

8 GOVERNANCE AND CORPORATE PERFORMANCE

8.1 DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN

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Attachments: *1. Draft Budget 2019-2020 – (under separate cover)*
2. Draft Mitchell Shire Council Strategic – (under separate cover)

SUMMARY

Following several years of focusing on rebuilding Council's financial capacity through a strong and continued focus on growing cash reserves, increasing expenditure on the renewal of assets, seeking external grant funding and minimising levels of operational expenditure, Council's financial position is steadily improving.

This improvement is reflected in the revised Strategic Resource Plan (SRP) and Draft 2019-2020 Budget. Some of the highlights include;

- A return to adequate cash reserves,
- A \$28.9M Capital Works program (exclusive of carry forwards),
- An increase to 72.8% asset renewal funding,
- Reduced aggregate borrowing levels,
- Growth in operational and capital grants, and
- A positive Adjusted Underlying Surplus.

This report recommends that Council resolves to endorse the draft annual review of the SRP and 2019-2020 Budget for public input in accordance with Sections 126 and 127 of the *Local Government Act 1989 (the Act)*. Council is required to give public notice of these documents pursuant to Section 129 of the Act.

DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN (CONT.)

RECOMMENDATION

THAT Council resolves to endorse:

1. The revised Strategic Resource Plan 2020-2023 and Draft 2019-2020 Budget, – circulated separately and annexed to the Minutes, prepared by Council for the purposes of Sections 126(3) and 127(1) of the *Local Government Act 1989*.
2. The Chief Executive Officer be authorised to:
 - (a) Give public notice of the revised Strategic Resource Plan 2020-2023 and the Draft 2019-2020 Budget in accordance with Section 129(1) of the *Local Government Act 1989* noting the dates for public notice are from Thursday, 25 April 2019 to Wednesday, 22 May 2019.
 - (b) Invite submissions on any proposal contained in the revised Strategic Resource Plan 2020-2023 or the Draft 2019-2020 Budget in accordance with Section 129(2) of the *Local Government Act 1989*.
 - (c) Effect any minor administrative changes which may be required to the revised Strategic Resource Plan 2020-2023 or the Draft 2019-2020 Budget.

THAT Council resolves to note:

3. Submissions will be considered at a Hearings Committee meeting of Council to be held on Monday, 3 June 2019 at 7.00pm in the Council Chamber, 113 High Street, Broadford.
4. Subject to changes to either document after consideration of all submissions, the revised Strategic Resource Plan 2020-2023 and the Draft 2019-2020 Budget will be presented for adoption as Council's Strategic Resource Plan 2020-2023 and Budget for 2019-2020, in accordance with Sections 126(3) and 130(1) of the *Local Government Act 1989*, at an Ordinary Meeting of Council to be held on Monday, 24 June 2019 at 7.00pm in the Council Chamber, 113 High Street, Broadford.

BACKGROUNDAnnual review of Strategic Resource Plan (SRP)

Pursuant to Sections 125 and 126 of the Act, Council is required to annually review its Council Plan which comprises two sections. The first focuses on strategies and objectives to deliver the vision for the Shire and the second (the SRP), identifies resources required to achieve those objectives.

Draft 2019-2020 Budget

Under Section 127 of the Act, Council is required to prepare a Budget. This describes how Council intends to allocate resources to deliver services and invest in key infrastructure.

Council will make these documents available to the public pursuant to Section 129 of the Act and invite submissions pursuant to Section 129(2).

DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN (CONT.)

ISSUES AND DISCUSSION

The revised SRP and the Draft 2019-2020 Budget documents have been formulated using principles of sound financial management to deliver a responsible financial plan for our existing and growing communities. These documents demonstrate that Council remains focused on long-term sustainability whilst meeting the increasing demand for services and infrastructure.

These draft documents are the result of collaborative work which commenced last July to ensure all assumptions and historical information could be revised and reviewed in detail ready for compilation in early 2019. Part of this early work included Budget Briefing Sessions held with Councillors to confirm key goals and assumptions and a Community Budget Ideas process that led to approximately 455 submissions being considered.

The Draft Budget sets out Council's Capital Works Program for the 2019-2020 year and ratepayers and residents are encouraged to familiarise themselves with the proposed projects.

In preparing the Annual budget and SRP a combination of confirmed factors and assumptions have been applied. The key assumptions reviewed are related to:

- Overall increase in rates and charges income including the level of growth and supplementary rates;
- The level of borrowings and linkage to projects;
- Expected capital revenue linked to capital projects;
- Expected movements in income and expenses;
- Services provided;
- Council's cash holdings; and
- Overall financial sustainability indicators.

The budget has been prepared based on inputs from various Council strategies and plans including the Council Plan which determine identified needs and levels of service. This is a top down approach which determines the priorities and essential services that Council is required to deliver.

Key areas of interest include:

- **Rate Capping** – The 2019-2020 rates are to be capped at 2.5% and the SRP assumption has been amended to reflect a higher increase of 0.25% for the 2019-2020 year than previously identified.
- **Population growth** – Mitchell Shire comprises both rural and urban areas with continued strong growth, particularly in the South. Council is planning to ensure that infrastructure is provided for our new communities as well as the provision of additional and appropriate services to these communities.

Council is addressing the challenges of having sufficient capacity to plan for and provide the infrastructure and services to these growing communities within the timeframes and levels expected.

DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN (CONT.)

Successful advocacy and external grants play a key role in meeting service and infrastructure needs. Council will continue to strongly advocate to other levels of government for increased funding to support its operational and investment requirements.

- **Adjusted Underlying Surplus** – Council has achieved a positive Adjusted Underlying Surplus and expects to maintain this situation into the future.

This is a result of increased revenue in rates growth, user fees and charges, and successful grant revenue combined with monitoring and limiting cost escalations where possible.

Council is committed to continuously reviewing all assets and services and will continue to work with the Community to ensure priorities are achievable and developed within a financially sustainable framework.

- **Unrestricted cash** – Increasing cash holdings over the past few years has been a continued focus. Council has now successfully achieved unrestricted cash holdings forecast at or just above 100% over the life of the SRP. Cash holdings are adequate to cover all reserves, day to day business commitments and current liabilities.

Council experiences periods of high expenditure and low income and it is important cash holdings are sufficient to meet operational demands and unexpected events.

The SRP will ensure cash balances continue to be maintained into the future.

- **Investment in Infrastructure** – The capital works budget is unable to meet all immediate capital demands in the short term. Grant funding and other contributions play an important role in delivering an increased capital works program. Unfortunately, projects must be prioritised, however the previous SRP forecast of \$50.2M in Capital works expenditure over the 2019-2022 period has been increased over those same three years, including a minimal forecast of carry forwards (\$6.4M) to \$69.6M.

Successful advocacy and external funding play an important role in our ability to increase our infrastructure spend and we are forecasting \$18.2M in Capital Grants over the term of the SRP.

Council remains focused and committed to balancing infrastructure spend at the same time increasing spending on renewal projects.

- **Borrowing for long term benefit** – Future borrowings will continue to be linked to capital projects that provide cross generational benefits.

Borrowings have been identified within the SRP for planning and construction of Seymour's flood levee and a land purchase in Wallan to expand the Resource Recovery Centre.

DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN (CONT.)

Key areas included in the revised SRP and Draft 2019-2020 Budget are as follows:

Services (Operational Budget)

Council has continued to work within the State Government imposed 2.5% rate cap.

Recurrent operating budgets for Council services have been adjusted to reflect growth in services, and changes in costs, including inflation and contracted prices.

Income is expected to increase by 9.35% and Operational Expenses will increase by 0.33%. Year on year comparisons are impacted by the timing of the Federal Assistance Grant, Depreciation and Natural Disaster works, however an overall improvement is forecast through increased revenue.

Increasingly Council is seeking to collaborate with other municipalities to achieve better contract rates for key services.

Rates and Charges

Rates and Charges account for around 51% of Council's operating revenue. Long-term sustainability relies on the ability of Council to raise sufficient income to deliver services, maintain and renew existing assets and build new assets and infrastructure to cater for growth.

The Budget proposes an overall increase in total rates and charges revenue to be collected. This increase is a combination of increased rates revenue through supplementary growth income, applying the rate cap of 2.5% and an increase of 18.5% for the Waste Collection Charge. Overall the proposed increase in rates and charges revenue is 7.6% for the 2019-2020 year. The Waste Collection Charge increase is due to multiple factors however the main drivers include the cost increase associated with the recyclables contract, increased EPA requirements and site rehabilitation and remediation requirements.

A future assumption of a 2.5% rate cap has been applied to the middle years of the SRP and 2% in the final year in addition to anticipated income from a growing community. The cap is revised annually in line with guidance received from the Essential Services Commission.

Capital

Council's Draft 2019-2020 Budget supports a new capital works program of \$28.9M and a total program of \$35.3M which includes 2018-2019 carry forward projects. The program will be funded from a combination of reserves held in trust, government grants, proceeds from sale of assets, Council operations and borrowings. Council has included \$4.25M in borrowings to support the Seymour Flood Levee project, a multi-year project that will also rely on further borrowings as the project progresses and a possible special charge scheme as well as borrowings for a land purchase within Wallan to expand the Resource Recovery Centre.

Meeting the asset renewal challenge

Balancing the need to renew Council's assets and provide new assets and services is one that is shared with other growth Councils. Much of our older infrastructure was built in the 1960s and is beginning to reach the end of its useful life. A recent review of roads and road related assets has meant that our renewal funding is being directed to

DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN (CONT.)

those road assets posing a greater need. In 2019-2020 an increased effort in renewing our sealed roads will be undertaken.

The Draft 2019-2020 Budget assigns a total \$9.0M (inclusive of carry forwards) to the renewal of Council assets.

As Council's revenue continues to grow it is planned to continue to increase our renewal spend each year where achievable. The SRP will see the average renewal spend at approx. 74%.

External grant funding for new infrastructure remains important in that it enables Council own resources to focus on renewal requirements.

Borrowings

Provision has been made in 2019-2020 for \$4.25M borrowings to support two projects, the Seymour Flood Levee project (\$2.85M) and the expansion of the Wallan Resource Recovery Centre (\$1.4M). Future borrowings have also been identified for to support projects related to growth needs in relation to community facilities and land.

Borrowings are undertaken as required to deliver on the specific projects and are not drawn down until needed.

CONSULTATION

The Executive Leadership Team and Senior staff have worked together in the development of this Budget over many months and Councillors have been briefed and discussions held during July 2018 through to April 2019.

A Community Budget Ideas process was undertaken during late 2018 to ensure community input was gathered at the beginning of the budget development process.

In accordance with Section 129 of the Act, the revised SRP and Draft 2019-2020 Budget will be exhibited for public consultation through a public notice and will be available for inspection at the following locations:

- Council's Libraries and Customer Service Centres:
 - Broadford – 113 High Street
 - Kilmore – 12 Sydney Street
 - Seymour – 125 Anzac Avenue
 - Wallan – 9/81-99 High Street
- Council's website – www.mitchellshire.vic.gov.au

A period of 28 days is provided for the public to lodge submissions which are required to be lodged with Council by 5.00pm on Wednesday, 22 May 2019.

Council will consider all submissions and will offer those requesting it, the opportunity to present to a Hearings Committee meeting in support of their submission. The

DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN (CONT.)

Hearings Committee is scheduled to be held at 7.00pm on Monday, 3 June 2019 in the Council Chamber, 113 High Street, Broadford.

The public exhibition and consultation undertaken during April and May will be the second opportunity for the community to be involved with the 2019-2020 budget development process.

FINANCIAL, RESOURCE AND ASSET MANAGEMENT IMPLICATIONS

Financial, resource and asset management implications associated with the Draft 2019-2020 Budget and revised SRP have been detailed in the body of this report and the attached documents.

The costs of preparing these documents, such as public notices, are funded from operational budget allocations.

POLICY AND LEGISLATIVE IMPLICATIONS

The Draft 2019-2020 Budget has been prepared in accordance with the requirements of the *Local Government Act 1989* Section 125.

The revised Strategic Resource Plan has been prepared in accordance with the requirements of the *Local Government Act 1989*, Section 126.

RISK IMPLICATIONS

Risk Ranking is determined using [ROHS201-G1- Corporate Risk Matrix](#). Risk is identified as Low, Medium, High or Very High.

Risk	Risk Ranking	Proposed Treatments	Within Existing Resources?
There is a risk that the community will not support the draft budget, in particular capital projects.	Low	Adequately advertise and promote the Draft Budget and SRP to ensure community members are aware of the opportunity to make submissions.	Within Existing Resources.
There is a risk that Council cannot deliver on the projects within the 2019-2020 financial year as described.	Medium	Council staff will commence project preparation work as early as possible to deliver on the projects.	Within Budgeted Resources.

SUSTAINABILITY IMPLICATIONS (SOCIAL AND ENVIRONMENTAL)

The Shire's sustainability relies on its ability to raise sufficient income to deliver required services, maintain and renew existing assets and build new assets and infrastructure to cater for growth.

There are no environmental or social implications associated with the preparation of this report.

DRAFT 2019-2020 BUDGET AND REVISED STRATEGIC RESOURCE PLAN (CONT.)

CHARTER OF HUMAN RIGHTS IMPLICATIONS

The rights protected in the *Charter of Human Rights and Responsibilities Act 2006* were considered in preparing this report and it's determined that the subject matter does not raise any human rights issues.

CHILDREN AND YOUNG PEOPLE IMPLICATIONS

The draft budget and strategic resource plan includes resource allocations for areas that provide services to children and young people. No service changes are identified in these areas.

OFFICER DECLARATION OF CONFLICT OF INTEREST

No officers involved in the preparation of this report have any direct or indirect interest in this matter.

CONCLUSION

The Draft 2019-2020 Budget and revised SRP details how Council will allocate resources to services and projects and have been prepared with regard to agreed strategic policy directions and objectives.

Council believes the draft documents comprise a reasonable balance between providing operational services to both new and existing communities and infrastructure investment that supports a growing community.

Revenue is steadily increasing due to an increase in rates, services and user charges. This additional revenue driven by a growing community is important to support existing and new services.

It is recommended that Council exhibits the Draft 2019-2020 Budget and Revised SRP for public comment.