



Shire of Busselton
Geographe Bay

Council Agenda

22 April 2009

ALL INFORMATION AVAILABLE IN VARIOUS FORMATS ON REQUEST

SHIRE OF BUSSELTON

AGENDA FOR THE COUNCIL MEETING TO BE HELD ON 22 APRIL 2009

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SHIRE OF BUSSELTON

MEETING NOTICE AND AGENDA – 22 APRIL 2009

TO: THE SHIRE PRESIDENT AND COUNCILLORS

NOTICE is given that a meeting of the Council will be held in the Council Chambers, Administration Building, Southern Drive, Busselton on Wednesday, 22 April 2009 commencing at 5:30 pm.

Your attendance is respectfully requested.

ANDREW MACNISH
CHIEF EXECUTIVE OFFICER

7 April 2009

A G E N D A

1. **ATTENDANCE, APOLOGIES & LEAVE OF ABSENCE**

2. **OPENING PRAYER**

The Opening Prayer will be delivered by Pastor Craig Rogers of the Dunsborough Church of Christ.

3. **PUBLIC QUESTION TIME**

4. **SUMMARY OF RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE**

5. **APPLICATIONS FOR LEAVE OF ABSENCE**

6. CONFIRMATION OF MINUTES

6.1 Minutes of an Ordinary Meeting of the Council held at 5.30 p.m. on Wednesday, 8 April 2009.

7. **ANNOUNCEMENTS** by the Presiding Member without discussion

8. PETITIONS AND MEMORIALS**9. DECLARATION OF DUE CONSIDERATION**

The Presiding Member will request Councillors to acknowledge, in accordance with Clause 8.1 of the Standing Orders, that they have given due consideration to the matters contained within the Agenda.

10. DECLARATIONS OF INTERESTS**11. PRESENTATIONS BY PARTIES WITH AN INTEREST****12. BUSINESS FROM PREVIOUS MEETING****13. LIFESTYLE DEVELOPMENT REPORT**

Nil

14. SYSTEMS AND INFORMATION REPORT**14.1 LIST OF PAYMENTS MADE - AUGUST 2008**

FILE NO: FIN1
ATTACHMENT(S): List of Payments Made - August 2008

PRÉCIS

The purpose of this report is to provide details of cheques drawn and direct debit entries made to the Council's bank accounts during the month to be noted by the Council and formally recorded in its Minute Book.

BACKGROUND

The Financial Management Regulations [Regulation No. 13] require a list of accounts paid under delegated authority to be tabled before the Council and noted in its minutes.

CONSULTATION

Not applicable

STATUTORY ENVIRONMENT

Local Government Financial Management Regulation 13 applies.

POLICY IMPLICATIONS

All payments are made within the constraints of Council Policy, if any.

FINANCIAL IMPLICATIONS

All payments are made for items for which a valid budget authority exists.

STRATEGIC IMPLICATIONS

Not Applicable.

STAFF COMMENT

The report details cheques and other payments drawn during the month of August 2008.

TIMELINES FOR IMPLEMENTATION OF OFFICER RECOMMENDATIONS

Not Applicable.

OFFICER RECOMMENDATION

That the voucher numbers M89271 - M89615, EF000061 – EFT000258, DD001008 – DD001021 together totalling \$2,907,156.91 be noted.

14.5 FINANCIAL ACTIVITY STATEMENTS - PERIOD ENDING 28 FEBRUARY 2009

FILE NO: FIN7
ATTACHMENT(S): Financial Activity Statements - P/E 28/02/2009

PRÉCIS

A local government is to prepare, on a monthly basis, a statement of financial activity that reports on the Shire's financial performance in relation to its adopted budget. The report is to include details of budget estimates and financial performance against those estimates to the end of the month to which the statement relates, is to disclose any material variances identified as a result of the above, and is also required to detail the net current asset position for the reporting period.

This report has been compiled to fulfil the statutory reporting requirements of the Local Government Act and associated Regulations and also to provide the Council with an overview of the Shire's financial performance on a year to date basis for the period ending 28 February 2009.

BACKGROUND

The Local Government (Financial Management) Regulations detail the form and manner in which financial activity statements are to be presented to the Council. 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 report 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 Local Government (Financial Management) Regulations, a local government is required to adopt a material variance reporting threshold in each financial year. At its meeting of 28 January 2009, the Council adopted (C0901/007) a 10% material variance reporting threshold in respect of the 2008/09 financial year, based on the year to date budget variances as detailed in the 'Income Statement by Nature and Type' financial report.

CONSULTATION

Not Applicable

STATUTORY ENVIRONMENT

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

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

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

STRATEGIC IMPLICATIONS

This matter aligns with the Council's Strategic Plan 2006-2011 and principally the following Strategic Objective:

- * *Organisational Well Being*
To manage the business of the Shire in a responsible and accountable manner utilising organisational sustainability principles

STAFF COMMENT

In order to fulfil statutory reporting requirements, the following reports, which include additional financial data considered relative, are attached:

- * Income Statement by Nature and Type

This report provides details of the Shire's operating revenues and expenditures on a year to date basis by nature and type (i.e. description). The respective totals in this report reconcile with the operating revenues and expenditures as contained within the Statement of Financial Activity (refer below) that is reported on a local government program basis.

- * Statement of Financial Activity

This report provides details of operating revenues and expenses on a year to date basis (by local government program). The report is further extrapolated to include details of non-cash adjustments and capital revenues and expenditures. The resultant net current position in this report reconciles with that contained in the Net Current Position report summary.

- * Net Current Position

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

In addition to the above reports, a number of capital expenditure budgets have been further itemised to provide greater detail on expenditure activity. These items are as follows:

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

COMMENTS ON FINANCIAL ACTIVITY TO 28 FEBRUARY 2009

OPERATING ACTIVITY

As at 28 February 2009:

- * There is a nominal adverse variance in operating revenue
- * There is a nominal adverse variance in operating expenditure

A summary of material variances within the operating revenue and expenditure activities (on a year to date basis) is provided within the body of this report.

CAPITAL ACTIVITY

As at 28 February 2009:

There is an adverse variance of some 82% in capital revenue
There is a favourable variance of some 45% in capital expenditure

Capital Revenue

As detailed above, as at 28 February 2009, there is an adverse variance in capital revenue in the order of 82%. The below table details the Shire's capital revenue budget and actual revenue on a year to date basis.

Description	Actual YTD \$	Budget YTD \$	Annual Budget \$	Variance YTD \$	Variance YTD %
Proceeds from Sale of Assets - Plant	46,292	447,000	536,000	-400,708	-89.6%
Proceeds from New Loans	0	0	12,100,000	0	0.0%
Self Supporting Loans -Principal Repayments	85,727	110,904	166,356	-25,177	-22.7%
Transfers from Restricted Assets	0	1,753,907	2,630,861	-1,753,907	-100.0%
Transfers from Reserves	833,600	2,979,640	4,469,452	-2,146,040	-72.0%
TOTAL	965,619	5,291,451	19,902,669	-4,325,832	-81.8%

The current variances in relation to capital revenue activities are summarised as follows:

* *Proceeds from Sale of Assets - Plant*

The current variance is primarily due to the delay in the commencement of the plant replacement program for 2008/09. As at 28 February 2009, only a number of disposals have occurred including; several heavy plant items (multi-tyred roller and mowers), FESA vehicle change-overs and also several sundry plant items. The Shire's Fleet Manager is confident that the plant replacement program for 2008/09 will be finished by 30 June 2009 and as such, it is expected that the annual budget allocation will be achieved.

* *Self Supporting Loans - Principal Repayments*

The current variance is primarily as a result of timing differences in respect of the annual budget projections and the schedule of actual loan repayments (at which time loan recipients are invoiced for reimbursement and income is recognised).

* *Transfers from Restricted Assets*

Transfers from Restricted Assets are only processed consequent to the associated expenditure being incurred. As the current budget does not provide for period budgeting in respect of capital works, the Transfers from Restricted Assets budget is extrapolated on a straight line basis. As related works projects (principally capital) are completed throughout the remainder of the financial year, these transfers will commence, however variances may remain until such time that all funded projects are completed.

* *Transfers from Reserves*

From a budgeting perspective, Transfers from Reserves are similar to Transfers from Restricted Assets (refer above). Consequently, variances will occur until such time as funded projects are completed and the Shire's cash-flow requires funds be transferred from (invested) reserve monies. The transfers from reserves processed to date include the reimbursement of monies spent on beachfront works, heavy plant purchases and also in relation to the draw-down of funds emanating from the CBD specified area rate.

Capital Expenditure

As at 28 February 2009, there is a favourable variance in capital expenditure in the order of 45%. The below table details the Shire's capital expenditure budget and actual expenditure on a year to date basis.

Description	Actual YTD \$	Budget YTD \$	Annual Budget \$	Variance YTD \$	Variance YTD %
Land & Buildings	1,090,465	1,221,560	3,204,675	-131,095	-10.7%
Plant & Equipment	390,293	2,922,000	3,040,000	-2,531,707	-86.6%
Furniture & Equipment	923,029	882,422	1,137,760	40,607	4.6%
Infrastructure	4,671,921	9,722,600	20,283,664	-5,050,679	-52.0%
Loan Repayments - Principal	361,953	463,104	694,656	-101,151	-21.8%
Transfers to Restricted Assets	957,724	1,175,870	1,763,805	-218,146	-18.6%
Transfers to Reserves	1,654,101	2,003,966	9,605,381	-349,865	-17.5%
TOTAL	10,049,486	18,391,522	39,729,941	-8,342,036	-45.4%

The current year to date variance in relation to the above items (approximately \$8.3M) can be attributed to a number of factors.

As detailed earlier in this report, the attachments hereto include categorised listings of the following capital expenditure activities; that detail individual line item variances:

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

The current variances in relation to other capital expenditure activities are summarised as follows:

- * *Loan Repayments - Principal*

The current variance is due to two main factors, namely; timing differences between the annual budget projections and the schedule of existing loan repayments and also the inclusion of principal repayments on new loans (included in the 2008/09 annual budget) that are yet to be drawn. It should be noted that subsequent to consultation with responsible areas, none of the loans budgeted to be drawn in 2008/09 will occur. As such, the annual budget projections in respect of this matter will not be achieved as at 30 June 2009.

- * *Transfers to Restricted Assets*

Transfers to restricted assets represent funds received from a number of sources (including developer contributions and government grants - budgeted or otherwise) that, whilst under the Shires control, are required to be

expended on specific projects or services. These funds are recognised as revenue in the period of receipt, then restricted pending utilisation for the intended purpose.

Due to the nature of this item it is difficult to accurately project an annual budget in advance and as such, variances are not uncommon.

* *Transfers to Reserves*

With the exception of the budgeted transfer of unspent loan monies in relation to the Busselton Jetty reconstruction, transfers to reserves are budgeted to occur each month, as is interest paid on those funds. As all scheduled transfers have been processed to 28 February 2009, the current variance is primarily attributable to the shortfall in credit interest paid on reserve monies (due to both lower than projected returns and also monies held in term deposits yet to mature).

VARIANCE REPORTING

At its meeting of 28 January 2009, the Council adopted a variance reporting threshold for the 2008/09 financial year to be set at 10% of the relevant Nature and Type 'year to date' budget amount. As detailed in the Income Statement by Nature and Type report attached, there are numerous areas in which this threshold is presently being exceeded.

The following table identifies and generally comments on operating revenues and expenditures (by nature and type) whereby the variance threshold of 10% is presently being exceeded on a year to date basis:

OPERATING REVENUE BY NATURE & TYPE					
Description	Actual YTD \$	Budget YTD \$	Variance YTD \$	Variance YTD %	Comments
Contributions, Reimbursements and Donations	1,445,294	1,687,836	-242,542	-14.37%	The current variance is primarily due to: <ul style="list-style-type: none"> ▪ Contributions received for non-operating purposes are presently \$221K below YTD budget estimates, due in part to timing in receipt of grant funds ▪ Reimbursements are presently \$95K above YTD budget estimates (primarily due to receipt of prior period revenues/ adjustments (e.g. workers compensation) and also the fuel rebate; for which no budget exists
Other Revenue	582,168	206,712	375,456	181.63%	The current variance is primarily due to: <ul style="list-style-type: none"> ▪ Higher than projected scrap metal sales that are presently exceeding YTD budget estimates by \$23K ▪ Higher than projected revenue from numerous fines and penalties that are

OPERATING REVENUE BY NATURE & TYPE					
Description	Actual YTD \$	Budget YTD \$	Variance YTD \$	Variance YTD %	Comments
					<p>presently exceeding YTD budget estimates by \$18K</p> <ul style="list-style-type: none"> ▪ Receipt of Leavers Wristband sales revenue of approximately \$305K. It should be noted that these funds do not form part of the Shire's general revenue and will be restricted pending Leaver's Appreciation Fund donation payments.
Interest Earnings	364,083	1,107,260	-743,177	-67.12%	<p>It should be noted that whilst the formal budget allocation sits with the 'interest earnings' line item, there are a number of other (unbudgeted) line items that need to be considered when reviewing net interest earnings.</p> <p>Subsequent to the adoption of the 2008/09 annual budget, and as part of the annual financial report compilation, in consultation with the Shire's Auditors, the method of reporting 'interest earnings' was amended such that unit price movements in managed funds would be recognised separately from the previous 'net interest' reporting format. As a result, four new items have been added to the 'Income Statement by Nature and Type' report, with the net of these reflecting what was previously included in 'interest earnings'. These items are as follows:</p> <p><u>Revenue</u> Distributions - YTD \$638K Fair Value Adjustment - YTD \$0</p> <p><u>Expenditure</u> Loss on Redemption - YTD \$125K Fair Value Adjustment - YTD \$448K</p> <p>Cognisant of the above, for the period ending 28 February 2009, net interest earnings amounted to \$429K, against a YTD budget of \$1.1M.</p> <p>A number of factors have and will continue to impact upon the variance reporting of interest earnings during 2008/09.</p> <p>Firstly, current financial conditions have adversely affected investment returns, with the interest rates cuts this year adversely impacting on investment earnings, including those funds held in term deposits.</p> <p>Secondly, the later than anticipated issue of rates notices this year has impacted upon</p>

OPERATING REVENUE BY NATURE & TYPE					
Description	Actual YTD \$	Budget YTD \$	Variance YTD \$	Variance YTD %	Comments
					<p>the investment returns on a YTD basis. That is, rates monies were not available for investment until late November, thereby reducing the capacity to earn interest.</p> <p>Finally, with a greater level of funds now being channelled to term deposits, interest will only be brought to account on maturity of those deposits. As such, there will be ongoing variances throughout the remainder of the financial year as term deposits mature/ roll over.</p> <p>As has been discussed within the Annual Budget Review report for the period ending 28 February 2009, it is anticipated that interest earnings will fall short of annual budget estimates in 2008/09 by approximately \$900K (due to the factors as discussed above).</p>
Profit on Asset Disposal	11,077	187,500	-176,423	-94.09%	The current variance is primarily due to the delay in the commencement of the 2008/09 budgeted plant and equipment acquisition/ replacement program pending receipt of rates revenue in October/ November 2008. Whilst only an 'accounting entry' in essence, plant items disposed of to date include FESA vehicle changeovers and also several heavy plant items.

OPERATING EXPENDITURE BY NATURE & TYPE					
Description	Actual YTD \$	Budget YTD \$	Variance YTD \$	Variance YTD %	Comments
Materials & Contracts	6,373,555	7,169,747	-796,192	-11.10%	<p>The overall variance in this expenditure type comprises variances in a large number of individual activities.</p> <p>By definition, Material and Contracts comprises all expenditure on materials, supplies and contracts not specifically listed under any other heading and includes; the supply of goods and materials, consultancies, legal expenses, maintenance agreements, communication expenses and so forth.</p>

OPERATING EXPENDITURE BY NATURE & TYPE					
Description	Actual YTD \$	Budget YTD \$	Variance YTD \$	Variance YTD %	Comments
					<p>As part of the new corporate software implementation, a more comprehensive level of expenditure detail is able to be encapsulated in respect of the 'works' related material and contract expenses. As this detail was not able to be provided as part of the 2008/09 budget development, the majority of the 'works' related budget allocation was assigned to a single account. However, as actual costs are being captured at the more detailed level, it is difficult to track financial performance in any individual area as no specific budgets are assigned thereto.</p> <p>Notwithstanding the above, expenditure in this area is aligning with annual budget estimates as the year progresses. For example, the YTD variance as at September 2008 was 34.3% and this variance has reduced by an average of 4% each month since.</p> <p>Whilst it is not expected that detailed budget allocations will be able to be provided in all associated activities for the 2009/10 financial year, at least a full years history will be available to assist in estimating future budget allocations in this area.</p>
Utilities	687,186	774,846	-87,660	-11.31%	The current variance is primarily due to timing issues in respect of the receipt of invoices and payment of utility charges and more specifically electricity (\$31K) and water (\$59K) charges
Depreciation on Non-current Assets	5,110,331	4,489,067	621,264	13.84%	<p>As part of the new corporate software implementation, an extensive review was undertaken in relation to depreciation data. One of the aims of the review was to align 'like' asset depreciation rates wherever possible. As an outcome of that review, the actual depreciation expense for the Shire will exceed budget estimates by approx \$900K in 2008/09, with the most significant asset class being that of Plant and Equipment.</p> <p>Unfortunately as this review was not completed until after the annual budget was presented to the Council, the 2008/09 annual budget does not reflect the</p>

OPERATING EXPENDITURE BY NATURE & TYPE					
Description	Actual YTD \$	Budget YTD \$	Variance YTD \$	Variance YTD %	Comments
					outcomes of the review process. Notwithstanding the above, it should be noted that whilst this 'non-cash' expense will affect the projected net result as at 30 June 2009, it will not affect the 'net current asset position' due to the offsetting adjustment for non-cash items.
Interest Expenses	138,277	394,520	-256,243	-64.95%	This item relates to interest payments on borrowing facilities (shire and self-supporting). The primary variances on a year to date basis comprise: <ul style="list-style-type: none"> ▪ The YTD budget includes interest payments on new borrowing facilities proposed to be drawn in 2008/09 totalling \$12.1M (none of which have been drawn to date). On a YTD basis, this alone equates to a favourable variance of \$282K. ▪ Overdraft interest of \$36K has exceeded YTD budget estimates by \$35K

SUMMARY

Whilst variances are evident within individual line items as reported in the Income Statement by Nature and Type, as at 28 February 2009 the operating activities are (collectively) closely aligned with year to date budget estimates, albeit revenue has fallen below year to date budget estimates and expenditure has crept above year to date budget estimates.

Whilst capital revenue is presently some 82% below year to date budget estimates, transfers from restricted monies and reserves do not generally occur until later in the financial year, and once associated projects are completed. Notwithstanding this, and where possible, transfers from reserves have already been processed to assist in accommodating the Shire's ongoing cash-flow requirements. As funded projects/ procurements occur over the remainder of the financial year, further transfers will be made accordingly.

With regards to capital expenditure (currently some 45% below year to date budget estimates), the primary areas of under-spend relate to plant and equipment acquisitions/ replacements and also expenditure on capital infrastructure projects. As has been previously mentioned in this report, the plant and equipment program has been delayed this year pending receipt of rates revenue (principally for cash-flow reasons). Additionally, the capital infrastructure budget now includes an allocation of \$4.2M in respect of the Busselton Jetty refurbishment (as per the adopted budget) and with only \$0.2M expended to date on this project, this has

impacted on the overall year to date performance (in reporting terms) in respect of the total capital infrastructure expenditure performance.

In consideration of the above, and as is detailed in the Annual Budget Review report for the 2008/09 financial year (compiled at 28 February 2009), the current trend in the Shire's financial performance indicates that, without ongoing reassessment and prudent management where applicable, the Shire may be facing a deficit position this financial year. Management is aware of this and as a result, the current year's program of services is being reviewed to identify expenditures not yet committed or incurred that may be able to be deferred, in order to lessen or negate any deficit position and also positively influence the timing of cashflows. As noted above, the Annual Budget Review for 2008/09, to be included in the Council Agenda for the 22 April 2009 meeting, provides further detail in relation to this matter.

TIMELINE/S FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

Not applicable

VOTING REQUIREMENT

Simple Majority

OFFICER RECOMMENDATION

That the statutory financial reports for the period ending 28 February 2009 be received.

14.6 ANNUAL BUDGET REVIEW - PERIOD ENDING 28 FEBRUARY 2009

FILE NO:	FIN7
ATTACHMENT(S):	Fees & Charges by Account Group - as at 28 Feb 2009 Investment Report - as at 28 Feb 2009 Capital Revenue - Transfers from Reserves & Restricted Assets - as at 28 Feb 2009 Land & Building Summary - as at 28 Feb 2009 Plant & Equipment Summary - as at 28 Feb 2009 Furniture & Equipment Summary - as at 28 Feb 2009 Infrastructure Summary - as at 28 Feb 2009 Capital Expenditure- Transfers to Reserves and Restricted Assets - as at 28 Feb 2009

PRÉCIS

Between January and March in each financial year, a local government is to carry out a review of its annual budget for that year. The Council is required to consider the review submitted to it and determine (by absolute majority) whether or not to adopt the review, any parts of the review or any recommendations made in the review.

This report has been compiled to fulfil the statutory reporting requirements of the Local Government Act and associated Regulations in respect of the annual budget review, whilst also providing the Council with an overview of the Shire's financial performance on a year to date basis for the period ending 28 February 2009.

BACKGROUND

Pursuant to Regulation 33A of the Local Government (Financial Management) Regulations, between January and March in each year, a local government is required to carry out a review of its annual budget for that financial year. A copy of the review, and the Council's subsequent resolution in respect of the review, are required to be provided to the Department of Local Government and Regional Development within 30 days of the date of the applicable Council resolution.

Whilst the Act and associated Regulations do not specify the form and manner in which the annual budget review is to be compiled, the Regulations do require that the budget review must:

- (a) consider the local government's financial performance in the period beginning on 01 July and ending no earlier than 31 December in that financial year; and
- (b) consider the local government's financial position as at the date of the review; and

- (c) review the outcomes for the end of the financial year that are forecast in the budget

In order to comply with the statutory timeframes as set out in the Regulations, this review has been compiled based on the Shire's financial performance for the period ending 28 February 2009.

CONSULTATION

Senior Management, Business Unit Managers and Specialist staff have been consulted in respect of the Shire's financial performance for the period ending 28 February 2009, for the purpose of compiling the annual budget review.

STATUTORY ENVIRONMENT

Section 6.2 of the Local Government Act and more specifically, Regulation 33A of the Local Government (Financial Management) Regulations; detail the requirement for a local government to carry out an annual budget review.

POLICY IMPLICATIONS

Not applicable.

FINANCIAL IMPLICATIONS

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

STRATEGIC IMPLICATIONS

The annual budget review process aligns with the Council's Strategic Plan 2006-2011 and primarily the following Strategic Objective:

* *Organisational Well Being*

To manage the business of the Shire in a responsible and accountable manner utilising organisational sustainability principles.

OFFICER COMMENT

In order to comply with the annual budget review reporting requirements as detailed in the Local Government (Financial Management) Regulations, the annual budget review has been compiled on financial data for the period 1 July 2008 to 28 February 2009.

It should also be noted that in previous years, the annual budget review was compiled entirely based on the Shire's cash budget. However, subsequent to the implementation of the Technology One corporate software system at the commencement of the 2008/09 financial year, the ability to report by the cash budget in isolation is now limited. As such, this review has been compiled based on the financial statements as are presented to the Council on a monthly basis via the Statement of Financial Activity reports. Whilst this is entirely appropriate,

comparatives with the Shires financial performance (at the same time) in previous years, and based on the cash budget, will require a suitable notation where applicable.

EXECUTIVE SUMMARY

The Shires net current asset position as at 28 February 2009 is in the order of \$8.4M. At the same time last year, this figure was approximately \$10.2M.

The net asset current position, which is calculated based on the Shires cash budget, essentially details the surplus of revenue over expenditure as at the reporting date (inclusive of the previous year's carry forward position). The net current position as at 28 February 2009 comprises:

Description	Amount (\$M)
Carry Forward Surplus/ (Deficit)	\$1.2
Total Revenue	\$37.3
Total Expenditure	- \$30.1
Net Current Position	\$8.4

As previously mentioned, the above revenue and expenditure figures are based on the Shires cash position and as such, are exclusive of non- cash adjustments (e.g. depreciation, profit/ loss on sale of assets). The net current asset position can be attributed to a number of factors, as will be discussed within the context of this report.

As previously mentioned, in order to maintain consistency with the Shires monthly Financial Activity Statement reporting format, this report will reflect the financial data as contained within the financial statements that accompany the monthly Financial Activity Statement report. However, where comparatives are made with previous years financial performance (based on the cash budget) appropriate notations will be made.

Cognisant of the above, the following provides a brief overview of both operating and capital activities for the period ending 28 February 2009.

Operating Activities - as at 28 February 2009

* Operating Revenue

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Rates & Sanitation Charges levied	\$27.7M	\$27.7M	100%
Other Operating Revenue	\$27.3M	\$8.7M	32%
Total Operating Revenue	\$55.0M	\$36.4M	66%

As at 28 February 2009, and based on the information presently available, it is considered that operating revenue will fall short of annual budget projections by up to \$1.4M. The reasons for that are further detailed as part of this report.

* Operating Expenditure

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Total Operating Expenditure	\$37.4M	\$25.3M	68%

As at 28 February 2009, and based on the information presently available, it is considered that the operating expenditure budget will achieve annual budget estimates.

Capital Activities - as at 28 February 2009

* Capital Revenue

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Total Capital Revenue	\$19.9M	\$1.0M	5%

As at 28 February 2009, approximately 5% of the Shire's annual capital revenue budget has been recognised. Capital revenue activities comprise:

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Proceeds from the Sale of Assets - Plant	\$0.5M	\$0.1M	20%
Proceeds from New Loans	\$12.1M	\$0.0M	0%
Self Supporting Loans - Principal Repayments	\$0.2M	\$0.1M	50%
Transfers from Restricted Assets	\$2.6M	\$0.0M	0%
Transfers from Reserves	\$4.5M	\$0.8M	18%
Total Capital Revenue	\$19.9M	\$1.0M	5%

Capital revenue is closely aligned to, and somewhat dependent upon, the level of capital expenditure. As such, any analysis of capital revenue needs to be reviewed in conjunction with related capital expenditure activities. This matter is further detailed as part of this report.

* Capital Expenditure

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Total Capital Expenditure	\$39.7M	\$10.0M	25%

As at 28 February 2009, approximately 25% of the Shires annual capital expenditure budget has been expended. Capital expenditure activities comprise:

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Land & Buildings	\$3.2M	\$1.1M	34%
Plant & Equipment	\$3.0M	\$0.4M	13%
Furniture & Equipment	\$1.1M	\$0.9M	81%
Infrastructure	\$20.3M	\$4.7M	23%
Loan Repayments - Principal	\$0.7M	\$0.3M	43%
Transfers to Restricted Assets	\$1.8M	\$1.0M	56%
Transfers to Reserves	\$9.6M	\$1.6M	17%
Total Capital Expenditure	\$39.7M	\$10.0M	25%

It should be noted that the capital expenditure budget includes significant projects that will not be completed, either in part or full, this financial year. As such, there will be associated ramifications in respect of associated capital revenue items. These matters will be further discussed as part of this report.

Each of the above categories is now discussed in more detail as follows:

OPERATING ACTIVITIES

Operating Revenue

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Total Operating Revenue	\$55.0M	\$36.4M	66%

As at 28 February 2009, approximately 66% of the Shires annual operating revenue budget has been recognised. In accordance with relevant Accounting Standards, rates and other revenues are recognised when a legal right exists to levy these fees and charges. As such, the year to date revenue figure includes the revenue originally, and subsequently, levied in respect of rates and sanitation charges (collections and recycling) for the 2008/09 financial year, even though the equivalent amount in physical cash is yet to be received in full by the Shire.

Approximately 50% of the annual operating revenue budget in 2008/09 is attributable to rates and sanitation charges (domestic and commercial collections plus recycling charges). In order to provide a more detailed account of operating revenue, other than that attributable to rates and sanitation charges, the exclusion of these items results in the following scenario:

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Total Operating Revenue	\$55.0M	\$36.4M	66%
Less			
Rates & Sanitation Charges levied	\$27.7M	\$27.7M	100%
TOTAL	\$27.3M	\$8.7M	32%

As is detailed in the above table, revenue from rates and sanitation charges has now achieved annual budget estimates. As previously stated however, revenue attributable to these sources is recognised when they are initially levied and additional revenue earned thereafter is primarily due to growth. Consequently, it is not expected that there will be any significant movement in revenue from rates and sanitation charges for the remainder of the financial year.

As is also detailed in the above table, operating revenue (other than rates and sanitation charges) has achieved only 32% of the annual budget estimates as at 28 February 2009. Whilst this is well below what may be expected at this time of the financial year (considering that 67% of the financial year has lapsed), there are a number of reasons for this variance. These are briefly discussed as follows:

Donated Assets

The annual operating revenue budget includes an allocation of \$5.6M in respect of donated assets (including roads, drainage, footpaths and parks). As the actual value of these assets for 2008/09 will not be determined until later in the financial year, this results in the year to date actual performance being understated (when compared to the annual budget figure).

Busselton Jetty Funding

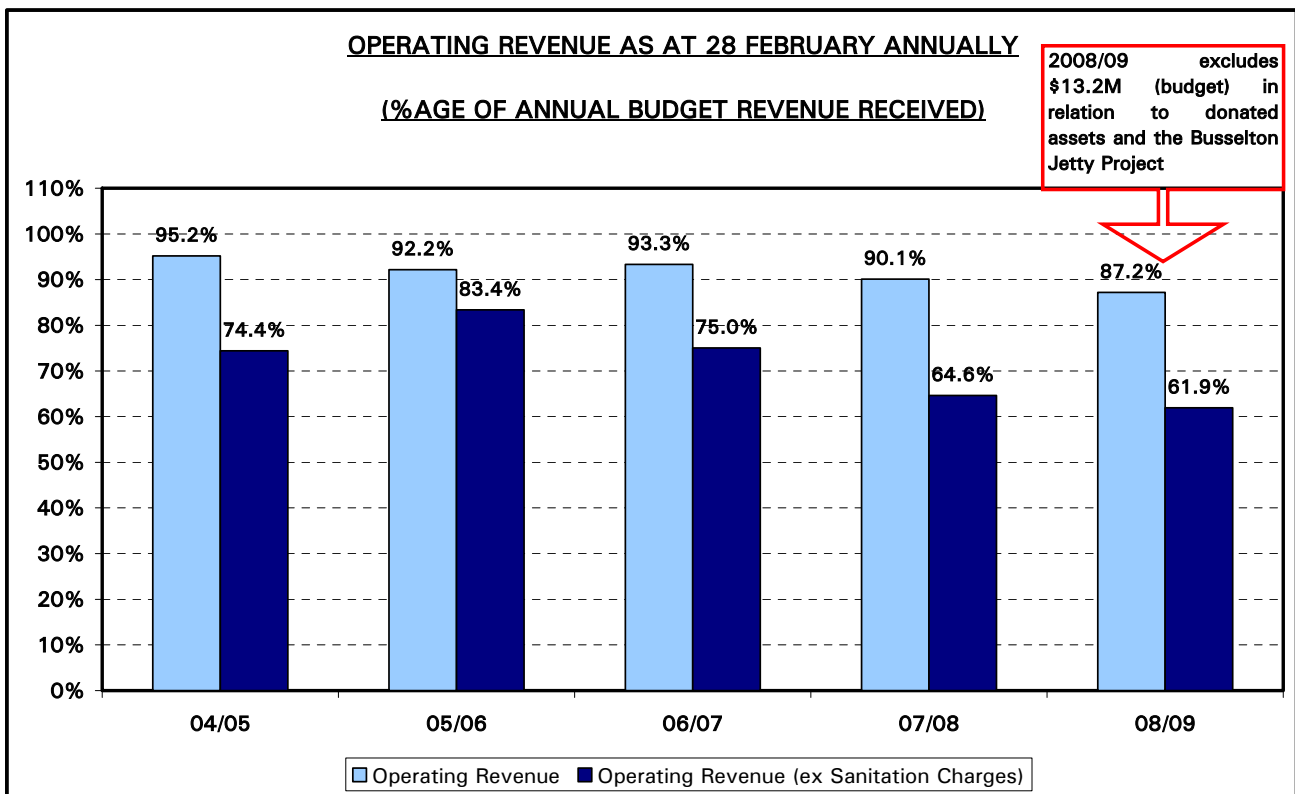
The 2008/09 adopted budget includes a number of revenue and expenditure items associated with the Busselton Jetty reconstruction project. Included in operating revenue is a State Government grant of \$6.0M and also a contribution from the Busselton Jetty Environment and Conservation Association Inc (BJECA) of \$1.6M.

As the funding model (as included in the adopted budget) is no longer applicable, neither of these revenues will be accounted for, in their current form, this financial year.

In consideration of the above items, that collectively equate to \$13.2M, should they be removed from the operating revenue annual budget figure of \$27.3M (which excludes rates and sanitation charges), then the annual budget figure would reduce to \$14.1M, with approximately 62% of the annual budget having been brought to account.

In respect of the total operating revenue budget, the exclusion of the \$13.2M results in approximately 87% of the annual budget estimate having been achieved as at 28 February 2009.

The relativity of the above, as compared to the previous four years, is represented graphically as follows:



Of the \$27.3M in the operating revenue budget, not attributable to rates and sanitation charges, there are a number of areas from which revenue is derived from. The year to date performance in respect of the principal areas is discussed as follows:

* Government Grants & Subsidies (annual budget - \$9.7M)

This revenue item includes the budgeted \$6.0M grant from the State Government in relation the Busselton Jetty project, the annual Financial

Assistance Grant (WA Local Government Grants Commission) of \$2.0M, in addition to other sundry Federal and State Government grants. With the exclusion of Busselton Jetty grant, as at 28 February 2009, approximately 67% of the annual budget allocation has been achieved.

A number of grant payments are forwarded to the Shire by instalments (quarterly or otherwise). Additionally, other grants can only be claimed once the associated activities are completed and acquitted. As such, it is expected that, clearly with the exception of the Busselton Jetty grant, the annual budget projection will be achieved, or if this does not occur, that off-setting expenditure on funded projects will not be incurred.

* Contributions, Reimbursements & Donations (annual budget - \$9.9M)

This revenue item includes both the budget allocation for donated assets of \$5.6M and also the contribution from BJECA (in respect of the Busselton Jetty) for \$1.6M. With the exclusion of these items, approximately 55% of the annual budget allocation has been achieved as at 28 February 2009.

Apart from the above items, the major budget allocation in respect of this activity relates to sundry contributions (mostly developer based), with a budget allocation for 2008/09 of approximately \$1.8M. As at 28 February 2009, approximately \$0.9M in such contributions have been received. Whilst it is difficult to accurately budget the level of contributions to be received in any year, it is anticipated that, overall, this activity (with the exception of the BJECA contribution) will achieve annual budget estimates by financial year end.

* Fees and Charges (annual budget - \$7.8M)

Against an annual budget of approximately \$7.8M, revenue from fees and charges totals some \$5.6M as at 28 February 2009, equating to approximately 72% of the annual budget allocation in this area. It should be noted however that this allocation includes the \$2.4M in sanitation charges that forms part of the rates and sanitation charges allocation previously discussed. With the exception of the sanitation charges budget allocation and associated revenue, revenue from other fees and charges equate to approximately 58% of the annual budget allocation as at 28 February 2009.

A summary of the fees and charges performance (excluding sanitation charges) has been included as an attachment to this report. As is detailed within that summary, there are a number of areas in which the year to date performance is below projections.

With the inclusion of estimated fees yet to be brought to account of approximately \$50K, Building related fees are tracking at approximately 53% of the annual budget estimate as at 28 February 2009. Should the current trend continue for the remainder of the financial year, a shortfall in revenue from this area of over \$150K may well occur.

Similarly, statutory planning fees are also tracking well below year to date projections, with only 51% of the annual budget allocation received as at 28 February 2009. Should the current trend continue for the remainder of the financial year, then a shortfall in the order of \$100K is also possible.

Whilst Health related fees are presently tracking at only 39% of annual budget estimates, the major shortfall is in relation to concert licence fees. At which time the revenue associated with events such as Southbound are finalised, it is envisaged that the Health related fees will achieve annual budget estimates.

In respect of Other Fees and Charges, the most significant area of concern relates to supervision fees. Against an annual budget of \$462K, only \$76K (or 16% of the annual budget estimate) has been recognised as at 28 February 2009. Whilst a further \$120K is due to be paid in March 2009 (Port Geographe), the Community Infrastructure Directorate has projected that revenue for the full financial year will amount to approximately \$230K, more than \$230K short of annual budget estimates.

In summary of the above, it is anticipated that revenue from fees and charges will fall short of annual budget estimates and based on the above items alone, this could be in the order of up to \$500K. Whilst the impact of this projected shortfall against the overall financial performance for the financial year can only be ascertained when measured against the Shires performance in other areas, the 2009/10 draft budget will reflect lower levels of revenue from these areas, resulting in a further restriction in non-rate revenue to fund operations.

* Other Revenue (annual budget - \$0.3M)

As detailed in the Department of Local Government and Regional Development's classification of local government transactions, 'other revenue' is simply defined as revenue that can not be classified under any other headings. In respect of the Shires 2008/09 annual budget, other revenue includes; fines and penalties, sale of miscellaneous items, and sundry income and commissions (e.g. Emergency Services Levy commission).

Against an annual budget of \$0.3M, other revenue totals approximately \$0.6M as at 28 February 2009. The primary reason for this variance is attributable to Leavers Week activities, and more specifically the revenue associated with the sale of wristbands (\$0.3M). It should be noted however that this revenue does not form part of the Shires general revenue and subsequent to payments made against the wristband sales revenue (including those paid under the Leavers Appreciation Fund); any residual balance is restricted at financial year end for use in relation to future Leavers Week activities.

Excluding the Leavers Week revenue, it is considered that the annual budget allocation for other revenue will be achieved as at 30 June 2009.

* Interest Earnings (annual budget - \$1.7M)

In terms of the adopted budget for 2008/09, revenue from interest earnings was projected at \$1.7M. This budget figure is reflected solely under the "Interest Earnings" revenue item as per the adopted budget (Income Statement by Nature and Type).

However, subsequent to the adoption of the annual budget and as part of the compilation of the Annual Financial Report for 2007/08, it was decided (under the guidance of the Shires Auditors), to include a number of new revenue/ expenditure items that, whilst directly related to interest earnings, would capture additional detail in respect of this activity, and more specifically in relation to movements in managed funds. At this juncture it needs to be noted that managed fund investments deal primarily in units (rather than actual dollars). As such, movements in units (distributions, redemptions or additions) need to be converted to dollar equivalents for accounting purposes, and this is made more complex due to the daily variation in unit prices. Consequently, and in order to provide more transparency in relation to managed funds performance, the following items are now included on the Shires Income Statement by Nature and Type:

Revenue

Other Revenue - Distributions

Reflects the distribution of additional units earned in respect of managed funds, converted to a dollar equivalent at the prevailing unit price.

Fair Value Adjustment to Financial Assets

At the end of each reporting period, a fair value adjustment of the value of managed funds is undertaken. This adjustment is based on the accumulated cash balance of each fund as compared to the valuation as at the reporting date (number of units held x unit price). Where the valuation as at the reporting date is above the accumulated cash value, then the adjustment is reported as revenue; and vice versa. It must be noted that these transactions are essentially book keeping entries only, as at any point in time, the unit values can change, thus resulting in a related fair value adjustment.

Expenditure

Loss on Redemption of Financial Assets

When a redemption is made (that is the Shire withdraws a certain dollar equivalent amount from a managed fund), this is converted to a sufficient number of units (at the prevailing unit price) in the fund to equate to the dollar value of the redemption sought. In order to account for these types of transactions, the latest average unit price (as calculated by a complex set of formulas) is considered against the actual unit price for the redemption. Depending on the variance between these two unit prices, either a loss or gain will be recorded. Clearly, in the current economic climate, and with unit prices somewhat depressed, it is not considered that gains on redemptions will occur until such time as the market turns.

Fair Value Adjustment to Financial Assets

This matter is discussed under the above Revenue heading.

It should be noted prior to the compilation of the 2007/08 Annual Financial Report, the Shire of Busselton (like many other local government authorities) only reported interest earnings (including those in managed funds) as a single revenue item. As such, the budget allocation of \$1.7M in 2008/09 accurately represents the projected earnings (including the net of the new line items as discussed above).

Cognisant of the above, to review the Shire's investment performance to 28 February 2009, the following calculation is required:

Description	Amount \$000's
Revenue	
Interest Earnings	\$364
Other Revenue - Distributions	\$638
Less	
Expenditure	
Loss on Redemption of Financial Assets	-\$125
Fair Value Adjustment to Financial Assets	-\$448
TOTAL	\$429

As indicated in the above table, net interest earnings to 28 February 2009 amounts to \$429K. It should be noted however that the above figure makes no allowance for fixed term deposits due to mature consequent to the budget review reporting date of 28 February 2009.

As is detailed in the relevant attachment to this report (Investment Report for the Period Ending 28 February 2009), there were 15 fixed rate term deposits outstanding as at 28 February 2009, totalling some \$15.8M. Upon the respective maturities of these deposits, interest earnings of \$187K will be payable (\$123K in March, \$56K in April and \$8K in May). As the Shire continues to primarily utilise monies held in managed funds to provide ongoing cash-flow requirements, it can be assumed that, with the exception two deposits totalling \$2.0M, the remaining deposits will be rolled to mature on 30 June 2009. Based on this scenario, a further \$120K (based on a suggested deposit rate of 3.5%) in term deposit interest will be paid by 30 June 2009.

With respect to other interest earnings, it is anticipated that the majority of other interest will be earned (in the form of distributions) from the Guaranteed Out-Performance Fund, with approximately \$75K to be earned between March 2009 and 30 June 2009.

Unfortunately, whilst two of the three remaining managed fund investments are providing positive returns, the ongoing deterioration in the value of the BlackRock (Merrill Lynch) Diversified fund is adversely affecting the overall return on the managed funds investments. As such, interest earnings on managed funds investments have been discounted for the remainder of the financial year. It

should also be noted that, as mentioned above, these funds will be drawn on to fund the Shire cash-flow requirements over the remainder of the financial year.

In summary of the above, it is projected (based on current information available) that against an annual budget of \$1.7M, net interest earnings for the 2008/09 financial year be in the vicinity of \$0.8M (or approximately 47% of the annual budget estimate), representing a shortfall in the order of \$0.9M. Clearly, the Global Financial Crisis has played a significant role in this under-performance. For example, whilst, as a result of the economic volatility, the Shire has moved a significant amount of funds to fixed rate investments over the course of the year, the RBA cash rate (that dictates deposit rates offered by Banks) has fallen from 7.25% as at 01 July 2008 to only 3.25% as at 28 February 2009 (an unprecedented fall of over 55% in 8 months).

The Investment Report for the Period Ending 28 February 2009, as attached to this report, provides a concise breakdown of the Shire's overall investment position for the period ending 28 February 2009.

* Profit on Asset Disposal (annual budget - \$0.2M)

Against an annual budget of \$0.2M, as at 28 February 2009 only a nominal amount had been recognised. It should be noted that 'profit on asset disposal' is an accounting entry only, to bring to account the difference between a particular asset's written down value and the actual revenue realised on disposal. Notwithstanding this, the primary reason for the current variance is due to the delay in the commencement of the plant replacement program for 2008/09 (refer Plant and Equipment discussion under the Capital Expenditure section of this report).

Operating Revenue Summary

As has been detailed above, as at 28 February 2009, approximately 66% of the total operating revenue budget for the 2008/09 financial year has been achieved. As part of this overall performance, revenue from rates and sanitation charges has achieved annual budget projections, albeit any further revenue emanating from these sources within 2008/09 will result from primarily from growth, and is not expected to be of significance.

Whilst other operating revenue is tracking at only 32% of annual budget projections, it has been identified that approximately \$13.2M in budgeted revenue will either not occur this financial year, or will not be brought to account until late in the financial year. The exclusion of these items results in:

- * Operating revenue (excluding rates and sanitation charges) achieving approximately 62% of annual budget estimates as at 28 February 2009
- * Total operating revenue (including rates and sanitation charges) achieving approximately 87% of annual budget estimates as at 28 February 2009

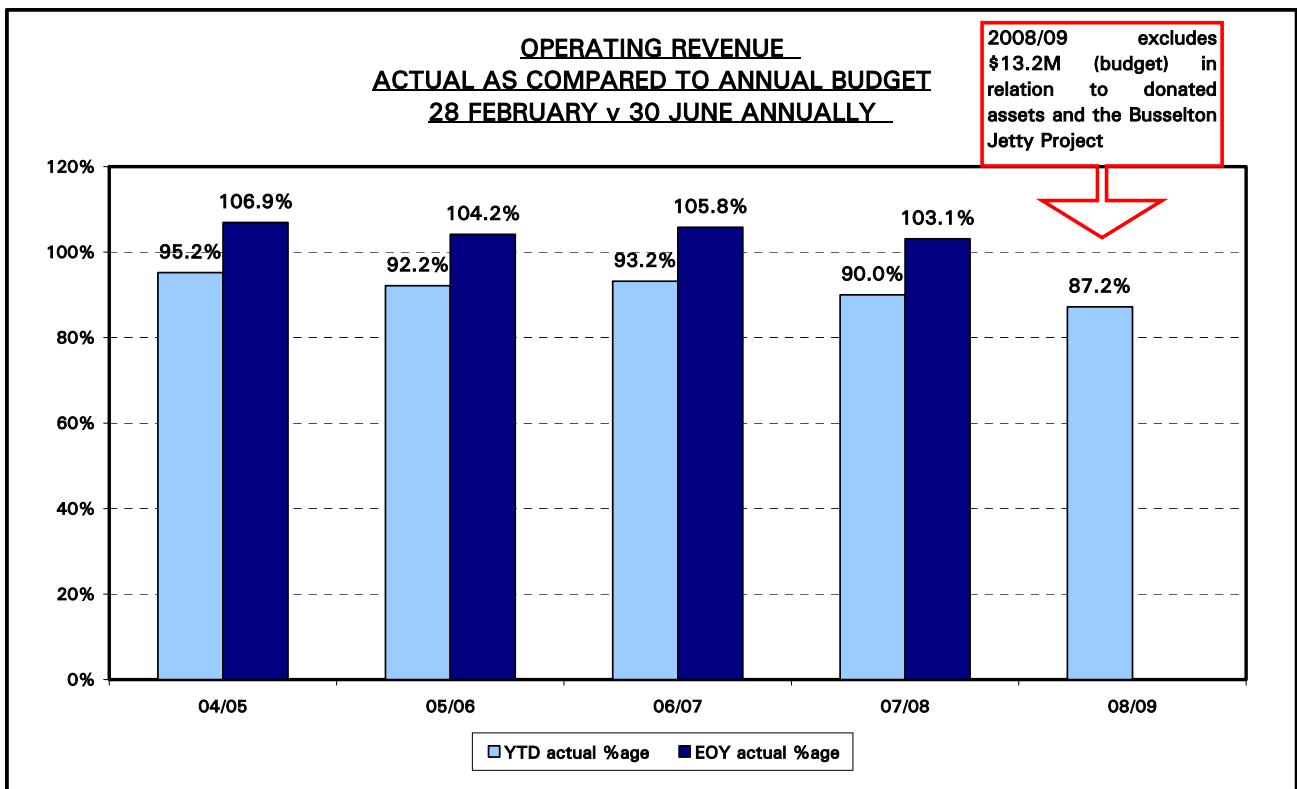
As has also been discussed above, there are a number of areas in which operating revenue is not expected to achieve annual budget projections. The most significant areas comprise:

- Fees and Charges: shortfall of up to \$0.5M
- Interest Earnings: shortfall of up to \$0.9M

Clearly, should the above projections materialise, the Shire's overall financial performance for the full financial year will be adversely affected. However, the overall impact will need to be considered against financial performance in other areas, as will be discussed within this report. Notwithstanding this however, it must be noted that the operating revenue performance will have ramifications for the 2009/10 financial year, as associated budget projections will need to be critically assessed in light of current performance and also the possible continuance of the prevailing adverse economic conditions.

For information purposes only, the Shire's performance (year to date as compared to end of financial year) in respect of total operating revenue (including the past four years for comparatives) is represented graphically below.

As can be seen therein, the current years operating revenue is approximately 3% below that achieved as at the same time last year.



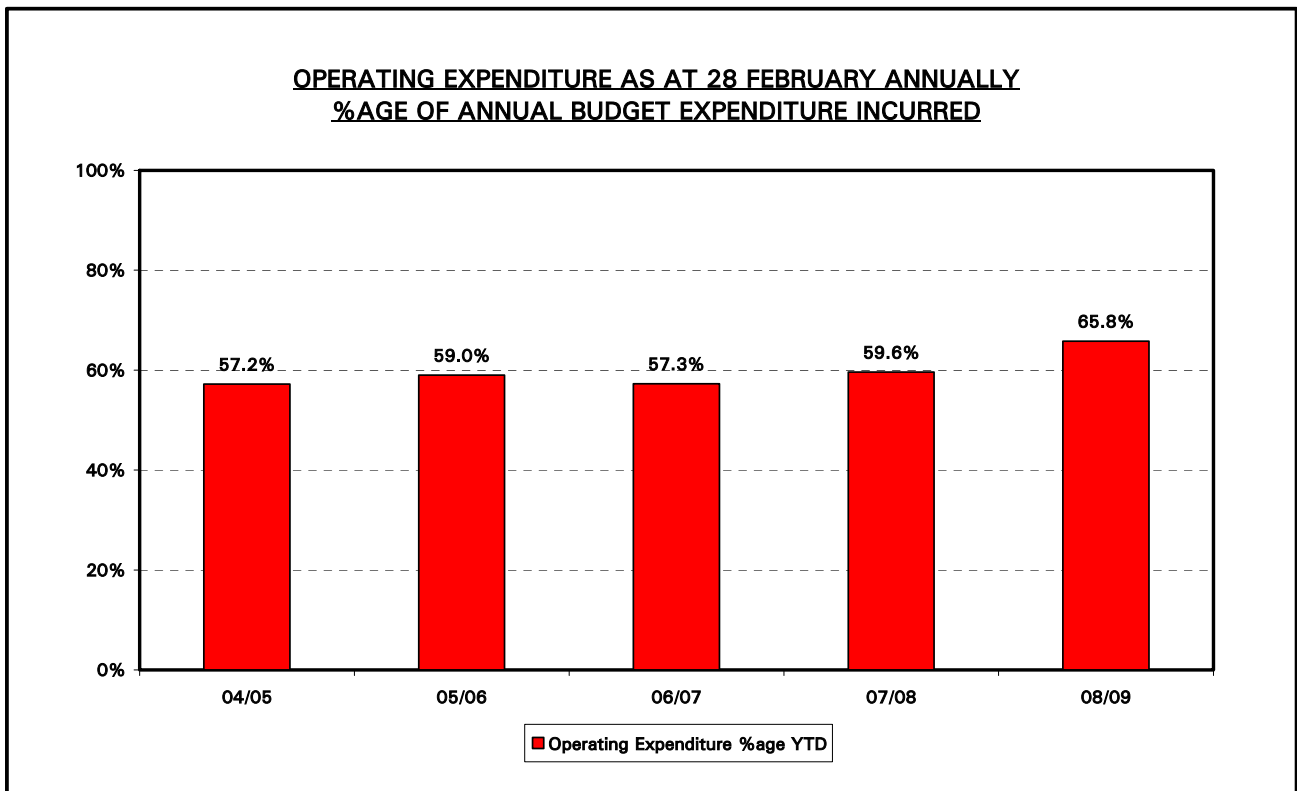
Operating Expenditure

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Operating Expenditure	\$37.4M	\$25.3M	68%

As at 28 February 2009, approximately 68% of the annual operating expenditure budget had been expended (with 67% of the financial year having passed).

In order to provide a 'like for like' comparative with operating expenditure performance in previous years (that was based on a cash budget), the removal of depreciation expenses (actual YTD of \$5.1M and annual budget of \$6.7M) results in approximately 66% of the annual budget allocation having been expended on a year to date basis.

Cognisant of the above, the percentage of the 2008/09 annual budget expended, as compared to the same time over the previous four years, is illustrated graphically as follows:



As is evidenced above, the Shires operating expenditure as at 28 February 2009 is higher than at the same time in recent years. Whilst this can be attributed to a number of matters; such as the current labour market as compared to that of the last 2 years in particular, the performance of individual operating expenditure items on a year to date basis is further discussed below:

* Employee Costs (annual budget - \$16.3M)

Employee costs include, amongst others, salaries and wages, recruitment costs, employee insurance costs, conference and training, and a range of other associated expenditures.

Against an annual budget allocation of \$16.3M, as at 28 February 2009, \$10.8M (equating to 66% of the annual budget allocation) has been expended in employee related costs. With 67% of the financial year having passed as at the end of February, employee costs are collectively in line with year to date projections.

Within the Employee costs expenditure type a number of items have already achieved annual budget estimates, including employee related insurance expenses and also recruitment costs. Additionally, salaries and wages expenses and conference and training expenses are closely aligned with respective year to date budgets. However, other items such as fringe benefits tax (annual budget of \$0.1M) are yet to be expended.

Whilst it is difficult to accurately project the total expenditure in relation to salaries and wages (that account for over 90% of total employee costs) as at 30 June 2009 (due to staff movements, changes in remuneration, the use of casual staff to back fill current vacancies etc), based on the trend as at 28 February 2009 (extrapolated to 30 June), it is considered the salaries and wages budgets will be achieved.

It should be noted that due to prevailing labour market conditions early in the 2008 calendar year, it was decided that the 2008/09 annual budget should more accurately reflect these conditions, and the ongoing inability to fill vacancies. As such, the projected salaries and related superannuation costs for the organisation for 2008/09 (based on a full complement of staff for the entire year) was reduced by 10% (or approximately \$1.2M) for budget purposes. Whilst this initiative has proven to be successful in respect of the current financial year (as is reflected in the actual/ budget variance), the unprecedented shift in labour market conditions over recent months will require that the 2009/10 annual budget for salaries and superannuation reflects the projected costs for the full year, or at best with a minimal discount factor. This matter will certainly impact upon the 2009/10 budget development process, as that amount reduced in 2008/09 will be required to funded next financial year; in all or part.

* Materials and Contracts (annual budget - \$10.4M)

As defined in the Department of Local Government and Regional Development's classification of financial transactions, the 'Materials and Contracts' expenditure type includes "all expenditures on materials, supplies and contracts not classified under any other headings". These include the supply of goods and materials, legal expenses, consultancies, maintenance agreements, publications, leases, postage and freight and a raft of other varying expenses.

Against an annual budget allocation of \$10.4M for material and contracts, as at 28 February 2009, approximately \$6.4M (or 62% of the annual budget) has been expended.

As has been detailed in the monthly Financial Activity statement reports presented to the Council this financial year, as part of the new corporate software account structure, a more comprehensive level of expenditure detail is able to be encapsulated in respect of the 'works' related material and contract expenses. As this detail was not able to be provided as part of the 2008/09 budget development, the majority of the 'works' related budget allocation was assigned to a single account. However, as actual costs are being captured at the more detailed level, it is difficult to track financial performance in any individual area as no specific budget allocations are assigned thereto.

Notwithstanding this, the trend in this expenditure type indicates that as at 30 June 2009, there is no reason as to why the annual budget allocation will not be achieved. As the following table illustrates, the variance between the actual expenditure to date and the year to date budget has reduced steadily since September 2008:

Month	Variance (actual to YTD budget)
September 2008	-34.3%
October 2008	-28.0%
November 2008	-20.5%
December 2008	-17.8%
January 2009	-15.9%
February 2009	-11.1%

A review of the expenditure incurred during March 2009 to date reaffirms this downward trend.

A review of the large number of accounts that form part of this expenditure type has not identified any specific areas in which significant variances are apparent as at 28 February 2009, clearly bearing in mind however that individual activities within the 'works' related area need to be considered in the context of a shared budget allocation.

* Utilities (annual budget - \$1.2M)

Against an annual budget allocation of \$1.2M, approximately \$0.7M in utility expenses has been expended as at 28 February 2009 (or approximately 58% of the annual budget allocation). Utilities expenses include electricity, gas, water and telephones.

Whilst the actual expenses to 28 February 2009 are slightly below year to date estimates, this is due in part to timing issues associated with the provision and payment of related invoices. It should also be noted that a

review of the expenditure post February has indicated that 75% of the annual budget has been expended to the middle of March 2009, thereby bringing alignment with the annual budget estimates. Consequently, it is considered that the utilities budget will achieve annual budget estimates as at 30 June 2009.

In respect of utilities expenses, it should be noted that, due primarily to advice of increased charges, the utilities budget for 2009/10 is expected to exceed forward estimates by at least \$0.2M, equating to a rate increase of approximately 0.8%.

* Depreciation on Non-current Assets (annual budget - \$6.7M)

Against an annual budget allocation of \$6.7M, approximately \$5.1M in depreciation expenses has been expended as at 28 February 2009 (or approximately 76% of the annual budget allocation). As has been advised in the monthly Financial Activity Statement reports presented to the Council, it is expected that depreciation expenses will exceed annual budget estimates by approximately \$0.9M in 2008/09.

As part of the new corporate software implementation, an extensive review was undertaken in relation to depreciation data. One of the aims of the review was to align 'like' asset depreciation rates wherever possible. As an outcome of that review, it was identified that depreciation expenses would need to increase, with Plant and Equipment being the asset class most affected.

Unfortunately as the review was not completed until after the annual budget was adopted by the Council, the 2008/09 annual budget does not reflect the outcomes of the review process.

Notwithstanding the above, it is important to note that although depreciation is an expense, it is essentially 'non-cash' in nature and due to an offsetting adjustment in the rate setting statement, this will not affect the 'net current asset position' as at 30 June 2009.

* Interest Expenses (annual budget - \$0.6M)

Against an annual budget of \$0.6M, as at 28 February 2009, approximately \$138K has been expended. This expenditure type includes interest payable on loan facilities (Shire and self-supporting) and also on any overdraft facility requirements. The Shires adopted annual budget includes interest payments on existing loan facilities of approximately \$168K, in addition those attributable to new loans of approximately \$422K.

Whilst the status of new loans that were included in the 2008/09 annual budget are further discussed in the capital revenue section of this report, it is considered at this time that no new loans will be drawn in 2008/09, resulting in a saving of some \$422K. However, and whilst not able to be reported in the statutory financial reports, at its meeting of 10 December

2008 the Council resolved (C0812/374) to transfer approximately \$246K from the Busselton Jetty loan repayments to Corporate Software activities.

In addition to the above, interest on the Shire's overdraft facility has exceeded annual budget estimates by approximately \$35K.

Cognisant of the above, it is projected that interest expenses will fall short of budget estimates by approximately \$141K as at 30 June 2009 (inclusive of the budget amendment as detailed above).

* Loss on Redemption of Financial Assets (annual budget - \$0.0M)

This item has been previously discussed within the operating revenue section of this report. The actual 'expenditure' to 28 February 2009 of \$0.1M is included in the net interest earnings projection to 30 June 2009, which is also discussed in that section.

* Fair Value Adjustment to Financial Assets (annual budget - \$0.0M)

As with the above, this item has been previously discussed within the operating revenue section of this report. The actual 'expenditure' to 28 February 2009 of \$0.4M is included in the net interest earnings projection to 30 June 2009, which is also discussed in that section.

* Insurance Expenses (annual budget - \$0.4M)

Against an annual budget of \$0.4M, as at 28 February 2009, approximately \$0.4M has been expended in insurance related costs. As the majority of premium payments for the financial year have now been finalised, it is not expected that any further significant expenses in this area will occur prior to 30 June 2009.

It should be noted however that a report will be presented to the Council in due course that will seek the Council's guidance in relation to numerous insurance related matters and the outcomes of which may have an impact on the overall magnitude of the Shire's general insurance budgets/expenditures in future years.

* Other Expenditure (annual budget - \$1.8M)

Against an annual budget of \$1.8M, approximately \$1.2M had been expended in relation to this item as at 28 February 2009 (or approximately 67% of the annual budget projection).

As detailed in the Department of Local Government and Regional Development's classification of local government transactions, 'other expenditure' is to include Elected Member's fees, public relations activities, statutory fees, and donations and sponsorships. At present, this budget is comprised of approximately 50 separate and varying accounts and as such, it is difficult to predict with great accuracy as to whether the annual budget

projection will be achieved. However based on information available; and the current trend of this expenditure as at 28 February 2009, it is considered that this will occur. For instance, approximately \$0.2M in rating valuation fees will be invoiced later in the financial year, and member's fees, budgeted donations and other associated items will continue to be expensed over the remainder of the financial year.

* Loss on Asset Disposals (annual budget - \$0.0M)

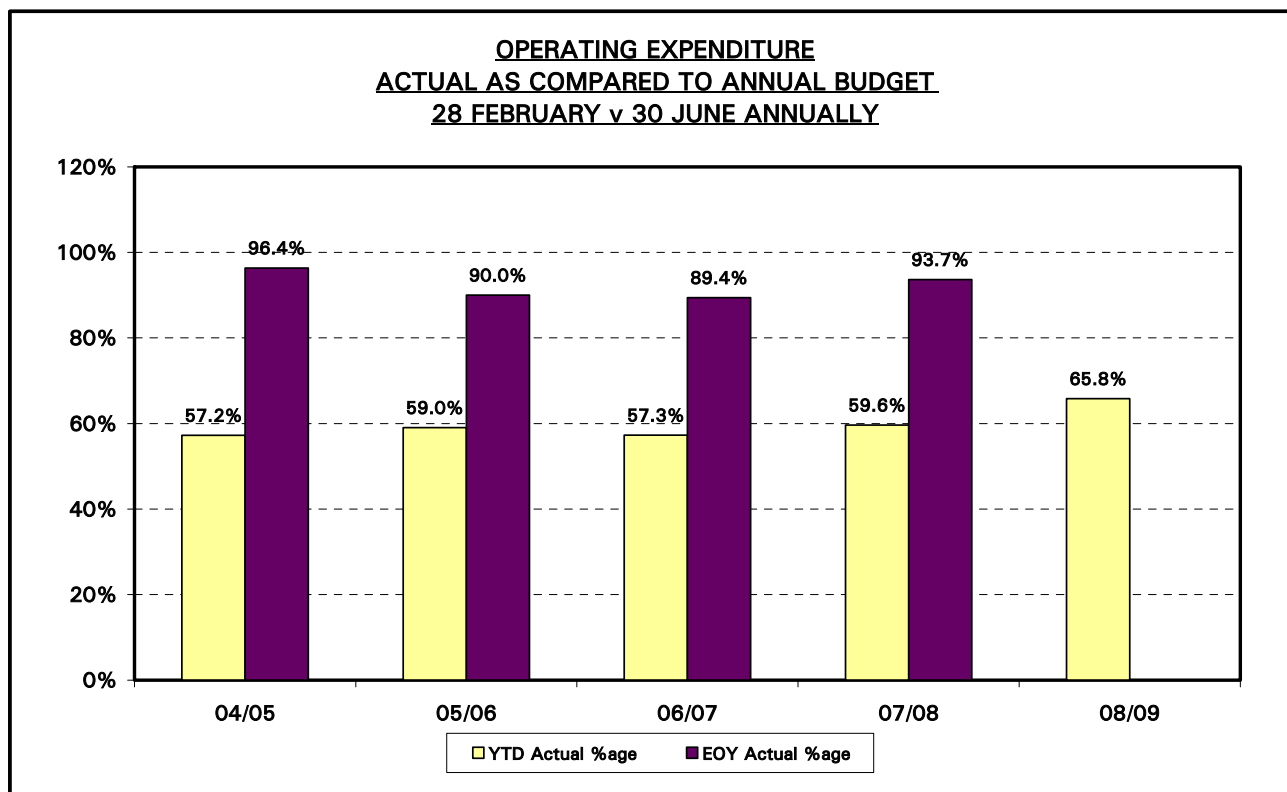
With only nominal expenditure incurred to date, this item will not impact on the overall operating expenditure performance as at 30 June 2009. Additionally, as with 'profit on asset disposal' (refer operating revenue), 'loss on asset disposal' is an accounting entry only, to bring to account the difference between a particular asset's written down value and the actual revenue realised on disposal.

* Operating Expenditure Summary

As mentioned above, as at 28 February 2009, approximately 68% of the annual budget allocation for operating expenditure has been achieved. It should be noted that this performance includes both depreciation expenses (that do not impact upon the net current asset position) and also 'expenses' in relation to financial assets (that whilst reported as expenses, are netted off against interest earnings and distributions for reporting purposes). Should the above items be excluded from the calculation, then the percentage would still equate to approximately 64% of the annual budget allocation having been expended.

Based on information currently available, coupled with the trend in the expenditure on a year to date basis, it is considered that the operating expenditure budget will be fully expended as at 30 June 2009, with the exception of approximately \$140K in interest expenses (net of an approved budget amendment) resulting from budgeted loans not being drawn this financial year.

The follow graph, that compares operating expenditure as at the end of February with that achieved at the end of each respective financial year, provides further indication that, based on recent years performance, the annual budget allocation for operating expenditure for 2008/09 will be achieved. It must be noted that for the purpose of 'like for like' comparatives with previous reporting years, the depreciation expenses budget and actual expenditure to 28 February 2009 has not been included.



CAPITAL ACTIVITIES

Capital Revenue

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Capital Revenue	\$19.9M	\$1.0M	5%

As at 28 February 2009, only 5% of the annual budget allocation for capital revenue has been recognised. Capital revenue comprises a number of distinct funding sources, detailed as follows:

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Proceeds from the Sale of Assets - Plant	\$0.5M	\$0.1M	20%
Proceeds from New Loans	\$12.1M	\$0.0M	0%
Self Supporting Loans - Principal Repayments	\$0.2M	\$0.1M	50%
Transfers from Restricted Assets	\$2.6M	\$0.0M	0%
Transfers from Reserves	\$4.5M	\$0.8M	18%
Total Capital Revenue	\$19.9M	\$1.0M	5%

Each of the above capital revenue items are further discussed as follows:

* Proceeds from the Sale of Assets - Plant (annual budget - \$0.5M)

Against an annual budget of \$0.5M, less than \$0.1M (or approximately 20% of the annual budget allocation) has been received as at 28 February 2009. The primary reason for this variance is due to the delay in the commencement of the plant replacement program for 2008/09 and as such, it is considered that the annual budget allocation will be achieved by 30 June 2009. If this does not occur, a corresponding underspend in the relevant capital expenditure category (Plant & Equipment) should be evident, unless budgeted revenue was overstated.

* Proceeds from New Loans (annual budget - \$12.1M)

The following new loans are included in the Council's adopted budget for the 2008/09 financial year:

Purpose	Amount (\$'000's)
Busselton Jetty Refurbishment Project	\$11,000
Construction of Group Fitness Room - GLC	\$600
Reserve Acquisition	\$500
TOTAL	\$12,100

As at 28 February 2009, none of the abovementioned loan facilities have been drawn and it is not expected that any loan will be drawn during the remainder of the 2008/09 financial year. The current status of each of the proposed borrowing facilities is as follows:

Busselton Jetty Refurbishment Project

The 2008/09 adopted annual budget reflects the Busselton Jetty funding model as adopted by the Council in which \$11.0M was to be borrowed by the Shire this financial year. Whilst the funding model has changed significantly since adoption of the budget, and the borrowings are no longer required at this time, as previously mentioned, the Shire is required to report on its adopted budget.

Geographe Leisure Centre - Construction of Group Fitness Room

As at 28 February 2009, only nominal funds have been expended in respect of the Group Fitness Room project. At this stage, it is not expected that any significant expenditure will occur in respect of this matter within the remainder of the 2008/09 financial year and as such, the total borrowing of \$0.6M will be re-listed in the 2009/10 draft annual budget.

Reserve Acquisition

Resulting from a number of ongoing delays beyond the control of the Shire (including native title matters), the Reserve acquisition will not be proceeding within the current financial year. This loan facility will be re-listed as part of the 2009/10 draft annual budget.

In respect of the above, whilst the capital revenue budget will reflect a significant variance as a result of the loans not proceeding this financial year, both operating and capital expenditure will also be impacted (as budgeted principal and interest payments will not be incurred). These matters are discussed under the respective expenditure headings as contained within this report.

* Self Supporting Loans - Principal Repayments (annual budget - \$0.2M)

As at 28 February 2009, actual revenue in respect of this item is in line with annual budget estimates and it is considered that annual budget estimates will be achieved as at 30 June 2009.

* Transfers from Restricted Assets (annual budget - \$2.6M)

Against an annual budget allocation of \$2.6M, as at 28 February 2009, there have been no transfers from monies held in restricted assets. Similar to reserves, restricted assets comprise monies that, whilst under the Shire's control, can only be used for specific purposes. Examples include developer contributions, government grants provided for specific purposes and any unspent portion of loan funds.

As part of the annual budget development process in any year, where the Shire's program of works and services can accommodate the utilisation of restricted assets monies to assist in funding projects (subject to any overarching policy requirements), then these funds are recognised in the budget as a transfer from restricted assets. As and when associated works are completed throughout the financial year, the relevant transfers can be made to offset the initial expenditure incurred. As such, and as is also the case for transfers from reserves (refer below), there is a correlation between transfers from restricted assets and expenditure (predominantly capital).

Cognisant of the above, these transfers tend to occur later in the financial year when associated works are completed and also as the Shire's cash-flow requirements necessitate. Based on a review of the works program, it is estimated that approximately \$0.3M in transfers will occur during March 2009; and this activity should increase over the remainder of the financial year.

It should be noted that should this item not achieve annual budget estimates, then an offsetting reduction in associated expenditure will be evident.

An attachment to this report (Capital Revenue - Transfers from Restricted Assets and Reserves) details the annual budget and year to date actual performance in respect of this item and also that of reserves (as is discussed below).

* Transfers from Reserves (annual budget \$4.5M)

Against an annual budget allocation of \$4.5M, approximately \$0.8M (or 18% of the annual budget allocation) has been transferred as at 28 February

2009. Similar to transfers from restricted assets, reserve accounts are established/ maintained for specific purposes. The purpose of each reserve is detailed in the annual budget, and whilst the purpose of a reserve can be amended (excepting where held in respect of a specified area rate or statutory purpose), this must be done as part of the annual budget adoption, or otherwise only consequent to public advertising for one month (absolute majority decision required in each instance). Furthermore, as reserve funds are generally established and maintained to fund future significant projects or programs (albeit in some instances they are held to provide savings to fund unforeseen expenditures) reserves balances and movements should ideally be based on longer term asset management and related financial plans.

The attachment to this report (Capital Revenue - Transfers from Reserves & Restricted Assets), details both the annual budget and reserve transfers made to the end of February 2009. Subsequent to the end of February, a further \$1.1M in transfers can now be progressed to offset expenditure incurred in relation to activities such as the corporate software system and further major plant procurements.

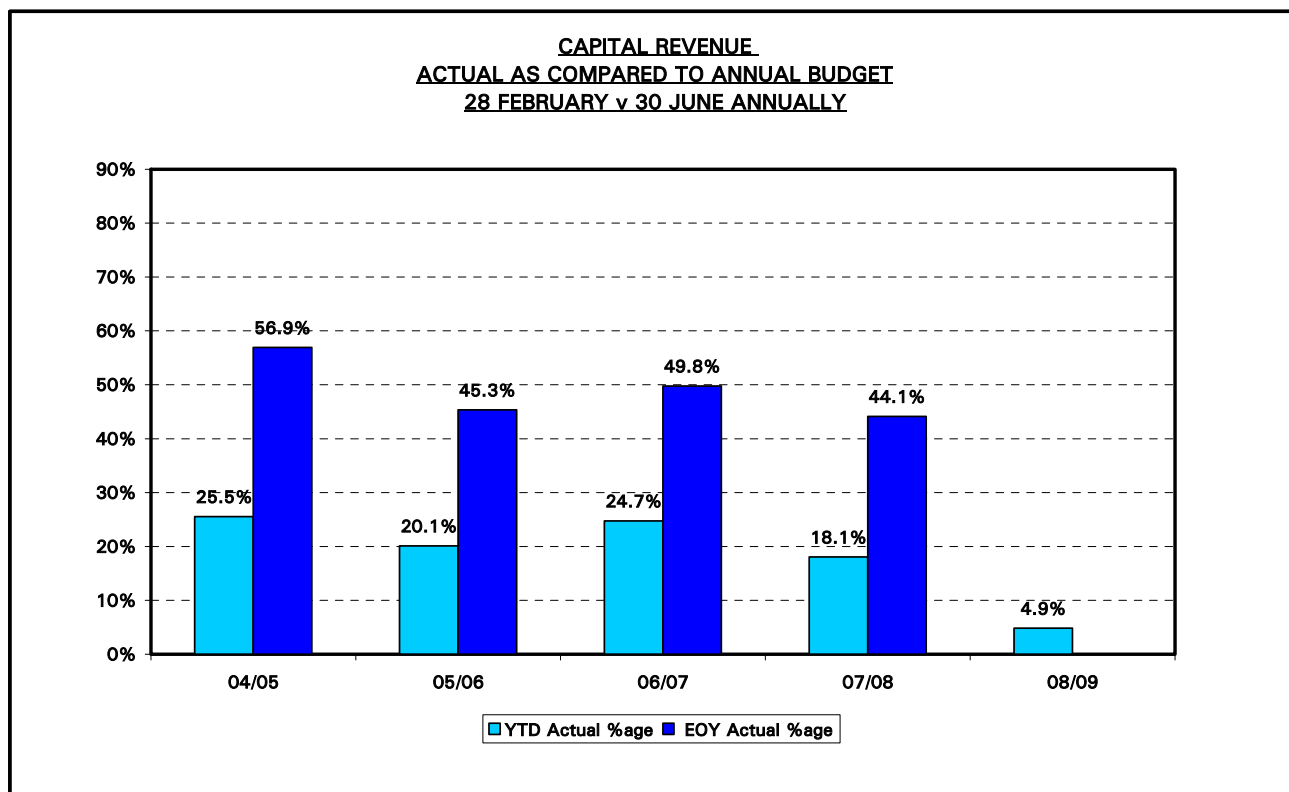
As with transfers from restricted assets, transfers from reserves are correlated with associated expenditure items (predominantly capital) and where a reserve transfer is not made this financial year, there will generally be an off-setting underspend in the associated expenditure budget.

Capital Revenue Summary

As has been detailed above, as at 28 February 2009, only 5% of the annual budget allocation for capital revenue has been achieved. Clearly however, as \$12.1M (or 61% of the total budget allocation) relates to the proceeds of new loans that will now not occur in 2008/09, the percentage achieved to date is somewhat deceiving. Should the loans be removed from this calculation then, approximately 13% of the annual budget allocation has been recognised.

The major areas of variance (excluding the loans) relates to transfers from restricted assets and reserves. As has been stated above, both of these revenue items have a correlation with expenditure, and where a transfer is not made, there will generally be an offsetting reduction, predominantly in the associated capital expenditure program.

As is illustrated in the following graphical representation, whilst capital revenue received is presently well below that achieved at the same time in previous years, the annual percentage of this budget allocation achieved has, historically, also been well below annual budget estimates. The reasons for this primarily relate to budgeted loans not being drawn (either by associated projects not being completed or a decision not to borrow based on prevailing financial performance), and also transfers from reserves and restricted assets not being made for similar reasons.



Capital Expenditure

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Total Capital Expenditure	\$39.7M	\$10.0M	25%

As at 28 February 2009, approximately 25% of the annual budget allocation in respect of capital expenditure has been incurred. Capital expenditure can be summarised under the following specific categories:

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Land & Buildings	\$3.2M	\$1.1M	34%
Plant & Equipment	\$3.0M	\$0.4M	13%
Furniture & Equipment	\$1.1M	\$0.9M	81%
Infrastructure	\$20.3M	\$4.7M	23%
Loan Repayments - Principal	\$0.7M	\$0.3M	43%
Transfers to Restricted Assets	\$1.8M	\$1.0M	56%
Transfers to Reserves	\$9.6M	\$1.6M	17%
Total Capital Expenditure	\$39.7M	\$10.0M	25%

Each of these categories is discussed individually as follows. Please also note that detailed budget breakdowns in respect of Land & Buildings, Plant & Equipment, Furniture & Equipment and Infrastructure are included as attachments to this report.

* Land & Buildings (annual budget - \$3.2M)

Against an annual budget allocation of \$3.2M, approximately \$1.1M (or 34% of the annual budget allocation) has been expended as at 28 February 2009.

Of the total budget allocation for 2008/09, there are three projects that collectively account for over 60% of the total budget. Each of these projects is discussed in more detail as follows:

- Reserve Acquisition - Berryman Road

Against an annual budget allocation of \$0.5M, no expenditure has been incurred as at 28 February 2009. Resulting from a number of ongoing delays beyond the control of the Shire, this matter is unable to progress at this time. It should be noted that the annual budget reflects this acquisition being funded from borrowings (refer capital revenue item above). As such, and with the exception of budgeted principal and interest payments in 2008/09 (total of \$35K), there will be no net impact on the Shires financial performance in 2008/09 should this matter be required to be carried over to the 2009/10 financial year.

- Geographe Leisure Centre – Construction of Group Fitness Room

Against an annual budget allocation of \$0.6M, only nominal expenditure has been incurred as at 28 February 2009, primarily relating to the preparation of tender documentation. It is not anticipated that any significant expenditure will occur by 30 June 2009 and as such, both the construction costs and associated loan facility of \$0.6M will be carried over to the 2009/10 annual budget. As with the Reserve Acquisition matter above, there will no major impact of the Shires 2008/09 budget as a result of this matter being carried over.

- Civic Precinct Project

Against an annual budget allocation of \$0.9M, approximately \$230K has been expended as at 28 February 2009 in relation to the Civic Precinct project. The allocation of funding as reflected in the annual budget was based on the project's status and funding model at that time, which has clearly changed since the budget was adopted in August 2008.

Based on the outcomes of a Special Council Meeting held on 02 December 2008, and more specifically with respect to Council

Resolution C0812/356 (made as part of that meeting), the Shires Economic Development Manager has advised that a further amount of up to \$350K may be expended this financial year to carry out the initial phases of this project. As such, it is anticipated that expenditure this financial year may fall short of budget estimates by up to \$0.3M. However, the extent of any shortfall will be dependant upon the Council's future decisions in respect of this project.

Of the remaining 'Land and Building' capital expenditure items, it is the view of Community Infrastructure staff that the majority of these projects will be either completed or commenced within 2008/09.

Whilst it is acknowledged that there may be a shortfall in expenditure in relation to the Civic Precinct project in 2008/09, a number of other projects have/ may exceed budget estimates this financial year, thus reducing any 'savings' (for this financial year at least) otherwise available.

A summarised listing of the Land & Buildings budget and actual performance to 28 February 2009 has been provided as an attachment to this report for information purposes.

* Plant & Equipment (annual budget - \$3.0M)

Against an annual budget allocation of \$3.0M, approximately \$0.4M (or 13% of the annual budget allocation) has been expended as at 28 February 2009.

As has been mentioned in the monthly Statement of Financial Activity reports presented to the Council, the commencement of the Plant Acquisition and Replacement program for the 2008/09 financial year was deferred pending the receipt of rates revenue during October/ November 2008 (as insufficient cash-flow was available to fund this program prior to that time).

As at 28 February 2009, the variance against annual budget estimates is further broken down as follows:

Description	Annual Budget	Actual as at 28 Feb 2009	%age actual to annual budget
Light Vehicles	\$1,043	\$0	0%
Heavy Vehicles	\$1,830	\$378	21%
Other	\$167	\$12	7%
TOTAL	\$3,043	\$390	13%

Despite the current variance, the Shires Fleet Management Officer has indicated that the Plant and Equipment budget should be fully expended as at 30 June 2009 (unless a decision is made to defer procurements for the remainder of the financial year).

A summarised listing of the Plant & Equipment budget and actual performance to 28 February 2009 has been provided as an attachment to this report for information purposes.

* Furniture & Equipment (annual budget - \$1.1M)

Against an annual budget allocation of \$1.1M, approximately \$0.9M (or 81% of the annual budget allocation) has been expended on furniture and equipment as at 28 February 2009.

Of the furniture and equipment budget, approximately \$1.0M (or approximately 91% of the total budget allocation) relates to Information Technology and Corporate software matters. With approximately 84% of these costs having been incurred as at 28 February 2009, it is anticipated that the annual budget allocation will be expended in full by 30 June 2009 (inclusive of associated budget amendments that are not reported in the statutory accounts).

A summarised listing of the Furniture and Equipment budget and actual performance to 28 February 2009 has been provided as an attachment to this report for information purposes.

* Infrastructure (annual budget - \$20.3M)

Against an annual budget allocation of \$20.3M, approximately \$4.7M (or 23% of the annual budget allocation) has been expended as at 28 February 2009.

It should be noted at this time that the infrastructure budget for 2008/09 includes expenditure in respect of the Busselton Jetty project totalling \$12.0M (or approximately 59% of the total budget allocation). Whilst approximately \$0.2M has been expended against this item as at 28 February 2009, it is anticipated that this, and any additional amounts costed to this project in 2008/09, will be reimbursed as part of the State Governments grant funding arrangement. It should also be noted that the \$12.0M in expenditure was off-set by loan funding and contributions (capital revenue) that will also not be occurring (in the originally budgeted form and manner) this financial year.

With the exclusion of the Busselton Jetty project, approximately 57% of the annual budget allocation for capital infrastructure projects has been achieved as at 28 February 2009.

Due to the number of diverse activities comprised within the infrastructure budget, comment on the projected performance of this budget as at 30 June 2009 has been provided from relevant Community Infrastructure staff (including the Director, Managers and specialist staff).

In summary of the information provided, Community Infrastructure Directorate staff are confident that the budgeted infrastructure works program will be largely completed by 30 June 2009. The main areas in which full expenditure is not expected to occur include approximately 10% of the budgeted Main Roads works and approximately 5% of the Roads to Recovery works. Whilst this would only amount to approximately \$0.1M, unspent grant funds would be restricted/ carried over to enable any incomplete works to be finalised in 2009/10.

In addition to the above, the Queen St upgrade (budget of \$250K) has been highlighted as a project that may not be completed by 30 June 2009, albeit this will be highly dependant upon the Council's determination as to how this project is to proceed consequent to the outcomes of the associated community survey. It should be noted however that this project is fully funded from unspent 'Townscape Works' loan funds and as such, whether this project is completed this financial year or not will not impact on the Shire's overall financial performance.

It should also be noted that throughout the infrastructure budget, there are areas in which annual budget estimates have been or will be exceeded; however, these have been off-set in other areas where the completed works have come well under budget via, amongst others, process efficiencies.

A summarised listing of the Infrastructure budget and actual performance to 28 February 2009 has been provided as an attachment to this report for information purposes.

* Loan Repayments - Principal (annual budget - \$0.7M)

Against an annual budget allocation of \$0.7M, approximately \$0.3M (or 43% of the annual budget allocation) has been expended as at 28 February 2009. This budget allocation includes principal repayments on existing loan facilities, in addition to those new loans included for drawdown in 2008/09.

As has been previously mentioned within this report, it is now expected that none of the budgeted new loan facilities (projected to be drawn in 2008/09) will occur within the current financial year. With principal payments associated with these new loans amounting to \$0.1M, clearly this shortfall will be reflected in the Shire's statutory accounts as at 30 June 2009.

* Transfers to Restricted Assets (annual budget - \$1.8M)

Against an annual budget allocation of \$1.8M, approximately \$1.0M (or 56% of the annual budget allocation) has been accounted for at 28 February 2009. A listing of the budgeted transfers to reserves and also transfers to restricted assets is provided as an attachment to this report for information purposes.

Transfers to restricted assets represent funds received from a number of sources (including developer contributions and government grants - budgeted

or otherwise) that, whilst under the Shires control, are required to be expended on specific projects or services. Upon receipt, these funds are recognised as revenue in the year in which they are received, then restricted pending the completion of budgeted activities, at which time they are transferred back to the Shires municipal account (and recognised in the form of a transfer from restricted assets - refer capital revenue section above).

Due to its nature, it is difficult to accurately budget for this expenditure type. Notwithstanding this, funds are generally transferred to restricted assets pending the completion of associated tasks and as such, any shortfall in the amount transferred (where tied to specific projects) will be offset elsewhere in the Shires accounts.

* Transfers to Reserves (annual budget - \$9.6M)

Against an annual budget allocation of \$9.6M, approximately \$1.6M (or 17% of the annual budget allocation) has been accounted for at 28 February 2009. A listing of the budgeted transfers to reserves and also transfers to restricted assets (refer previous comments) has been provided as an attachment to this report for information purposes.

Transfers to reserves (that are set out in the adopted budget) comprise both a set amount to be transferred, in addition to a projection of interest to be earned on applicable reserve funds during the course of the financial year. As such, any variance between the annual budget and the actual expenditure as at 30 June 2009 will be primarily due to less than projected interest earnings.

It should be noted that the 2008/09 adopted budget includes a transfer to reserves of unspent monies (loan and other) in respect of the Busselton Jetty project of \$6.6M. Clearly, as the funding model for the Jetty Project has been amended considerably since the adoption of the annual budget, this transfer is no longer applicable. Likewise, and as mentioned previously, the associated capital revenue will also not be brought to account. By deducting the abovementioned \$6.6M from the annual budget allocation, the actual expenditure to 28 February reflects that approximately 53% of the annual budget allocation has been expended.

Whilst it is anticipated that this budget allocation (excluding the Busselton Jetty matter) will fall short of annual budget estimates (due to lower than projected investment interest), it should be noted that there will be an off-setting shortfall in operating revenue via the interest earnings (as discussed earlier in this report).

CAPITAL EXPENDITURE SUMMARY

As has been detailed above, as at 28 February 2009, approximately 25% of the annual capital expenditure budget allocation has been incurred. However, as has also been discussed, there are several budgeted expenditure items that will not occur (at least in terms of the adopted budget) this financial year. These include:

Land & Buildings

The Reserve Acquisition and Geographe Leisure Centre Group Fitness Room projects, totalling \$1.1M will not occur this year

Infrastructure

The Busselton Jetty project expenditure as included in the adopted budget and totalling \$12.0M, will not occur (in its present form)

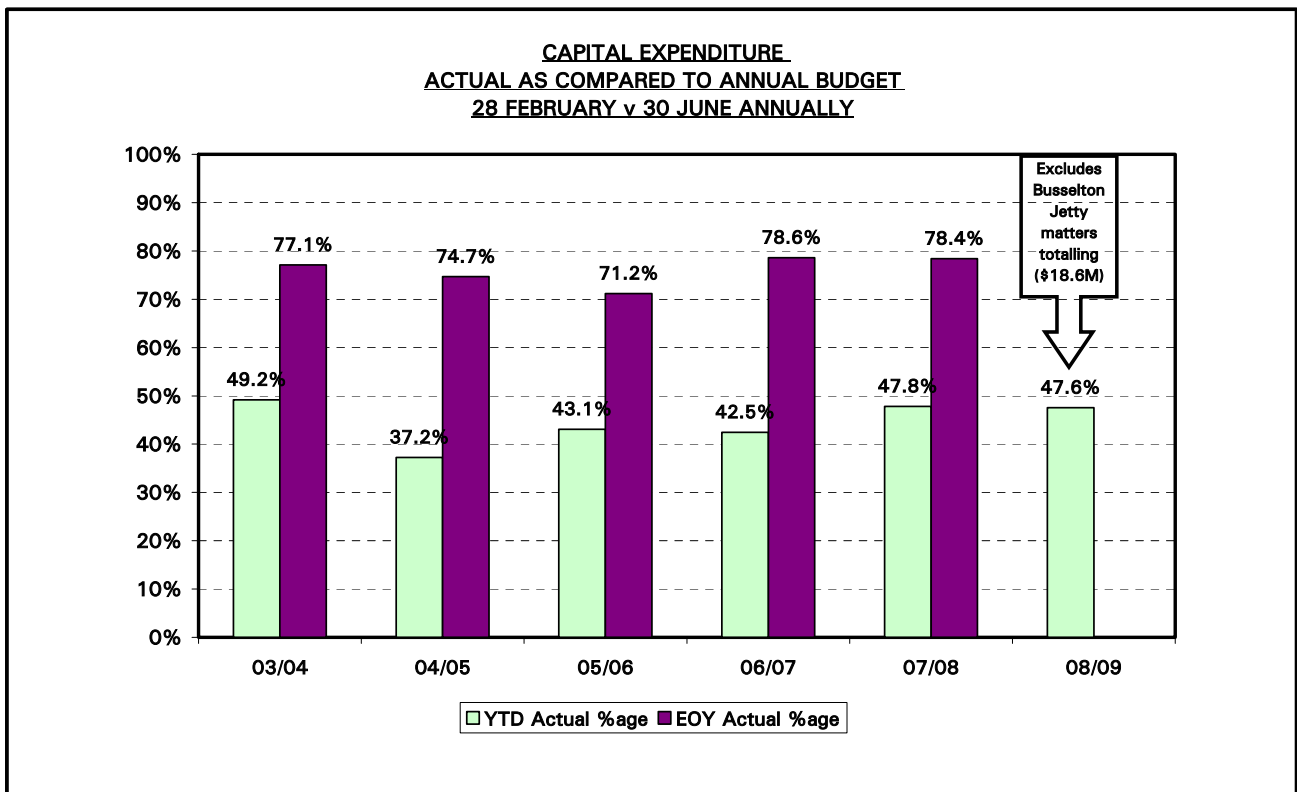
Transfers to Reserves

The transfer of Busselton Jetty related monies totalling \$6.6M to reserves will not occur this financial year (as associated borrowings will not be required)

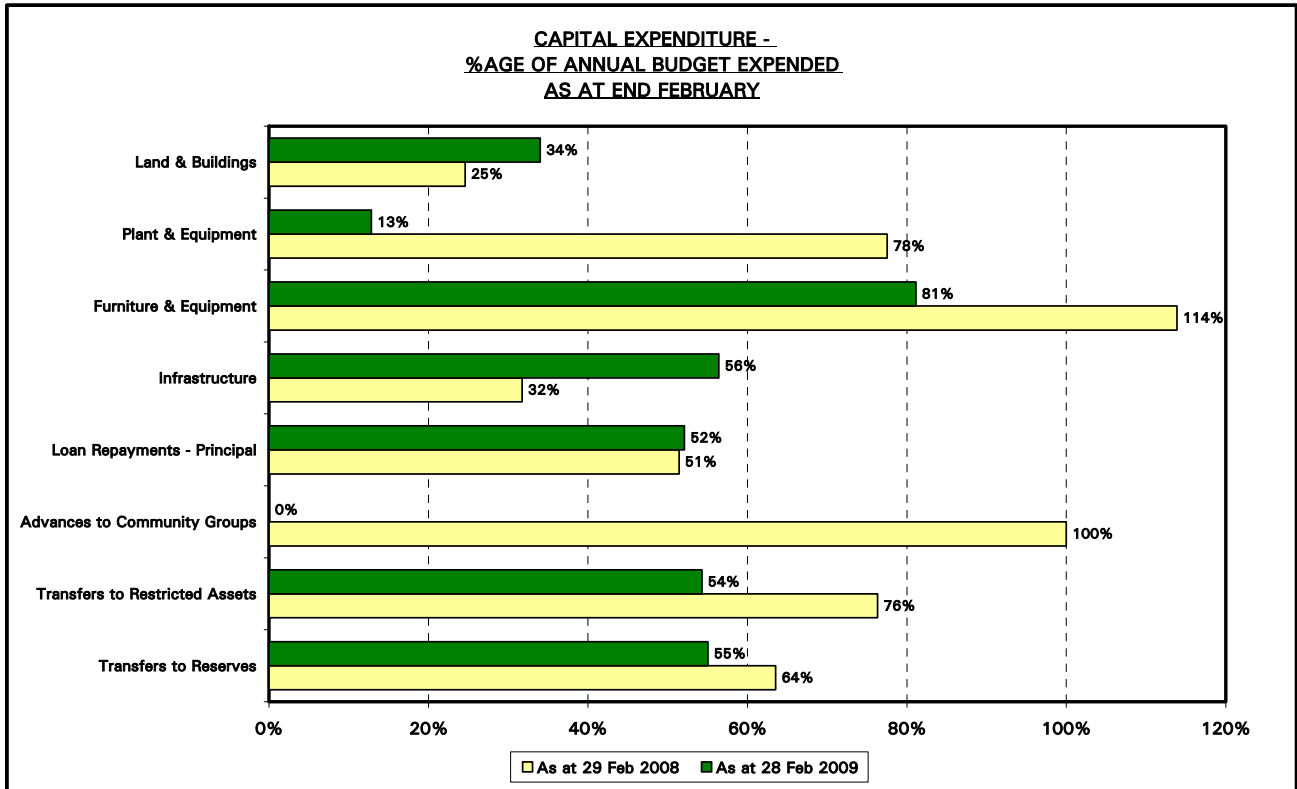
Notwithstanding the above, and as has been discussed within this report, each of the above expenditure items has off-setting revenues (be they loans or other funding types) that will also not occur in 2008/09.

In order to provide a 'like for like' comparative with previous years performance, it is considered that the Busselton Jetty budget allocations totalling \$18.6M be removed for the purposes of this comparison. To this end, the budget would reduce to \$21.1M (\$39.7 - \$18.6), against year to date expenditure of \$10.0M (equating to approximately 47% of the annual budget having been achieved).

The following graph illustrates the above:



Further to the above, the following graph provides a comparison between the percentage of the annual capital expenditure budget achieved as at the end of February 2008 and also as at the end of February 2009. As with the previous graph, the amounts relating to the Busselton Jetty project have been excluded from the February 2009 figures.



- * Infrastructure for 2008/09 excludes the Busselton Jetty Project
- * Transfers to Reserves for 2008/09 excludes the Busselton Jetty Project

As the graph illustrates:

- * Expenditure in respect of both Land and Buildings and Infrastructure activities are higher in February 2009 that at the same time in 2008
- * Plant & Equipment expenditure is well below last years levels, primarily due to the delay in the commencement of the Plant Acquisition and Replacement program this financial year
- * Furniture and Equipment is also down on last years actual, principally resulting from a higher proportionate level of spending last year in relation to the corporate software system
- * The 'Advances to Community Groups' line item in 2007/08 related to the Self Supporting Loan Facility provided to the Dunsborough & Districts County Club last year (no such borrowings included in the current years budget)

In summary, and with the exception of the expenditure items identified in this report that will not be incurred in 2008/09, it is considered (by the responsible areas) that overall, capital expenditure should achieve annual budget estimates in 2008/09. Whilst Land and Buildings may fall short of budget estimates, this will be primarily limited to a number of incidental items. The only other area of immediate concern relates to the transfers to reserves, due principally to the fact that interest earnings will be well down on annual budget estimates (and hence the transferred amount will be less than estimated).

Finally, and whilst there are identified savings in respect of a number of items contained within the capital expenditure area, these are off-set, at least in part, by over expenditures in other projects.

ANNUAL BUDGET REVIEW SUMMARY

As has been detailed within this report, the Shires financial performance as at 28 February 2009 is tracking generally in line with budget estimates, albeit there are a number of specific projects (e.g. Busselton Jetty) that will not proceed as per the adopted budget this financial year, in addition to several other areas in which annual budget estimates are not expected to be achieved.

It is considered that operating revenue (excluding matters relating to the Busselton Jetty project) will fall short of budget estimates by up to \$1.4M, due primarily to the current economic climate and its adverse impact on, amongst others, investment earnings and 'land/ development' related fees and charges. It should be noted that both of these matters will also impact upon the 2009/10 draft budget as revenue projections will need to be recast (downward) to more accurately reflect prevailing economic conditions.

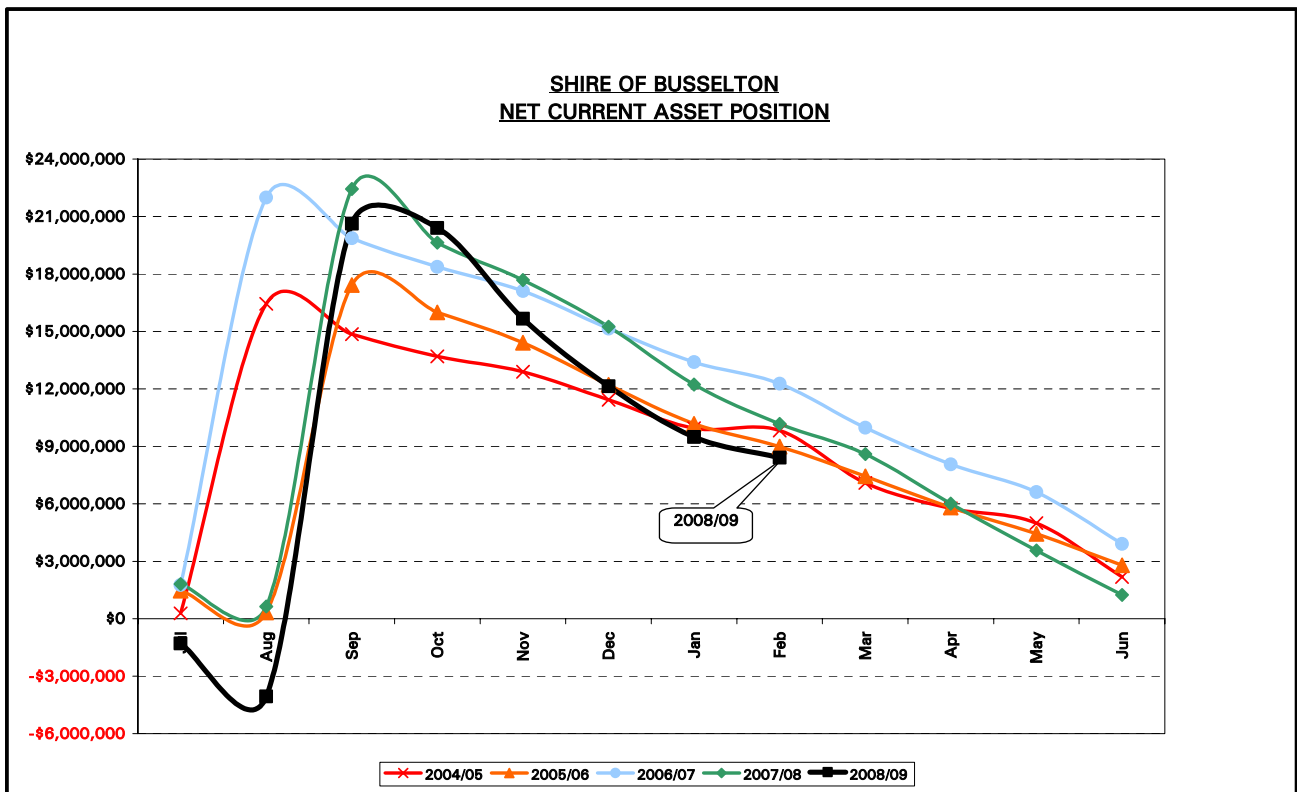
Conversely, and against the trend of recent years, it is projected that the operating expenditure budget will be essentially fully expended as at 30 June 2009, with the exception of approximately \$0.1M in interest expenses (net of budget amendments). This is due in part to the fact that employee related costs are expected to achieve budget estimates this year, resulting from both the 10% budget reduction and also the change in labour market conditions over recent months. Whilst it is acknowledged that operating expenditure includes matters related to invested funds (for which no budget exists), these are essentially offset via the associated operating revenue line items.

Whilst capital revenue performance is well below annual budget estimates as at 28 February 2009, as has been detailed in this report, over 60% of the annual budget allocation relates to borrowings that will not occur this financial year. Furthermore, and due to its nature, transfers from reserves and restricted assets will only occur subsequent to associated expenditure being incurred. As such, whilst the annual budget estimate will clearly not be achieved, essentially shortfalls will be off-set in the related expenditure budgets.

Finally, it is projected that, with the exception of a number of specific items as have been discussed within this report (e.g. Busselton Jetty, GLC extensions,

reserve acquisition), in addition to a shortfall in transfers to reserves (due to investment interest performance), the overall capital expenditure budget will essentially be achieved by 30 June 2009.

The Shires net current asset position provides a snapshot of the Shires financial performance at a point in time. As previously mentioned in this report, the net current asset position primarily represents the relationship between total revenue and total expenditure, whilst also taking into account the carry forward position from the previous financial year. Whilst the net current position does not take into account timing differences in respect of the adopted budget, when compared to previous reporting periods, it nonetheless provides an indication of comparative financial activity and performance. The net current asset position for the past five years (including the 2008/09 financial year to date) is represented graphically as follows:



As is illustrated above, the net current asset position as at 28 February 2009 (\$8.4M) is approximately \$1.8M less than that at the same time in 2007/08. Reasons for this variance include the ratio of operating revenue to operating expenditure between 2008/09 and 2007/08 (in 2008/09 operating revenue is down some 3% whilst operating expenditure is up some 6%), in addition to similar variances in respect of capital activities (albeit there are a number of significant items in the capital area that will essentially cancel each other out).

Whilst the comparative variance can be attributed to a number of factors as alluded to above, it is also important to note that the financial performance (as indicated by the net current asset position) within any financial year can be

misrepresented due to timing issues in relation to revenue/ expenditure items. For instance, if transfers from reserves (to offset associated expenditures) are deferred until later in the financial year, then the net current position will be comparatively less until such time as those transfers are made. Unfortunately, unlike previous years, transfers from reserves and restricted assets are now being made as soon as possible after the associated expenditure is incurred (principally for cash-flow purposes). As such, the current variance between the 2007/08 and the 2008/09 net current asset positions as at 28 February may be somewhat understated.

Cognisant of the above, there is a growing concern that the Shire may be facing a deficit position this financial year, possibly in the order \$1.0M plus. Based on the 2008/09 net current asset position curve (as provided in the aforementioned graphical representation), and excluding the flattened section between January and February (that was essentially the result of a book keeping entry), a projection of the current curve estimates that the Shire may well enter a deficit position as early as May 2009. In simple terms, whilst the expenditure budgets may be achieved, unfortunately the revenue budgets will not.

Furthermore, there may be a need to utilise overdraft facilities earlier than expected should the Shire not be able to convert debtors to cash in a timely manner, or continue with its current programme of services for the remainder of the 2008/09 financial year.

Whilst the above scenario is assumptive, and there may also be some unknowns (at this time) that may defer the projected timing as stated above, management is currently considering possible measures to defer/ avert the deficit position in 2008/09. Essentially, non-essential expenditures, or those that can be deferred, are being reviewed. Clearly, whilst these types of expenditures will still need to occur at some point, they may need to be reconsidered as part of the overall 2009/10 budget development, at which time they will need to be reassessed in line with the projected programme of services for that year (including corporate plan projects). As Elected Members will appreciate, it is anticipated that the 2009/10 annual budget will be extremely 'tight' and will more than likely require that some difficult decisions be made.

During the course of the 2008/09 financial year, a number of budget amendments have been approved by the Council. With the exception of one (namely the December 2008 election) all amendments to date have identified off-sets such that the projected end of financial year position (as per the adopted budget) remains unaltered. It is also acknowledged that further reports may be presented to the Council during the remainder of the financial year whereby further budget amendments are sought.

Notwithstanding the above, no specific budget amendments are to be recommended to the Council as an outcome of this budget review. Clearly, there is limited capacity at this time to identify formal savings in the current budget to off-set matters such as the projected \$1.4M shortfall in operating revenue. Notwithstanding this, and as mentioned above, management is aware of the

Shire's current financial position and where possible, expenditures are being deferred to assist in lessening any deficit position as at 30 June 2009.

In addition to the above, the Shire's financial reporting requirements necessitate that all statutory reporting be compiled based on the adopted budget, not the amended budget. Whilst budget amendments are certainly beneficial from an internal management perspective, they are not considered as part of the Shire's obligatory statutory financial reports. As such, formal budget amendments are considered superfluous at this point in the financial year.

In closing, and as is clearly the case with most organisations (non for profit and otherwise) the effects of current economic conditions are impacting upon the Shire of Busselton. At this stage, this is evidenced by, amongst others, the lower investment returns, reduced revenue from 'land/ development' related matters and also the current labour conditions (as compared to recent times). Whilst impacting on the current year's financial performance, these matters will also significantly impact on the Council's 2009/10 budget as revenue shortfalls, coupled with increased expenses (e.g. employment costs, utility charges etc) will require services and/ or projects to be deferred or scaled back; or alternatively additional funding sources identified. These matters will clearly be the subject of imminent budget workshop discussions.

TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

Not applicable

VOTING REQUIREMENT

Absolute Majority

OFFICER RECOMMENDATION

ABSOLUTE MAJORITY DECISION REQUIRED

That the annual budget review, for the period ending 28 February 2009, be adopted.

15. COMMUNITY INFRASTRUCTURE REPORT

Nil

16. COMMUNITY AND ORGANISATIONAL DEVELOPMENT REPORT**16.1 LOCAL LAW REVIEW - SHIRE OF BUSSELTON LOCAL GOVERNMENT PROPERTY LOCAL LAW 2009**

FILE NO: LAW24
ATTACHMENT(S): Proposed Shire of Busselton Local Government
Property Local Law 2009

PRÉCIS

The Council has previously resolved to review the current *Local Law Relating to Reserves and Foreshores* "Reserves and Foreshores Local Law" with specific amendments regarding vegetation protection contemplated. It is recommended that the new local law also apply to other property of the Shire (including property that is owned by or under the care, control and management of the Shire excluding thoroughfares) therefore it is considered appropriate that the new local law have a name reflecting the broadened application.

The purpose of this report is for the Council to consider whether to commence the process of making the new local law pursuant to section 3.12 of the Local Government Act 1995. It is recommended that the Council commence the law-making process for the proposed *Shire of Busselton Local Government Property Local Law 2009* "Shire Property Local Law".

BACKGROUND

On 28 March 2007 the Council resolved, inter alia, to "request the CEO to review the Reserves and Foreshores Local Law as part of the Local Law review and as a matter of priority and to include penalties for removal of vegetation without Shire approval, including infringements and costs incurred by the Shire or its contractors in the reinstatement of the vegetation".

The proposed local law is consistent with this resolution. It also repeals three obsolete local laws which were inadvertently omitted during the drafting of the 2006 Repeal Local Law which repealed many local laws no longer used by the Shire.

CONSULTATION

The proposed Shire Property Local Law will be advertised publicly for a minimum of 6 weeks in accordance with the requirements of section 3.12(3)(a) of the *Local Government Act 1995*.

A further report will be presented to the Council following this period for the Council to consider any submissions received during this period before it may resolve to make the local law.

The Shire has drafted the local law in consultation with McLeod's Barristers and Solicitors.

STATUTORY ENVIRONMENT

The procedure for making local laws is set out in Section 3.12 of the *Local Government Act 1995* and regulation 3 of the *Local Government (Functions and General) Regulations 1996*.

The process is commenced by the person presiding at the Council meeting giving notice to the meeting of the purpose and effect of the proposed local law in the prescribed manner. For the purpose of section 3.12, the person presiding at a council meeting is to give notice of the purpose and effect of a local law by ensuring that –

- (a) the purpose and effect of the proposed local law is included in the agenda for that meeting; and
- (b) the minutes of the meeting of the Council include the purpose and effect of the proposed local law.

The purpose and effect of the local law is as follows:

Purpose: To regulate the care, control and management of all property of the local government except thoroughfares.

Effect: To control the use of local government property. Some activities are permitted only under a permit or under a determination and some activities are restricted or prohibited. Offences are created for inappropriate behaviour in or on local government property.

The local law will then be advertised in accordance with Section 3.12(3) which involves giving state wide public notice in relation to the local law and allowing at least 6 weeks from the date that notice is given for the public to make submissions. A copy of the local law is also provided to the Minister for Local Government.

Following this process, the proposed local law will then be referred back to the Council for consideration of any submissions received in relation to the local law and for the Council to resolve whether or not to make the local law by absolute majority decision.

POLICY IMPLICATIONS

The Shire has implemented Policy 240 – Reserves Vegetation Protection which will continue to work in conjunction with the Proposed Shire Property Local Law and is consistent in its objectives.

A number of other policies concern similar topics and will continue to apply by virtue of clause 2.9 of the Shire Property Local Law. Clause 2.9 provides that where a sign has been erected under a local law repealed by the Shire Property Local Law then that is taken to be a determination under the Shire Property Local Law. Therefore, determinations made under the Reserves and Foreshores Local Law such as those contained in Policy 010/6 Beaches – Exercising and Swimming of Horses and Policy 009/6 Beaches and Foreshore Area – Access by Licensed Professional Fishermen, will continue to operate provided there is a sign evidencing the determination.

FINANCIAL IMPLICATIONS

The Council has budgeted \$6000 for advertising. A portion of these funds will be used for the provision of state wide public notice for the Shire Property Local Law.

There are other funds within the legal budget allocated to assist with the review and drafting costs of new local laws.

STRATEGIC IMPLICATIONS

One of the Shire's strategic objectives is "to manage the business of the Shire in a responsible and accountable manner utilising organisational sustainability principles". To achieve this, the Shire has a strategic initiative to "ensure regulatory requirements are met". The Shire is required under the Local Government Act 1995 to review its local laws every 8 years so the current proposal to repeal the Reserves and Foreshores Local Law and replace it with the Shire Property Local Law is consistent with this initiative.

OFFICER COMMENT

The proposed Shire Property Local Law was expanded from Reserves and Foreshores to cover all Shire property for a variety of reasons. It is now consistent with the model local law, and also provides for the ability to regulate a broader range of activities on Shire property.

The new local law increases infringement and prosecution penalties for damage, injury or interference with vegetation and removal, injury or killing of indigenous animals. The new local law also provides for the ability of the Shire to either issue a notice to a person to reinstate vegetation or alternatively to complete the works and recover the costs of doing so as a debt due.

The proposed Shire Property Local Law also allows the Council a greater degree of flexibility in determining matters that it wishes the local law to cover. The local law lists a number of things which can either be prohibited or pursued on local

government property. Once the law comes into effect, the Council may, via the procedure set out in clause 2.2 of the local law, determine various things it wishes to prohibit or allow to be pursued provided they come within the scope of the matters listed in clause 2.7 and 2.8. To cover the period between the local law coming into effect and the Council determining those matters, the local law has a list of "deemed determinations" in Schedule 2.

There are also provisions relating to the requirement to obtain a permit before undertaking certain activities on local government property, general behaviour on local government property, refusal of entry and removal of persons from local government property, entry to swimming pools, patrolling beaches, entry to toilet blocks and change rooms, and behaviour on golf courses.

The model "Local Government Property Local Law" was used as a template for the drafting of the Shire Property Local Law and which has been the subject of a National Competition Policy public benefit test and accordingly does not need to be reviewed in accordance with the *National Competition Policy Guidelines Local Law Review Guidelines*.

The Council at this stage is simply considering whether to place the local law for advertising and retains the ability to reconsider any aspects of the local law before finally making the local law. However, any significant amendments would need to be re-advertised.

The Shire Property Local Law will strengthen the penalties available to the Shire in relation to illegal activities on Shire Property, including vegetation damage, as well as regulate a broad range of activities on Shire Property.

TIMELINE/S FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

Within 2 weeks of the Council decision the Shire Property Local Law will be advertised for public comment.

VOTING REQUIREMENT

Simple Majority.

OFFICER RECOMMENDATION

1. That the Council commences the law-making process, for the Shire of Busselton Local Government Property Local Law 2009, the purpose and effect of the local law being as follows:

Purpose: To regulate the care, control and management of all property of the local government except thoroughfares.

Effect: To control the use of local government property. Some activities are permitted only under a permit or under a determination and some activities are restricted or prohibited. Offences are created for inappropriate behaviour in or on local government property.

2. That the Council authorise the CEO to carry out the law making procedure under section 3.12(3) of the *Local Government Act 1995* by following the procedures set out in sequence in the Act; by -
 - (a) giving Statewide public notice and local notice of the proposed local law; and
 - (b) giving a copy of the proposed local law and public notice to the Minister for Local Government.
3. That the CEO, after close of the public consultation period, submit to the Council for consideration a report on any submissions received on the proposed local law to enable the Council to consider the submissions made and to determine whether to make the local law in accordance with section 3.12(4).

17. CHIEF EXECUTIVE OFFICER'S REPORT

Nil

18. MOTIONS of which notice has been given**18.1 DRAFT SUSTAINABILITY APPROACH**

NoM NO: 08/09: 26
FILE NO: MAN2

Councillor Rob Underdown has given notice of his intention to move the following motion at the Council Meeting on 22 April 2009:

MOTION

That the 09/10 Shire Corporate Plan include an expanded requirement to deliver a sustainability assessment framework for the Shire to detail sufficient research to occur in 2009/10 to inform the next review of the shire's strategic plan as scheduled for late 2010. This research shall assess all areas of the Shire's current service delivery against established sustainability criteria and provide cost/benefit outcomes of potential changes that are identified as implementation ready. The rationale for the criteria selected and initial outcomes shall be reported to the Council in December 2009 with a 12 month assessment report provided in October 2010, or earlier if required to meet the timeframe for the 2010 review of the strategic plan.

The research shall be cognisant of but not limited to the local government context as impacted by:

- * The draft Carbon Pollution Reduction Scheme (Australia's primary policy tool to drive reductions in emissions),*
- * The concept of carbon footprint and aims of pursuing carbon neutrality,*

BACKGROUND

Local Government in WA as an industry has been through an assessment of sustainability. This has necessitated a suite of responding actions. Human population and its effects on the planet have also undergone recent scrutiny in terms of the sustainability of this occupancy (and practices). The continued reliance on fossil fuels, water intensive activities, rainforest reduction, harmful emissions etc. has necessitated a response from amongst others, the scientific community. It asserts the climate is changing due in significant degree to unsustainable practices, some very deeply embedded in modern society. Politically, there has been a growing recognition that grass roots attitudes must change for the situation to be addressed. Governments have begun discussing and implementing legislative measures to 'encourage' appropriate responses. Every entity will be affected by the outcomes and some would argue bodies such as local government should be taking a lead role in such a paradigm shift.

The Local Government Act requires that a local government provides good government of persons in its district and that a liberal approach is to be taken in this scope. As such, the Shire of Busselton should commence considerations as to how optimal local government might a), ensure its own sustainability, particularly as it exists in perpetuity and b), contribute to the wider district, industry, state and national response. Given that the Council of the shire oversees the allocation of resources and determines the local government's policies, it is timely the Council requires researched commenced that will inform future policy setting and hence organisational responses.

Shire resources, particularly those relating to significant or strategic level issues are identified, prioritised and directed through the organisation's corporate planning which occurs each year. This is expected to occur in March 09 to enable the plan's content to be submitted for budgeting (ie, resourcing) and thus the timing of this Notice of Motion.

STAFF COMMENT

1. Chief Executive Officer

A most worthwhile (and necessary) pursuit. As such and if the Council resolves, it will need to be considered within the current corporate planning framework for its ability to be resourced adequately.

2. Lifestyle Development Directorate

This NOM can be seen as an expansion and provision of further direction to the current Draft Corporate plan project "3.1.1.1 – Develop Sustainability Assessment Framework". This is supported by a recent preliminary assessment of risks for the Shire associated with Climate Change which identified the following:

Direct Impact of the proposed Emissions Trading Scheme (ETS) associated with greenhouse gas emissions from our waste disposal sites; Rated as a high risk.

Indirect Impact of the proposed ETS on energy and materials costs that are likely to result and the flow on effect to the Shire operations; Rated as high risk.

Direct consequences of climate change and sea level rise being coastal erosion and inundation, increased storm events and severity, impact on economy/agriculture and changed fire risk due to ongoing reduced rainfall; Rated as Extreme Risk.

To undertake the necessary work associated with this project and to meet the suggested reporting timeframes will however require a reduction in activities in other related areas unless additional resources are provided to undertake this work. The lead for this project would be within the Strategic

Planning and Sustainability business unit and this would impact on the projects identified below. It is however emphasised that such a project will have resource implications across a number of business units in the organisation, although the extent to which this work would be required in any event due to the introduction of an ETS scheme is not yet clear. It is also noted that recent community surveys have indicated an expectation of the community that further action is taken in respect to environmental issues by the Shire.

3.2.3.1 Assist in development of Wetland Interpretive Centre'

4.2.1.1 Develop an agreement with state/federal agencies on habitat protection'

2.4.1.7 'Develop and maintain currency of Local Planning Policy Framework'

This project would also link in with the Corporate Plan Action 2.4.1.2 'Develop Local Planning Strategy' as a number of related issues are being assessed as part of the development of the Local Environment Planning Strategy.

As the likelihood of an ETS scheme and the lead time until commencement reduces, and further information/certainty becomes available on the direct effects of climate change this shift in focus from the above projects to the allocation of increased resources to the development of a sustainability framework for all aspects of the Shire's operations is considered warranted.

18.2 POLICY 218/2 - INVESTMENT MARCH 2008

NoM NO: 08/09: 27
FILE NO: BNK3

Councillor David Reid has given notice of his intention to move the following motion at the Council Meeting on 22 April 2009:

MOTION

That the Council restructure its Policy 218/2 Investment March 2008 (Part of Policy 1.4 and 1.8.1) to remove all references to Diversified Funds (non-credit-rates) and that future investments be restricted to fixed interest rate, capital guaranteed term deposits in (a minimum) AA rated institutions.

REASON

As the world financial crisis spreads, the Council's financial safeguards need to be reappraised. The motion is in accordance with the Shire Policy manual 1.11 (ii).

STAFF COMMENT (Systems and Information Directorate)**BACKGROUND**

Prior to 2007, the Council's Investment Policy had last been reviewed in 1999, at approximately the same time that the Shire chose to commence diversifying its investment portfolio (i.e. investing in Managed Funds). It was also at about this time that the Shire contracted Grove Financial Services (Grove) to commence providing the Shire with ongoing investment advice.

In 2007, a review of the existing Investment Policy was undertaken. Subsequent to that review, other matters have also required consideration by the Council. A synopsis of the more recent occasions on which matters pertaining to the Council's Investment Policy have been before the Council are summarised as follows:

28 February 2007

At this time, Council's consideration was sought to revoke the existing Investment Policy in favour of a new Policy document. The revised Policy was compiled with the assistance of the Shires appointed Investment Advisory firm (Grove), and in consideration of the NSW Local Government Investment Best Practice Guide and also a similar guide produced by the South Australian Local Government Financial Management Group.

The key differences between the existing and revised policies were:

- * The revised policy determined that all investment decisions were to be based upon an approved investment matrix, with set limits established based on a number of factors including investment risk, expected returns, investment term, investment size and the nature of the investment.

- * The revised policy specifically widened the permitted investment types and risk profiles, whilst establishing clear guidelines to determine the amount and term of any investment.

At that meeting, the Council resolved (C0702/040) that the revised Investment Policy be adopted.

12 March 2008

In the knowledge that world investment markets were in decline (albeit the extent of this could not have been foreseen at the time) and that certain investments were performing below expectations, the Council was requested to consider an amendment to the currently adopted Investment Policy at this time.

As had been identified by staff as a result of continued and diligent monitoring of financial markets, it was viewed that the transfer of monies from managed funds to simple fixed rate bank term deposits was a viable and prudent option, pending a return to market stability. Unfortunately, the investment limits as set out in the prevailing Investment Policy limited the value of funds that could be placed in to term deposits. As such, the Council was requested to amend a clause in the current Investment Policy that essentially excluded short term bank interest bearing deposits (less than 6 month in duration) from the investment portfolio mix restrictions, albeit the approved 'credit rating' requirements were still enforceable.

At that meeting, the Council resolved (C0803/085) that the Investment Policy be amended to incorporate the proposed amendment.

10 December 2008

Resulting from the establishment of the Federal Government's Guarantee Scheme (the 'Scheme') in mid November 2008, a report was presented to the Council that; outlined the Scheme, provided an overview on the affect on the Shire's investment earnings should the Deposit Guarantee be accepted, and recommended that the Council choose not to participate in the Scheme (albeit the Chief Executive Officer be encouraged to utilise discretion in having eligible deposits guaranteed where the rate of return is competitive with similar non-guaranteed deposits).

At that meeting, the Council resolved (C0812/382) that it would not specifically participate in the Scheme, but also resolved that the Chief Executive Officer be encouraged to utilise discretion in having eligible deposits guaranteed where the rate of return is competitive with similar non-guaranteed deposits.

CLARIFICATION ON NOTICE OF MOTION INTENT

Unfortunately, the Notice of Motion as proposed may require further clarification in respect of two matters. The Motion states that all references to Diversified Funds (non credit rated) be removed and that future investments be restricted to fixed rate capital guaranteed deposits.

Firstly, in terms of the Investment Policy (clause 1.4), managed investments include not only diversified funds, but also cash funds and cash plus/ enhanced funds. As these funds are not subject to any capital guarantee (including the Federal Government Deposit Guarantee), nor do they attract a fixed rate of interest, clarification is required as to whether these additional managed investments are also proposed to be excluded from the Investment Policy.

Secondly, clarification is also required as to the intent of the Motion in respect of the term 'capital guaranteed', as it is not clear as to whether this is referring to actual capital guaranteed investments, or full utilisation (via the payment of a deposit fee) of the Federal Government's Deposit Guarantee Scheme, whilst still in existence.

Whilst there are a number of investments that may provide a capital guarantee (exclusive from the Deposit Guarantee Scheme), these are generally limited to specific Government issued instruments. As has been recently advised by the ANZ's Associate Director, Equity & Wealth Distribution, Global Markets; the capital guarantee generally only applies at maturity of the deposit (which may be a number of years from deposit date), and if funds were required prior to maturity, then the Shire would be required to accept the 'market price' at that time, that may be considerably less than the fund value. Cognisant of the above, it would be recommended that the Investment Policy not be amended should this be the intent.

Conversely, if the intent of the Motion is referring to the Federal Government Deposit Guarantee Scheme, then this could be accommodated. However, the following would need to be noted:

- * Any Council decision to proceed in this manner would be contrary to the Council's previous resolution (C0812/382) in respect of this matter
- * The deposit fee payable by the Shire would be may be significant in comparison to the rate of return presently being offered. For example, the ANZ Bank (AA rated) is presently offering 3.3% on fixed term deposits, and if all funds were to be guaranteed (under the Scheme), then the fee payable would equate to 0.7% of the deposit amount (essentially reducing the effective interest rate to only 2.6% - a reduction of 20%)
- * Cognisant of the above, the Council would be required to identify additional funding sources, or reduce existing/ planned projects or services to offset the reduction in interest revenue
- * As managed funds are not able to be guaranteed under the Scheme, then these funds would need to be closed (excepting the BlackRock fund that is presently not accessible), and cognisant of the current economic climate, the Shire would essentially be selling out at the bottom end of the market. Notwithstanding this, several managed funds, and in particular the NSW Local Government Financial Services Fixed Out-performance Fund, are presently returning well above term deposit rates

FINANCIAL IMPLICATIONS

In addition to any financial implications as mentioned above, it is also noted that the Motion is seeking that all future investments be made only with institutions with a credit rating of AA or above. Unfortunately, if adopted, this would result in further adverse financial implications for the Shire.

In reference to term deposit holdings only (as at 28 February 2009), the Shire had 15 individual deposits totalling \$15.8M. Of these, 9 were held with institutions with a credit rating of AA (totalling \$9.8M), with the remainder held with institutions with a credit rating of BBB (totalling \$6.0M). The average interest rate payable on the AA deposits was 4.60% as compared with 5.35% on the BBB rated deposits. For comparative purposes, and based on the term deposit holding of \$15.8M as at 28 February 2009, this differential would equate to approximately \$118K per annum.

It should also be noted that, in respect of the BBB rated term deposits as at 28 February 2009, \$4.0M of the \$6.0M was automatically guaranteed by the Federal Government under the Deposit Guarantee Scheme. The reason that the remaining \$2.0M was not guaranteed was due to the fact that \$3.0M was held with the Bank of Queensland (of which only the first \$1.0M was guaranteed). Whilst the Bank of Queensland was offering competitive rates, the Shire could have deposited \$2.0M of the \$3.0M held with the Bank of Queensland in other BBB rates funds (albeit more than likely at a lower rate), but in the knowledge that these funds were all guaranteed under the Scheme. It should be noted that this \$2.0M has subsequently withdrawn to fund ongoing cash-flow requirements.

As a consequence of the above, it is considered that the Motion's proposal of restricting investments to term deposits with a credit rating of AA or above is not in the best financial interests of the Shire, as with sufficient diversification, all BBB term deposits can be structured to comply with the Scheme's Guarantee threshold of \$1.0M, albeit interest returns may be slightly compromised in some instances.

OFFICER COMMENT

It is considered that the Shire of Busselton's current Investment Policy is both robust and conservative. Additionally and as previously mentioned, in its compilation, the Policy was modelled on the best practice examples available from NSW and SA. Furthermore, the Policy specifically excludes the types of investments through which other local government authorities (in both WA and interstate) have suffered significant losses.

Whilst it is acknowledged that with hindsight, a different matrix of investments held over the past 12 months could have potentially resulted in a greater return, it must also be noted that the current financial market is suffering from pressures not experienced since the Great Depression of the 1920's. In this market however, investments made in accordance with the current Investment Policy returned approximately \$1.6M in 2007/08 (or 97% of the annual budget estimate). Furthermore, whilst it is anticipated that less than 50% of the 2008/09

annual budget estimate will be achieved, it must also be noted that the official cash rate has fallen by over 55% since the commencement of the current financial year.

The intent of a proper Investment Policy should be to manage investments for the longer term, as opposed to the short term. Furthermore, it should not be reactive to prevailing conditions, but sufficiently flexible to enable prudent investment decisions to be made as and when opportunities arise and financial markets permit (clearly within the constraints of the Policy).

As an example of the above, at the commencement of the 2007/08 financial year, the Shire's invested funds amounted to approximately \$28.0M, with all but \$0.6M being held in managed funds. As at the end of February 2009, total investments amounted to approximately \$31.1M, with over \$18.5M (or approximately 60% of the total) held in bank term deposits and 'on call' bank accounts. Apart from an amendment to the Policy to enable additional funds to be channelled to term deposits, the portfolio mix was able to be significantly altered, whilst remaining compliant with the Investment Policy.

Finally, it is important to highlight that the lower return on the Shire's investments during the current financial year (due to unprecedented economic conditions) must be weighed against the excellent investment performance in recent years that the Shire and its ratepayers have benefited from.

As has been discussed above, it is considered that the proposed Notice of Motion would be detrimental to the Shire's ongoing financial performance; from an investment earnings perspective. Under direction from the Chief Executive Officer, highly capable staff from within the Shire's Finance area continue to maintain the highest levels of vigilance and prudence in respect of the Shire's funds available for investment, with assistance and guidance provided by the Shire's appointed Investment Advisory Firm as and when required. Whilst the overall intent of the Notice of Motion is certainly acknowledged, staff have already made significant changes to the Shire's investment portfolio mix as a result of the current economic conditions, within the constraints of the existing Policy.

In summary, it is considered that further restrictions on the Investment Policy as proposed in the Notice of Motion are neither required nor warranted at this time. However, should the Council be of the majority view that the Notice of Motion be viewed favourably, then it may be appropriate that prior to making a formal decision, that a representative of the Shire's Investment Advisory Firm be invited to address the Council to further discuss this proposal.

19. **CONFIDENTIAL REPORTS**

20. **NOTICES OF MOTION** proposed for consideration at a future Meeting

21. **QUESTIONS FROM MEMBERS WITHOUT NOTICE**

22. **NEXT MEETING**

Wednesday, 13 May 2009, commencing at 5.30 p.m.

23. **CLOSURE**

