Centre charges, Hire and Lease fees associated with Council facilities, HACC Services; Grant Income (29%) and Statutory Charges (21%) which incorporates Dog Registration fees, Parking Infringements, Residential Parking permits, Planning & Development fees, Hoarding Licences, Outdoor Dining permits. Non-rate revenue represents 18% of the Council's total revenue, with \$9,160 million being factored into the draft Recurrent Budget.

FIGURE 3: BREAKDOWN OF NON-RATE REVENUE



Revenue derived from the Council's main sources of non-rate revenue (statutory and user charges) has remained stable over the last five (5) years. It must be noted that the static and/or diminishing nature of other revenue sources means that the Council is increasingly dependent on Rate revenue to fund the provision of services and programs.

User Charges includes fees that are payable for the use of the Council's discretionary services and facilities, with 87% of the Council's User Charges income being generated from the St Peters Child Care Centre & Pre-school, the Swimming Centres and the Norwood Concert Hall.

Statutory Charges includes fees and charges that are set by State Government legislation. In some circumstances, such as Parking Infringements, the fees charged are set at a fixed rate as set out in the legislation, whereas other legislation allows the Council to charge a fee with the value of the fee determined by the Council, up to a maximum limit as set out in the legislation (i.e. Dog Registration Fees). Income that is earned from Parking Expiration Notices is the main source (45%) of Statutory Charges Income.

Table 2 below sets out additional information on the Recurrent Operating Budget by functional area.

TABLE 2: DRAFT 2023-2024 RECURRENT BUDGET BY FUNCTION

Function	Expenditure	Income	Net Operating Surplus / (Deficit)
Rates	1,657,033	41,677,412	40,020,379
Traditional	18,248,445	3,176,588	-15,071,857
Infrastructure Management	5,155,105	545,000	-4,610,105
Waste & Recycling Services	4,853,253	25,000	-4,828,253
Trees, Parks, Sports & Recreation	4,314,623	345,088	-3,969,535
Economic Development, Regulatory Services, Environment &	3,925,464	2,261,500	-1,663,964
Cultural & Community	9,149,654	4,846,036	-4,303,618
Community Services Health Aged & Youth Services	5,091,072	3,951,626	-1,139,446
Libraries & Community Facilities	3,191,621	868,010	-2,323,611
Community Events, Arts & Heritage	866,961	26,400	-840,561
Governance, Communications & Administration	7,722,790	1,132,500	-6,590,290
Governance	2,631,303	342,500	-2,288,803
Administration	4,558,449	790,000	-3,768,449
Communications	533,038	0	-533,038
Ownership	12,626,601	120,000	-12,506,601
Total	49,404,523	50,952,536	1,548,013

2023-2024 Proposed Operating Projects

The Draft Budget as set out in Table 1, incorporates funding allocation for new Operating Projects to the value of \$1.4 million. Operating Project expenditure is offset by income of \$42,466, which is the final payment of the Roads-to-Recovery Funding for the 5-year cycle. As Elected Members are aware, Roads-to-Recovery Grant Funding is utilised to deliver the Civil Infrastructure Renewal Program.

The proposed Operating Projects for 2023-2024 have been broken down into a number of categories as detailed in Table 3 below.

TABLE 3: OPERATING PROJECT CATEGORIES

Operating Project Category	2023-2024 Proposed Operating Projects \$	2022-2023 Carry Forward Operating Projects
Proposed New Projects arising from		
• Events & Awards	173,000	-
• Traffic Management Initiatives	140,000	-
• Environmental Initiatives	14,500	75,000
• Council Operational Plans <ul style="list-style-type: none"> ○ <i>Community Survey, CityPlan 2030, Dog & Cat Management Plan etc.</i> 	125,000	90,000
• Corporate & Governance	200,000	10,000
• Other	543,682	70,000
Total Operating Projects Expenditure	1,196,182	245,000

In addition to the new Operating Projects, there are a number of Operating Projects that were adopted as part of the 2022-2023 Budget, that are not anticipated to be completed by 30 June 2023. A review of the current year's Operating Projects has been undertaken and based on a review of year-to-date expenditure, the Draft Budget, as detailed above, includes funding allocation for 2022-2023 Operating Projects to be carried forward of \$245,000. Operating Projects carried forward will be funded by cash reserves.

A copy of the Funding Submissions for Capital and Operating Projects are contained in **Attachment C**.

Budgeted Capital Projects

The Draft 2023-2024 Budget, as presented, incorporates Capital Projects to the value of \$ 53.7 million inclusive of 2022-2023 Carry Forwards and staff costs of \$1.279 million which are capitalised (i.e. staff involved in the delivery of the projects involving physical assets) and included in the final asset cost.

The proposed Capital Expenditure is offset by Capital funding which incorporates grants and other revenues to the value of \$10.1 million, which results in a net cost to the Council of \$43.6 million. The proposed Capital Projects for 2023-2024, have been broken down into a number of categories as set out Table 4 below.

TABLE 4: CAPITAL PROJECT CATEGORIES

Capital Project category	2023-2024 Proposed Capital Projects \$
Whole-of-Life Capital Works Program	
* Road Resealing	4,964,143
* Footpath Reconstruction	1,181,033
* Kerb Reconstruction	1,551,917
* Stormwater Drainage Program (inc. carry forward budgets) *	14,130,044
Other Infrastructure Asset Renewal	1,972,313
Major Projects (inc. carry forward budgets)	27,800,000
Quadrennial Art Project (inc. carry forward budgets)	75,000
Non-Infrastructure Renewal	525,700
Minor projects	257,500
Capitalisation of Salaries (existing staff)	1,279,257
Total Capital Projects Expenditure	53,736,907
Capital Funding	10,147,474
Net Cost	43,589,433

A review of the Capital Projects for the current year (2022-2023) has been undertaken and based on a review of year to date spend and project timelines, the Draft Budget, as detailed above, includes a funding allocation for 2022-2023 Capital projects to be carried forward of \$21.6 million. This comprises of the Trinity Valley Stormwater Drainage Project, the Payneham Memorial Swimming Centre Project, Cruickshank Reserve Upgrade Project, implementation of The Parade Masterplan Project, River Torrens Linear Park Path Upgrade Project and Burchell Reserve Upgrade.

Borrowings

Capital Expenditure of \$53.8 million, as set out in **Attachment A**, is proposed to be funded as follows:

Use of depreciation recovered through rate revenue	\$ 12,461,601
Roads-to-Recovery Grant Funding	\$42,446
Grant Funding and other capital funding	\$10,147,474
Borrowings and cash reserves	\$31,085,386

In determining the timing and the level of borrowings that are required to fund the capital program, consideration has been given to the cash flow requirements and to intergenerational equity between current and future users (that is, an asset is funded from loan borrowings which is paid off over the life of the asset rather than raising rate revenue from current rate payers to pay for the asset). Whilst these considerations have formed part of the budget model, they will be reviewed and reconsidered before the decision to commit to any borrowings.

Given the nature of the major projects which are proposed to be undertaken, to minimise the interest costs and debt servicing needs, it is recommended that the Council utilise the Discounted Cash Advance Facilities to fund the cashflow that is required during the construction phases as opposed to the utilisation of the standard fixed period debenture loans.

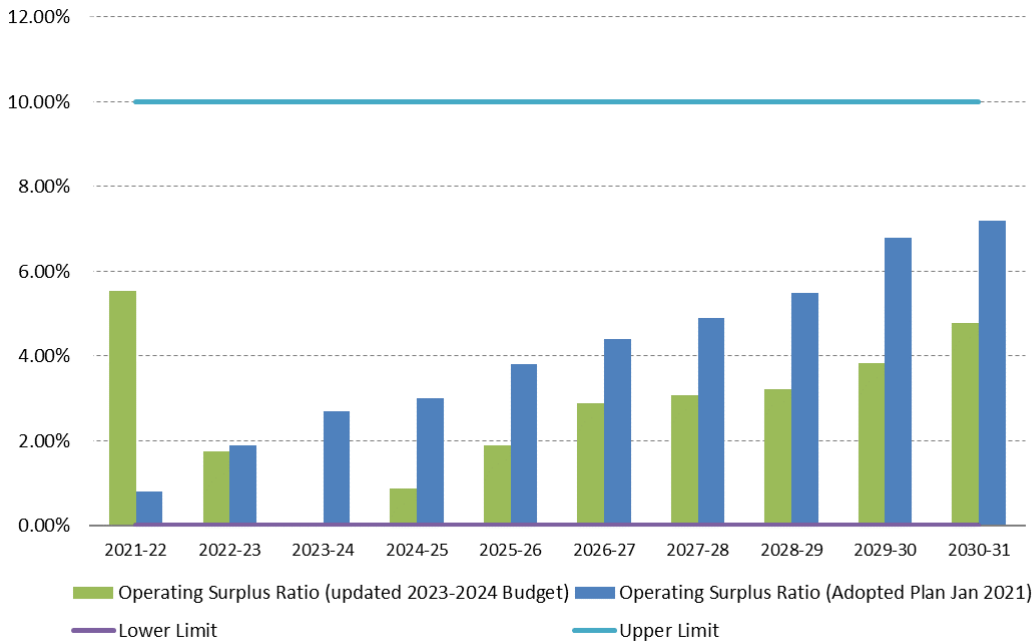
Long Term Financial Plan

Pursuant to Section 122 4a (1) of the *Local Government Act 1999*, the Council must undertake a review of its Long-Term Financial Plan (LTFP) on an annual basis. To meet this legislative requirement, a review of the LTFP financial targets, which takes into account of the Draft 2023-2024 Budget, as presented in this report and its impact on the financial projections set out in the Long-Term Financial Plan, has been undertaken.

Outcome 1: A Balanced Budget

Council's services and programs, including depreciation of infrastructure and assets, is fully funded and the costs are shared equitably between current and future ratepayers.

The Council's long-term sustainability is dependent upon ensuring that on average overtime, the operating expenses are less than the associated revenues. The Council's performance is measured by the Operating Ratio which measures the Council's Operating result, whether that be a surplus or deficit as a percentage of operating revenues. Ideally, at a minimum, the Operating surplus should be equal to the annual principal loan repayments.

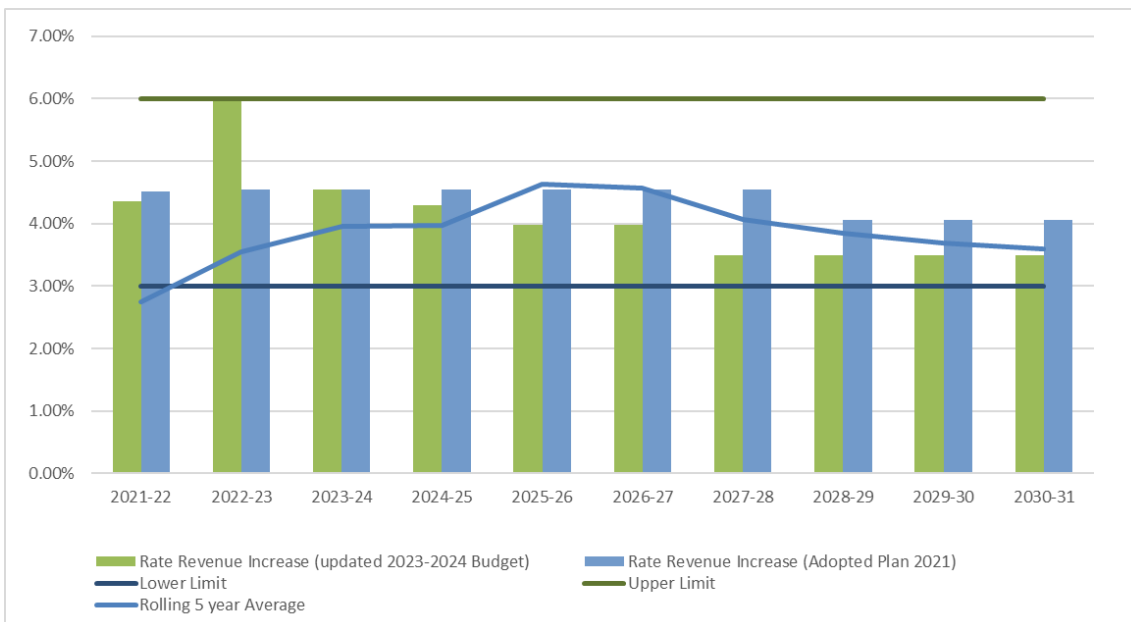


For 2023-2024, the Draft Budget has been prepared on the basis of a rate revenue increase of 4.55%, which is in line with the LTFP increase of 4.55% and will result in an Operating Deficit. The 2023-2024 Operating Deficit is \$141,624 compared to the LTFP surplus target of \$1.355 million.

Outcome 2: Rate Stability

Annual rate collections are fair and equitable for our residents and ratepayers with the aim to keep rate revenue increases stable over the medium term

Rate revenue is a major component of Council’s revenue base. The Council’s objective is to have a Long Term Financial Plan based on consistent rate revenue increases which meet the increased cost of the base level services and programs but also reflect new assessment growth and increased service levels. The benchmark target is between 3% and 6%.

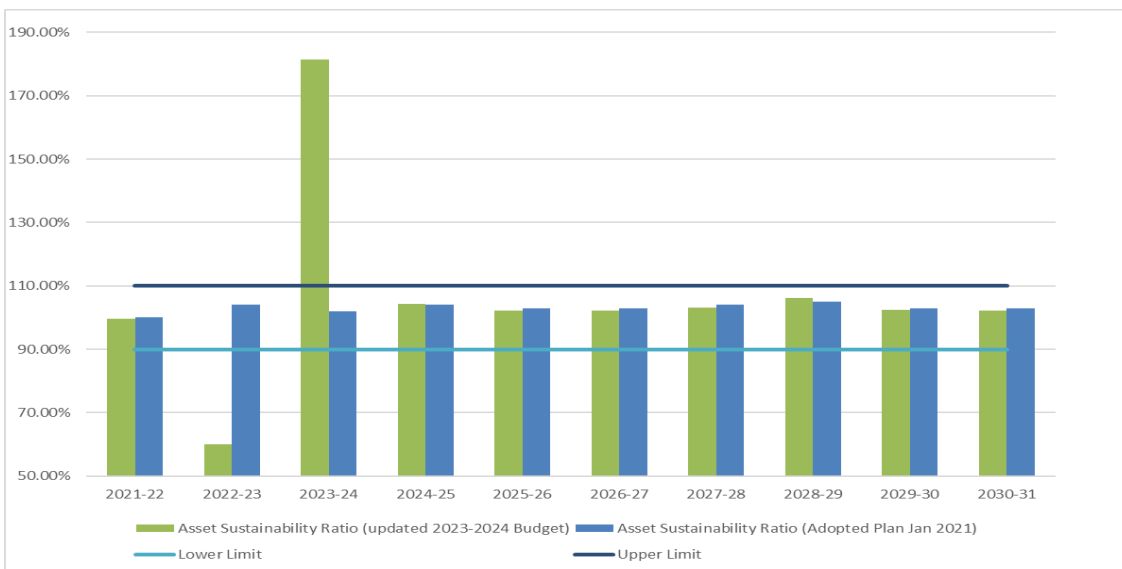


The Draft Budget is based on a Rate Revenue increase of 4.55%, which is an increase in Rate revenue of \$1,871,430 compared to the increased contained in the LTFP \$1,803,000. At the time of writing this report, the initial rate modelling of the impact of the rate revenue on the rate increase for the average residential ratepayer was not available.

Outcome 3: Infrastructure and Asset Management

Maintain Infrastructure and Assets in line with the Council’s Whole of Life Infrastructure framework to achieve the outcomes and objectives, as set out in City Plan 2030

The Council will measure its performance in achieving this outcome through the Asset Sustainability Ratio. The Asset Sustainability Ratio measures how well the Council is performing with respect to the renewal or replacement of existing physical assets, such as roads, footpaths, kerbing, buildings, council plant etc. The ratio is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the planned spend outlined in the Council’s Asset Management Plans. Ideally, physical assets should be renewed or replaced at the same rate the stock of assets is wearing out, however it is recognised that there may be some instances that require the Council to either accelerate decelerate the renewal or replacement of its existing asset base.



The asset sustainability ratio for 2023-2024 is reflective of the carry forward renewal spend associated with the major projects to be completed during 2022-2023 financial year and the increase in the proposed Drainage Program.

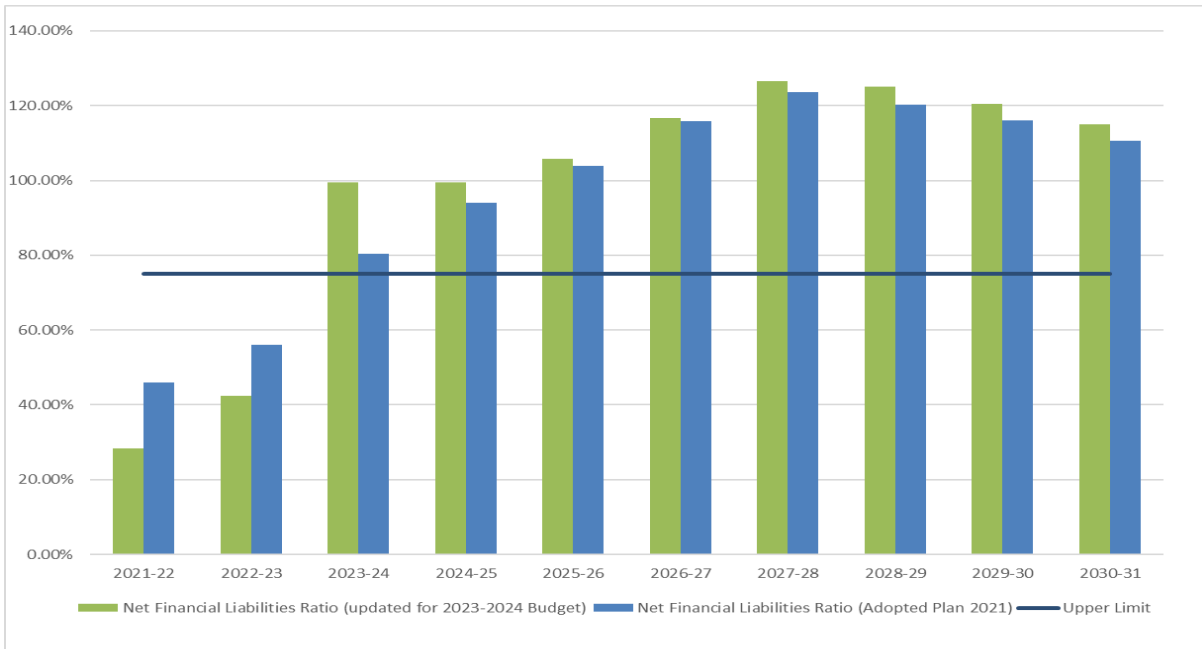
Outcome 4: Debt Management

Prudent use of debt to invest in new long-term assets to ensure intergenerational equity between current and future users

Prudent debt management is the process of establishing and executing a strategy for managing a Council debt in order to raise the required amount of funding to achieve its capital investment objectives. It is important that the use of debt is balanced with other funding sources, such as grants and cash reserves, to ensure that the members of the community that receive the benefits from the investment, share the cost. In addition, the Council must ensure that it has the capacity to service its debt.

Net Financial Liabilities

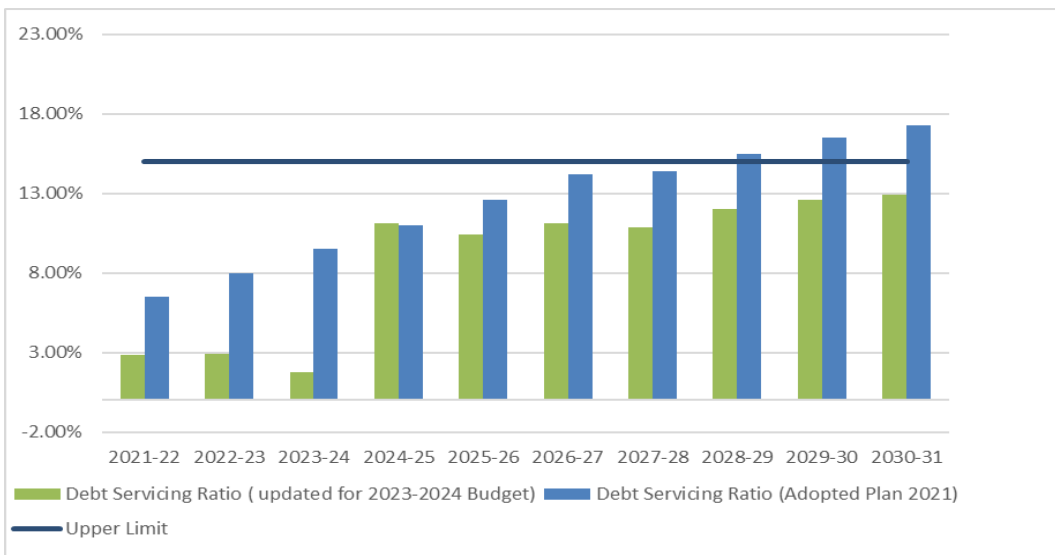
The Net Financial Liabilities measures the extent of indebtedness of the Council as a percentage of operating revenue. If the ratio falls over time this indicates that the Council's capacity to meet its financial obligations from operating income is strengthening.



As a result of an increase in the cash balance, resulting from the additional Rate Revenue increase and the slight reduction in the Operating Project Spent, the Net Financial Liabilities has fallen below 100% in years 2021-2025. As there is no proposed reduction in the Capital Works Program, there is no movement in the forecast level in Long-term Borrowings. The improvement in the Net Financial Liabilities is driven entirely from increased cash balances.

Debt Servicing Ratio

The Debt Servicing Ratio measures the extent of rate revenue that is used to meet interest and principal loan repayments.



OPTIONS

The purpose of this report is to provide the opportunity for the Committee to provide any comment on the Draft 2023-2024 Budget, prior to the Council endorsing the Draft 2023-2024 Annual Business Plan, the Draft 2023-2024 Budget and the Draft Rating Policy and prior to releasing the documents for public consultation.

In this regard, the Committee has the following options in respect to the consideration of this matter:

- advise the Council that it endorses 'in principle' the Draft 2023-2024 Budget, as set out in the Financial Statements contained in **Attachment D**, which incorporates the proposed Operating and Capital Projects contained in **Attachment A**; or
- recommend any amendments to the Draft 2023-2024 Budget, as set out in the Financial Statements contained in **Attachment D**, which incorporates the proposed Operating and Capital Projects contained in **Attachment A**.

CONCLUSION

The Draft 2023-2024 Budget as presented in this report is based on the Council continuing to deliver its existing services, programs and activities.

To ensure that a responsible budget is set, the Council has adopted a series of Budget Parameters, to guide Council Staff in preparing their respective budget estimates. As detailed in this report, the Draft 2023-2024 Recurrent Budget has been delivered with reference to these guidelines and where the parameters have not been achieved, the reasons have been provided.

Financial sustainability underpins the Council's Financial Goals and Outcomes, which are set out in the Long-Term Financial Plan. In general terms, financial sustainability is ensuring that the Council has the financial resources to meet the long-term service and infrastructure needs of the community, without any sharp increases in rate revenue or cuts in service provision and standards.

From an operational perspective, financial sustainability is being able to manage the conflict between keeping rate revenues increases to a reasonable level, maintaining existing service standards and spending on new services and major capital investments.

Decisions regarding the Draft 2023-2024, need to take into account the impact on the Council's ability to continue to meet its operational and financial outcomes in the future.

With reference to the financial targets set out in the Long-Term Financial Plan, Table 5 sets out the performance of the Draft 2023-2024 Budget, as set out in this report, against the LTFP Financial Outcomes.

TABLE 5: LONG TERM FINANCIAL PLAN TARGETS

Outcome	Measure	Target	Draft Budget	
A Balanced budget	Operating Ratio <i>Measures the Councils Operating result, whether that be a surplus or deficit as a percentage of operating revenues</i>	Between 0% and 10%	-0.28%	✘
Rate Stability	Rate Revenue Increase <i>The annual increase in revenue generated from general rates</i>	Between 3% and 6%	4.55%	✓
Infrastructure and Asset Management	Asset Sustainability Ratio <i>Measures the rate at which the Councils assets are being renewed or replaced against the Infrastructure & Asset Management Plan</i>	Between 90% and 110% <i>on a rolling three (3) year average</i>	157%	✘
Debt Management	Net Financial Liabilities Ratio <i>Measures the percentage operating revenues that would be required to settle the net amount owed by the Council.</i>	Less than 75%	103.3%	✘
	Debt Servicing Ratio <i>Measures the Council's commitment to interest costs and debt repayments are met by general rate revenue</i>	less than 15%	3.6%	✓

COMMENTS

If Elected Members have any questions in relation to specific budget items or proposed allocations, please contact the Manager, Finance on 8366 4548, prior to the meeting as these discussions may assist in resolving any enquiry.

RECOMMENDATION

That the report be received and noted.

Short Term Suspension of Proceedings

At 7.10pm, with approval of two-thirds of the Committee Members present, the Presiding Member suspended the meeting proceedings pursuant to Regulation 20(1) of the *Local Government (Procedures at Meetings) Regulation 2013*, for 30 minutes to enable informal discussion regarding the Draft 2023-2024 Budget.

Resumption of Proceedings

The meeting resumed at 7.42pm.

Cr Clutterham moved:

That the Audit & Risk Committee recommends to the Council that it considers the following matters when endorsing the Draft 2023-2024 Annual Business Plan & Budget for the purpose of undertaking public consultation:

- *the 2023-2024 Budget should result in a minimum Operating Surplus of \$500,000, taking into consideration that CPI for the March 2023 Quarter, was 6.8%; and*
- *the timing and scheduling of the Capital Projects that are set out in the Long Term Financial Plan beyond the 2023-2024 financial year, as part of the Council's review of the Long Term Financial Plan taking into account the current interest rate environment and the Council's ability to service ongoing debt.*

Seconded by Ms Stephanie Eldridge and carried unanimously.

7. CONFIDENTIAL REPORTS
Nil

8. OTHER BUSINESS
Nil

9. NEXT MEETING
Monday 15 May 2023

10. CLOSURE

There being no further business the Presiding Member declared the meeting closed at 8.15pm.

Mayor Robert Bria
PRESIDING MEMBER

Minutes Confirmed on _____
(date)