

PAXON

CITY OF BAYSWATER

Financial Sustainability Review

Final | February 2023

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BACKGROUND AND SCOPE OF REVIEW

Paxon Group (Paxon) conducted a review of Financial Sustainability for the City of Bayswater (City) in 2020. The Report delivered by Paxon focused on identifying gaps within the City, with a purpose to safeguard long term financial sustainability. The key areas that were addressed are as follows:

1. Limitations in revenue growth
2. Shifting responsibility for social and infrastructure programs from Federal and State Government to the City
3. Inadequate long-term financial planning, and
4. Under resourced financial reporting function.

The Report was presented to the Audit and Risk Management Committee (Committee) in June 2020. The findings in the Report were added to the Audit Log for monitoring the implementation of management recommendation, and the actions arising from the review were used to report the City's status to the Committee.

In June 2022, the City engaged Paxon to perform a review of Financial Sustainability, but with a slightly different scope of work. The fieldwork was performed from late August to late October 2022, with detailed analysis of expenditure, revenue and budget processes over the 5-year period to 30 June 2021.

The key outcomes of this engagement include, but are not limited to:

- Determination of the causes of the predicted deficit position
- Recommendations of potential solutions for Council to consider, with a view to achieving a balanced budget in the short term, and
- Review the recommendations presented from the Financial Sustainability Report (dated June 2020) and to determine if any have been implemented or not and reasons why.

Paxon's work in delivering this Review included:

- Comparison of budget processes to the following to assess compliance and good practice:
 - Local Government Act
 - Local Government (Financial Management) Regulations
 - WALGA Accounting Manual
 - Integrated Planning & Reporting Framework (IPRF)
 - Strategic Budget Policy
- Follow-up of the 2020 Financial Sustainability Report recommendations
- A review of documentation supporting the budget processes for the 5 years including, workshops, presentations and actions arising from them
- Allocation of administrative overheads
- The IPRF documents and supporting strategies
- Review of financial information including:
 - Analysis of budgets to actual and long term financial plan
 - Carried forward amounts
 - Interim budgets
 - Annual reports
 - Identification of under/overspend related to services and projects
- Project management processes and their link to finance
- Grant processes and their link to finance, and
- Investment processes.

EXECUTIVE SUMMARY

In summary, our review has identified several areas that have impacted the financial sustainability of the City. The performance of these areas could be improved which would collectively enhance the financial management and sustainability of the City. This along with decision making at all levels of the City being aligned with an updated integrated planning and reporting framework (IPRF) should result in improvement.

Our work has identified that many of the IPRF related documents and particularly the Long Term Financial Plan (LTFP) require update. The LTFP has not been updated since 2017. This document is key in guiding financial planning decisions within the City, as it provides a guide to the short, medium and longer term effects of financial decision making on the City's resources, financial sustainability and the achievement of strategic objectives, with which the LTFP should be aligned. Without this document or maintaining its relevance through regular update, decisions can only be made with a limited short term outlook as the information to support effective longer term decision making is not in place.

Our review of budget processes has identified that in the earlier years within scope the process is not fully documented which makes it hard to follow and understand the basis for decision making. This is exacerbated by changes in key financial positions since then. There is also limited linkage of budget information used for decision making to IPRF documents. This makes it difficult for decision makers to assess alignment with strategic objectives or the relative urgency of proposed items such as projects when prioritising items during any period.

We also noted that the degree of financial information provided for projects at budget approval stage is limited and that there is no requirement for Finance to review the information prior to its inclusion within the list of projects proposed for budget. This increases the risk of inaccuracy of financial information, particularly in relation to areas such as overheads, depreciation and whole of life costs, which makes forecasting less accurate and expenditure overruns more likely. This can also be compounded by delayed delivery of projects, which we have identified. This exposes them to inflationary risk and the potential for scope creep which also runs the risk of increased cost and increased pressure on the City's reserves to finance the project. These delays could be due to a lack of understanding of the required timeframe during project planning or over optimism in the lead time required to get project works underway. Either way this leads to carry forwards and prioritising delayed projects over others which may have been more feasible for delivery in that budget.

We have also noted large carry forward balances within budgets arising from delayed projects. This leads to increased delivery requirements the following year and an on-going issue in carry forward balances and cost increase.

There are no documented processes for identifying and accessing funding grants related to strategic objectives of the City. The approach should be similar to Projects to ensure they are fully financially assessed by operations and finance at an early stage for whole of life costs, including after the grant funding stage has expired, for after this stage the cost of service provision may be borne by the City.

We are not concluding that decisions on budget proposals are incorrect or not aligned with strategy but there is insufficient information to show alignment with strategy and as documented above, IPRF documentation requires update. This results in decision makers not being fully informed as to the wider and future context of their decisions.

In relation to implementation of the Paxon 2020 report recommendations 15 out of 29 have been implemented and reported to Committee. Many of these completed recommendations should continue to be considered by the City going forward as they may become an appropriate option for the City at a later time. The remaining open recommendations relate to the update of IPRF documents and policy.

A summary of our recommendations is summarised below and detailed within sections 1-6 of this report:

Reference	Recommendation
Integrated Planning & Reporting Framework	
1.1	The next review of the SCP should include more detailed financial information as recommended by the IPFRG.
1.2	The next review of the CBP should include more detailed financial information as recommended by the IPFRG.
1.3	The LTFP should be updated and then annually reviewed and amended to ensure it remains relevant and is a good basis for resource planning decisions.
1.4.1	Informing strategies to the IPRF should be reviewed and updated to include specific priorities and their estimated cost. They should also be linked to the LTFP and other components of the IPRF.
1.4.2	As raised in Paxon's 2020 report Asset Management Plans should be put in place.
Budgeting and Variance	
2.2.1	A clear trail of the budgeting process should be maintained and formally recorded to evidence decision making.
2.2.2	Improved linkage between budget documents and IPRF documents to facilitate decision making which is aligned with strategic objectives and available resource.
2.4	The LTFP once updated should be used to assist in modelling during budget processes to provide a clear view of financial sustainability and the impact of decisions on future periods.
2.5	The capital works strategic funding policy should be maintained and potentially restrictions on its usage considered so that aims of the reserve can be achieved.
Project Management	
3.1	The project approval thresholds should be documented and going forward projects signed off in accordance before including within budget deliberations.
3.2	All Preliminary Project Proposal Templates and underlying financial information should be reviewed by Finance prior to submission to Council for budgetary consideration.
3.3	All proposed projects should have a clear reference to strategic objectives and/or asset management strategy.
3.4	Budget should not be allocated to projects unless the timing of the planned activity is likely to proceed. This should take into account activity such as stakeholder consultation which can extend timelines.
Grants	
4.1	Grant funding/acceptance processes should be documented and include identifying, assessing, applying and delegated authorisation. This should be similar in nature to the project management framework and include documented consideration of strategic alignment, a whole of life cost assessment, risk assessment and relevant timeframes.
4.2	Current services should be assessed and consideration given to the continued provision of service if they are non-mandatory.
Investments	
5.1	Actions arising from the Land Acquisition and Disposal Strategy should be given timeframes for monitoring against and the outputs aligned with the LTFP.
2020 Paxon Report	
6.1	Consideration should continue to be given to the closed actions from the 2020 report that are strategic in nature.

INHERENT LIMITATIONS

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted our review was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The review conclusion and any opinion expressed in this report have been formed on the above basis.

1. INTEGRATED PLANNING AND REPORTING FRAMEWORK

All local governments are required to produce a plan for the future under S5.56 (1) of the Local Government Act 1995.

5.56. Planning for the future

(1) A local government is to plan for the future of the district.

(2) A local government is to ensure that plans made under subsection (1) are in accordance with any regulations made about planning for the future of the district.

The Local Government (Administration) Regulations 1996, Division 3 provides further information of the minimum requirements, which includes the development of a Strategic Community Plan (SCP) and a Corporate Business Plan (CBP).

A successful integrated planning and reporting process will deliver a:

- SCP that clearly links the community's aspirations with the council's vision and long term strategy
- CBP that integrates resourcing plans and specific council plans with the strategic community plan, and
- Clearly stated vision for the future viability of the local area.

The Integrated Planning and Reporting Framework (IPRF):

- Recognises that planning for a local government is holistic in nature and driven by the community
- Builds organisational and resource capability to meet community need
- Optimises success by understanding the integration and interdependencies between the components, and
- Emphasises performance monitoring so that local governments can adapt and respond to changes in community needs and the business environment.

The Integrated Planning and Reporting Guidelines provide a process that aims to:

- Ensure community input is explicitly and reliably generated
- Provide the capacity for location-specific planning where appropriate
- Update long term objectives with these inputs
- Identify the resourcing required to deliver long-term objectives, and
- Clearly convey long term financial implications and strategies.

The status of the City's IPRF related documents and supporting strategies is set out below:

IPRF Document	Period Covered
Strategic Community Plan	2021 - 2031
Corporate Business Plan	2017 - 2027
Long Term Financial Plan	2017 - 2027
Workforce Plan	2017 - 2027
Asset Management Strategy	2021 - 2031

1.1 Strategic Community Plan (SCP)

Across the period covered by Paxon’s review there have been three SCP in place. These have covered 2016-26, 2017-27 and more recently 2021-31.

The 2016-26 version of the SCP included key points of the long term financial plan, including objectives and underlying financial assumptions. There is little to no financial information contained within the two later versions of the SCP.

The Integrated Planning and Reporting Framework and Guidelines (IPFRG) suggests a model content which is discretionary, but includes section 6 on Resourcing Implications, such as the 10 year financial profile and asset and workforce requirements. This should be a consideration within the SCP to a degree in order to provide a clear basis for the community’s expectations and linkage to the other IPRF documents.

Recommendation	Management Comment
<p>1.1 The next review of the SCP should include more detailed financial information as recommended by the IPFRG.</p>	<p>The Strategic Community Plan was last adopted by Council in 2021, and is not due for a major review until 2025. Through the LG Reform Program currently being implemented by the State, it is likely that Council’s will only be required to have one ‘Plan’ in the future. This Plan will combine the elements of the Strategic Community Plan with the Corporate Business Plan.</p> <p>It is generally the Corporate Business Plan that contains more detailed financial information (as this needs to undergo annual review), or the Long-Term Financial Plan (which is also annually reviewed).</p> <p>Please see agreed action for the Corporate Business Plan.</p> <p>Agreed Action: The next review of the Strategic Community Plan is due in 2025. This recommendation will need to be reviewed following implementation of the Local Government Reforms.</p> <p>Manager Governance and OPD 31 December 2025</p>

1.2 Corporate Business Plan (CBP)

The CBP 2017-27 includes the LTFP and an assumption of rate increases over the duration of the CBP.

As recommended the CBP includes sections on the Workforce Plan and Asset Management Plans at a high level, as the intent of the CBP is to demonstrate how resources will be mobilised to deliver the SCP. However, given that all of these documents were last updated in 2017 this is now no longer relevant.

An update of the CBP was performed for 2019-23, but only provides a high level summary, with no financial content. Four years is the more typical duration of a CBP as advised by the IPRFG.

Recommendation	Management Comment
<p>1.2 The next review of the CBP should include more detailed financial information as recommended by the IPRFG.</p>	<p>The Corporate Business Plan for 2023/24 to 2027/28 is currently being prepared alongside the 10 year Long-Term Financial Plan and Annual Budget.</p> <p>The existing Workforce Plan is currently under review , and work on Asset Management Plans is currently underway.</p> <p>Informing Strategies and Plans will be considered as part of the development of the Corporate Business Plan, including workforce planning and asset management considerations.</p> <p>Workforce and Asset Management considerations are also considered in the Long-Term Financial Plan.</p> <p>These key IPRF documents will continue to be developed and improved over time.</p> <p>Agreed Action: Finalise the Long-Term Financial Plan for 2023-2033 Manager Financial Services 30 June 2023</p> <p>Agreed Action: Corporate Business Plan for 2023/24 to include the financial information recommenced by the Department through the IPRF, including the cost of services, projects and the capital works program. Manager Governance and OPD 30 June 2023</p>

1.3 Long Term Financial Plan (LTFP)

The LTFP covers the period from 2018-27 and was approved at the same time as the CBP 2017-27. It uses the 2016/17 budget as the base along with the assumption of a 4.9% rate increase in 2017/18 and 3.5% thereafter.

Investments were also noted to have been budgeted to provide a return of 2.6-2.85%, but it is likely that the actual return would have been well below this, further limiting income.

The LTFP was not updated and so does not take account of the effects of Covid, the changing economy or the amended activity of the City.

Recommendation	Management Comment
<p>1.3 The LTFP should be updated and then annually reviewed and amended to ensure it remains relevant to current economic conditions. It is then utilised a good basis for</p>	<p>The Long-Term Financial Plan is currently being developed, with a first draft due for presentation to Council in March 2023.</p> <p>This plan, once endorsed by the Council, will be reviewed annually at the commencement of the City’s annual business planning process.</p> <p>This process will be documented in a management practice, setting out the City’s commitment to integrated planning and reporting.</p>

Recommendation	Management Comment
<p>resource planning decisions.</p>	<p>Agreed Action: Annual review and update of the LTFP to be incorporated into annual business planning and budgeting work program.</p> <p>Manager Financial Services 30 June 2023</p> <p>Agreed Action: Annual review and update of LTFP to form part of the business planning and budgeting cycle. This process will be documented in an Integrated Planning and Reporting Management Practice.</p> <p>Manager Governance and OPD 30 June 2023</p>

1.4 Informing Strategies

An Asset Management Strategic Plan 2021/31 was adopted in May 2021. This is an overview document of asset management focussed on principles but does not contain key planned asset projects and is not specifically linked to the LTFP, though it does indicate that better integration between planning documents is envisaged.

The documentation of Asset Management Plans was raised in our 2020 review and are at varying stages of development.

The Workforce Plan covers the period 2017-27 and requires review and update.

Recommendation	Management Comment
<p>1.4.1 Informing strategies to the IPRF should be reviewed and updated to include specific priorities and their estimated cost. They should also be linked to the LTFP and other components of the IPRF.</p>	<p>Through the City's annual business planning process, actions arising from informing strategies and plans will be reviewed and prioritised by management.</p> <p>Those actions identified for completion within a business planning year, will then be included in the services plans or project plans for that year, fully costed and submitted to Council for approval through the Corporate Business Plan and Annual Budget.</p> <p>The City already has a number of Asset Management Plans in place. These are being considered as inputs to the review of the Long-Term Financial Plan.</p> <p>The Asset Management Plans will continue to be refined and improved over time.</p> <p>Agreed Action: Actions prioritised from informing strategies and plans are to be included in the IPRF and budgeting process. This process will be documented in a Management Practice.</p> <p>Manager Governance and OPD 30 June 2023</p>
<p>1.4.2 As raised in Paxon's 2020 report Asset Management Plans should be put in place.</p>	<p>Agreed Action: Finalise development of the City's Asset Management Plans</p> <p>Principal Asset and Mapping Services 30 September 2023</p>

1.5 Conclusion

Overall the City has in place or in the case of the Asset Management Plan's is putting in place the required component parts of the IPRF, however in some instances there is the clear need to update documents. It was also noted that in some cases the documents are generic and do not provide specific guidance or financial assumptions, particularly in relation to financial information which could then be used to monitor compliance or to act as a guideline in decision making.

This results in a looser structure within which to make budgeting decisions and less well informed and the increased possibility of short term decisions as there is a limited view of context without the relevant supporting and up to date information being available.

2. BUDGETING AND VARIANCES

2.1 Budgeting Process Compliance

The City has a Strategic Budget Policy in place which was adopted by Council in January 2020 and amended in June 2022. This documents the principles that should underpin budgeting processes, the scope of policy, new initiatives, funding strategies and funding priority. Paxon endorses the policy and its intent.

However, upon review of the budget processes implemented within the scope of this review it is not always clear how the principles within the policy are enacted. We believe they are highly likely to have been implemented through discussion but cannot be evidenced during this review as there is no supporting record to evidence this. This particularly relates to the linkage of areas of spend on services and projects to strategic objectives and documented decisions made in prioritising projects and new initiatives. This will be elaborated upon within sections 3 and 4 of this report.

We also reviewed budgeting processes against compliance requirements within the following:

- Local Government Act
- Local Government (Financial Management) Regulations
- Integrated Planning and Reporting Framework (IPRF) and Guidelines
- Integrated Planning and Reporting Advisory Standard
- Integrated Planning and Reporting Long Term Financial Plan Guidelines, and
- WALGA Accounting Manual, Section 4.

Overall, the budget compliance requirements are being met in terms of the Local Government Act and Regulation, but there are areas for improvement noted in relation to meeting the requirements of the IPRF and maintaining the currency and alignment of the relevant documents, which is detailed within Section 1.

2.2 Budgeting Processes

Paxon requested and obtained budget process documentation for each of the five years within the scope of review. This included:

- Workshop presentations, minutes and outcomes
- Draft budget details at various stages of each process
- Budget process timelines, and
- Committee and Special Council Meetings containing Annual or Interim Budget agenda items

The objective of this was to review processes to assess how aligned decision-making was with strategic documents and the levels of information available at each stage of budgeting to enable effective decision making.

The extent of documentation received differed greatly for the years in scope, in part due to changes in staff and potentially the existence and/or identification of records to document the processes and related budgeting decision making. Given this it is not possible to determine how significantly budget processes differed from year to year and which, if any, were more effective.

Overall it was noted that the information presented did not include direct references to strategic objectives or if they were referenced it was at a high level and did not document how closely new projects and assets were aligned to existing strategic objectives or planning documents and their priority, in order to inform decision making and how this would impact on the long term financial position of the City.

Within Councillor Workshop, Council and Committee Agenda it was noted that they contained comments that the reports were aligned with SCP, CBP and LTFP, but it was not clear how this was achieved as there is no clear documented linkage. This was particularly noted the further the budget period process gets from the last update of the referenced documents. This should not be construed as comment that they are not aligned, but more the fact that it is unclear how this is achieved and the impact it may have.

Recommendation	Management Comment
<p>2.2.1 A clear trail of the budgeting process should be maintained and formally recorded to evidence decision making.</p>	<p>The development of the budget is an iterative process between Council and the Administration.</p> <p>Major versions of the budget (operating and capital) are recorded throughout the annual process.</p> <p>Agreed Action: Summary notes and actions will be maintained from all workshops with Council and ELT to develop the budget.</p> <p>Versions of the budget will be retained.</p> <p>Manager Financial Services</p> <p>N/A - ongoing</p>
<p>2.2.2 Improved linkage between budget documents and IPRF documents to facilitate decision making which is aligned with strategic objectives and available resource.</p>	<p>The City has introduced a Council-led business planning process for 2023/24, which includes the identification of priorities from Council at the commencement of business planning.</p> <p>The City has a series of workshops scheduled with Council to commence the iterative budget process which links strategic objectives with available resourcing.</p> <p>Agreed Action: The City’s commitment to implementing an integrated planning process will be documented in a Management Practice.</p> <p>Manager Governance and OPD</p> <p>30 June 2023</p>

2.3 Cost and Budget Variances

A detailed breakdown of operational cost per activity was requested to identify significant variances at individual service and at the total operational cost level in comparison to budget.

	2016/17	2017/18	2018/19	2019/20	2020/21
Budget	59,477,792	65,763,232	84,783,468	85,711,366	90,936,868
Actual	79,504,450	81,048,021	83,077,260	82,535,814	88,978,543
Variance	20,026,658	15,284,789	-1,706,208	-3,175,552	-1,958,324

We noted that there were significant differences noted within the first 2 years at individual service and total levels. Management have informed us that this was due to depreciation not being included within the budgets within the finance system in 2016/17 and 2017/18. Depreciation was manually included within the statutory budget. However, it was not possible to effectively analyse the variances against the services. Depreciation has been included within the finance system since 2018/19.

The explanation provided by management for variances in the last 3 years related largely to carried forward amounts and the impact of COVID.

In the table below is a comparison of the LTFP, budget (as obtained from Finance) and actual audited balances for income against operational cost (excluding capital expenditure). It was noted that the budgeted bottom line is always higher than the other two measures which possibly suggests a degree of over optimism in budgeting. The trend of actual surplus being consistently lower than the budgeted amount reflects on the deficiency of the budget process as highlighted above. This bottom line includes the balance for capital and uncompleted work carry forwards. See page 13 for further analysis of carry forwards.

	2017/18			2018/19			2019/20		
	LTFP \$'000	Budget \$'000	Actual \$'000	LTFP \$'000	Budget \$'000	Actual \$'000	LTFP \$'000	Budget \$'000	Actual \$'000
Rates/Fees & Charges	83,706	88,120	83,415	85,811	86,334	84,543	89,533	90,739	89,613
Operational Cost	71,379	71,034	69,617	71,808	70,807	70,789	74,349	72,324	72,687
	12,327	17,085	13,797	14,002	15,527	13,573	15,184	18,415	16,926

2.4 Rate Increases

The LTFP was established based upon an assumption of a 4.9% increase in 2017/18 and then subsequent 3.5% annual increases. The planned increases were actioned in the first two years, but were then lower, particularly in 2020/21 due to Covid.

It was also noted that for the years 2015/16 and 2016/17 the increases were lower than planned.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
LTFP Assumed rates increase	4.5%	4.5%	4.9%	3.5%	3.5%	3.5%
Actual Rates increase	3.75%	3.25%	4.9%	3.5%	2.95%	0.72%
Difference	-0.75%	-1.25%	-	-	-0.55	-2.78%

If rates income is lower than planned within the LTFP, then expenditure must also reduce to match this or become unsustainable as the difference will have a compounding effect and implications of decisions in one year can have a long term effect in preceding years.

Recommendation	Management Comment
2.4 The LTFP once updated should be used to assist in modelling during budget processes to provide a clear view of financial sustainability and the impact of decisions on future periods.	The Long-Term Financial Plan will be annually reviewed to check assumptions and parameters with Council. Agreed Action: The City's commitment to implementing an integrated planning process, including the annual review of the Long-Term Financial Plan, will be documented in a Management Practice. Manager Governance and OPD 30 June 2023

2.5 Reserve Funding Strategy

During the 2016/17 budgeting process Council recognised that in addition to specific asset reserves there was the need for medium / long term asset funding, as the capital works program was being funded from reserves.

At the Community, Technical, Finance and Corporate Services Committee on 16 August 2017, and subsequently at Council the following was endorsed:

That Council:

1. Amends the Long-Term Financial Plan 2018-2019 - 2028-2029 to reference the following: That an allocation to the Reserve Funds be made using the following calculation: 2018-2019 Year 1 = 1% of the rates; 2019-2020 Year 2 = 1% of the rates plus 2018-2019 increase; 2020-2021 Year 3 = 1% of the rates plus 2018-2019 and 2019-2020 increases; 2021-2022 Year 4 = 1% of the rates plus 2018-2019, 2019-2020 and 2020-2021 increases; 2022-2023 Year 5 = 1% of the rates plus 2018-2019, 2019-2020, 2020-2021 and 2021-2022 increases; and 2023-2029 Year 6 and on 1% of the rates including increases from 2018-2019, 2019-2020, 2020-2021 and 2021-2022 increases.
2. Authorises any surpluses generated through efficiency and performance improvements to be transferred to reserves at the end of the financial year.

An existing reserve called Major Capital Works was utilised.

We agree that this was a prudent measure to take to assist with the financial sustainability of the City through internal funding of asset related requirements.

This was incorporated into the Strategic Budget Policy in 2020 and amended in 2022 to clarify the intent of the resolution and to provide flexibility to '1% of rates revenue to be transferred to the Major Capital Works Reserve Annually'.

Deposits were made but in general usage has exceeded deposits and in practice the desired outcome was not fully delivered. The trend of the Major Capital Works reserve as per Financial Statements, Cash and Cash Equivalents is as follows:

	2017/18	2018/19	2019/20	20/20/21*	2021/22*	2022/23*
Closing Balance	\$2,372,752	\$3,994,987	\$1,263,060	\$702,204	\$1,208,659	\$210,036

*Estimated Actual amounts taken from published Annual Budget.

We also noted that there were no restrictions included as to how and where the reserve could be used. In raising this point Paxon are not questioning the usage of the reserve, particularly in light of the financial effects of Covid on income and the related stimulus package, but it would appear that it has not been possible to achieve the desired benefits envisaged when the reserve was established so the initial driver remains.

Recommendation	Management Comment
2.5 The capital works strategic funding policy should be maintained and potentially restrictions on its usage considered so that aims of the reserve can be achieved.	The City currently has a cash-back reserve policy Agreed Action: As part of the annual business planning and budgeting process, usage of reserve funds to be considered and endorsed in line with the requirements of the Strategic Budget Policy and Cash-Backed Reserve Policy. Manager Financial Services On-going

The trend of all reserves as per the Financial Statements 'Reserves Cash Backed' can be seen below, with an initial increase or stability in the balance from 2014/15 through to 2019/20, before a large, budgeted decrease in 2021/21 and recent efforts by Council to be more financially sustainable.

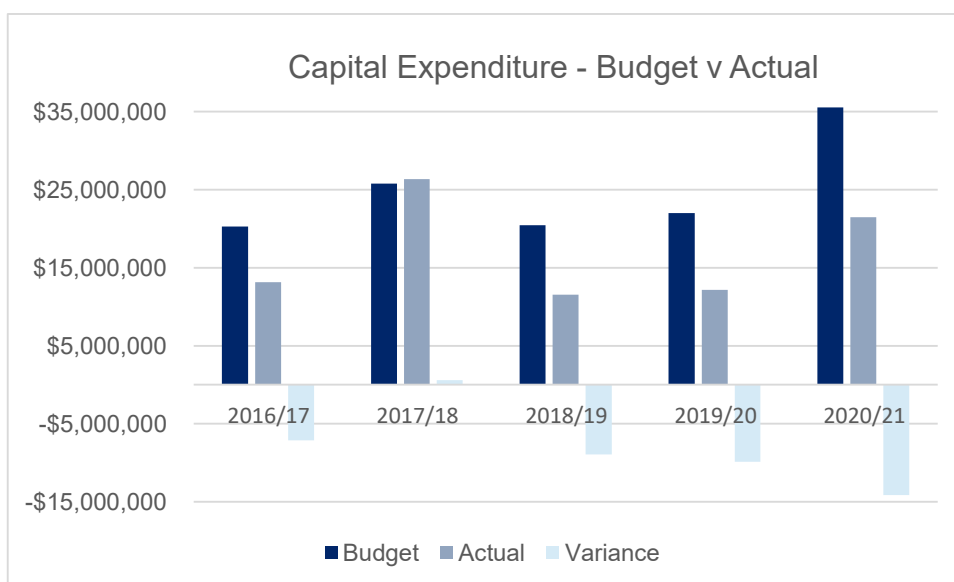
	2014/15 \$'000	2015/16 \$'000	2016/17 \$'000	2017/18 \$'000	2018/19 \$'000	2019/20 \$'000	2020/21 *	2021/22 *	2022/23 *
Closing Balance	\$40,934	\$42,200	\$44,417	\$41,134	\$43,082	\$46,017	\$31,640	\$34,311	\$42,435

*As per Annual Budget

3. PROJECT MANAGEMENT

In the table below the difference between the annual capital expenditure budgeted and the actual has generally seen an increase in the underspend variance over the period of review. For the past 3 years the variance has been over 40% of budgeted spend and on average it is 32%.

Although some of this may be due to efficiency from underspending on delivery, much will be due to delays in budgeted projects and carried forward amounts.



Unaudited budgeted carry forward amounts have shown the following trend as per the Special Council Minutes from each period:

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Carry Forward	\$3,390,000	\$4,230,000	\$4,617,256	\$4,719,778	\$8,105,359	\$15,344,013	\$11,638,505

This sets an expectation at Council and in the Community of project delivery, which cannot be delivered without either more resource due to the increased workload to progress more projects. It is also likely to increase the cost of projects due to inflation and the longer the overall period of planning and delivery the more likely other socioeconomic factors both positive and negative may impact upon the projects.

Project Management Process

The City has documented project management processes and templates in place which were updated in 2020. Below is a summary of the key points of the process that relate to the scope of this review.

Project Proposal

At the Project Initiation stage there is a Preliminary Project Proposal Template which includes a small section on Finance and also contains an 'other areas consulted' section. It requires approval from a project sponsor which, depending on the value and nature of the project, may be a Director, Executive Leadership Team or the CEO. We are unsure of the thresholds for approval as they don't appear to be documented. The budget information consists of a very high level consideration of initial and whole of life cost but Finance have no detailed input or review into this and there is no formal review and sign-off required from Finance of budgets at this stage. This level of information is used for proposing inclusion within budget consideration by Council.

There may be further underlying information for the projects proposed that resides outside of this document, but there is no requirement for any of this information to have been reviewed by Finance. Council see a summary list of projects, a brief description and method of funding from which to select projects.

More detailed financial information should be required and provided within the project proposal to promote good decision making. This would then be based upon costing that has been reviewed and signed-off by Finance e.g. whole of life cost, on-going maintenance and overhead may not be accurately assessed.

Finance are not seen as a business partner to the operational units of the City, hence are not consulted to obtain their expert inputs for establishing accurate budgets as early as possible in the planning process. Early accurate budgets will enhance the budget process, through having more accurate information on which to base decisions.

Review of the 19/20 Pat O'Hara Master Plan included consultation with 3 other teams, but not Finance. It was also noted that there is a field for referencing to the CBP, but this is not always completed and some projects/initiatives list the LTFP as the driver for the project, which shouldn't be the case as the LTFP should record the financial resource requirements allocated based upon the SCP, CBP, AMP and Workforce Plan, not direct the activity.

Project Planning

The Project Plan Template is used at this stage. This requires more detail on Finance such as depreciation, operating and staff costs and the initial funding source/budget to be documented within the template. However, again there is no required sign-off by Finance to approve this.

Project Implementation

This stage involves cost management and review. This will be better guided if the budget is more accurate at the outset as this will aid earlier identification of issues/variances and enable earlier management intervention.

There are also templates for Project Status and Closure.

Information was requested for the actual cost against budget for projects within the scope period. Analysis was performed of this information to highlight significant variances related to delayed delivery and cost over-runs or shortfalls in funding, the impacts and any link to causes within underlying processes.

It should be noted that the purpose of this review was not to determine whether the projects were appropriate priorities for the City to undertake, their relative success or to assess operationally implemented project management processes and no conclusion is reached in regard to this.

Maylands Waterland (Project P30800)

\$3 million was estimated as the budgeted cost within the Corporate Business Plan in 2017. This was referenced as being funded with a grant, but a loan has also been required of \$1,500,000 to finance the works, with around \$430,000 in a cash backed reserve. We do not have a current estimate to complete for the project.

	Budget	Actual Expenditure	Variance
2017/18	\$200,140	\$10,140	(\$189,860)
2018/19	\$1,500,000	\$0	(\$1,500,000)
2019/20	\$1,700,000	\$42,520	(\$1,657,480)
2020/21	\$2,650,000	\$873,283	(\$1,776,717)

Over time it appears that the cost of the project has increased given the budgeted amount increases year on year. This is potentially due to changes in the substance of the project, but also likely due to the delays in the timing of works. It also means that funds budgeted for this project, but not spent, can't be spent on other projects and results in greater carry forwards and increased delivery expectations on the City the following financial year.

Projects should not be budgeted for works unless there is greater certainty they can proceed on the anticipated timeframe. To enable this the City may wish to progress further through the project management planning process to have a better idea of cost and timeframe for delivery prior to allocating budgeted funds to deliver the project.

Peninsula Golf Course Irrigation (Project N33100)

As can be seen in the table below and similarly to the Maylands Waterland project, there has been annual budgeting of cost but very little expenditure, as the project could not be progressed. We understand the previous operator of the course had proposed to contribute to the replacement in conjunction with proposed upgrades to the course. These negotiations were protracted and ultimately the lease for the golf course was reassigned to a new operator.

This leads to costs being carried forward and increasing capital delivery workload in future periods and the knock-on effect of the deferral of projects leading to increased cost.

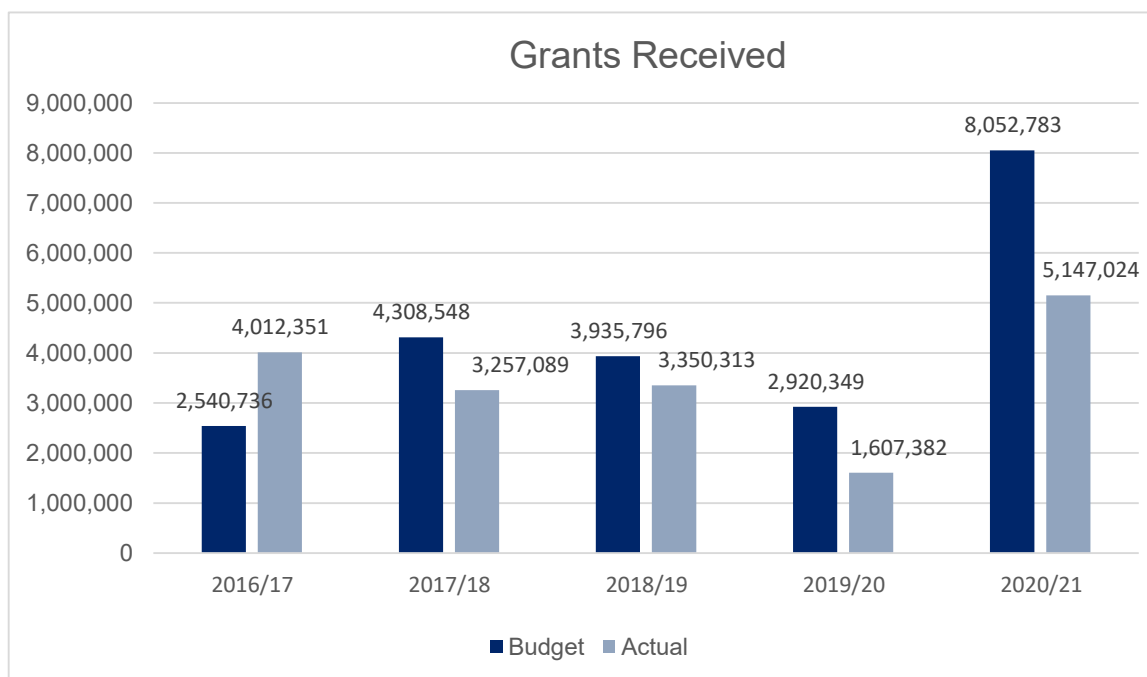
	Budget	Actual Expenditure	Variance
2016/17	\$1,100,000	\$41,602	(\$1,058,398)
2017/18	\$1,106,275	\$47,485	(\$1,058,790)
2018/19	\$1,058,790	\$6,557	(\$1,052,233)
2019/20	\$58,610	\$43,212	(\$15,398)

The upgrading of the reticulation is still required as it is reaching the end of its useful life and negotiations will commence with the new operator in relation to potential course upgrades and the replacement of the reticulation.

Recommendation	Management Comment
<p>3.1 The project approval thresholds should be documented and going forward projects signed off in accordance before including within budget deliberations.</p>	<p>The City considers that high level project plans should be prepared to support business cases where funding is sought for new capital projects or major upgrades.</p>
<p>3.2 All Preliminary Project Proposal Templates and underlying financial information should be reviewed by Finance prior to submission to Council for budgetary consideration.</p>	<p>It would be unreasonable to expect a project plan to be developed for all renewal projects, as an input into the business planning process. Project plans would be considered through the annual business planning process with Council and the Administration.</p>
<p>3.3 All proposed projects should have a clear reference to strategic objectives and/or asset management strategy.</p>	<p>This improvement could be included in the annual business planning process for 2024/25.</p>
<p>3.4 Budget should not be allocated to projects unless the timing of the planned activity is likely to proceed. This should take into account activity such as stakeholder consultation which can extend timelines.</p>	<p>Agreed Action: Include the requirement for high level project plans to support applications for funding for new capital projects and major upgrades in the annual business planning process for 2024/25.</p> <p>Manager Governance and OPD 30 June 2024</p>

4. GRANT APPLICATIONS

As can be seen from the table below, the level of grants varies each year, but is generally not aligned with budget, which is a consistent theme with the City. Although items of this nature cannot always be foreseen and the timing of receipt of funds may change, a more pro-active approach may result in greater predictability and help ensure alignment with strategy.



Grant funding should be considered in the same way as a new service or project management would be as receiving a grant or other external funding can result in short term funding of resource which after the period would require operational funding by the City or on-going maintenance costs e.g. CCTV or skate park.

There does not appear to be any guidance related to the City's processes for identifying, assessing and applying for Grants and how this should be administered.

The City should establish a process for identifying, assessing and reviewing grant opportunities to ensure they are aligned with strategy and the full medium to long term implications are understood, prior to application. This should include assessment along the same lines as recommended for planning for projects including the assessment of whole of life costs and their funding and strategic alignment. This is because often grant funding will only cover the initial cost of an asset or service, or the provision of operational cost for a set period. This could leave the City to pick up the on-going cost of operating and maintaining assets or services.

Although funding offered to the City in the form of election commitments may be made with tight expenditure requirements and at short notice and the City is keen to accept the funding, it is important that they are still thoroughly assessed to ensure that any change in strategy or redirection of funding is sustainable and to understand the knock on effect for other projects or service that may be delayed or cancelled.

Morley Sports and Recreation (Project 80613)

East Perth District Basketball Association in conjunction with Perth Bayswater Rugby Club and 1st Morley Scouts initiated this project. This was supported by a 2017 state election commitment of \$75,000 to develop a masterplan culminating in a \$2 million state government grant. The project was estimated at \$5.5m in the 2020/21 budget.

Cost was then revised up to \$6.5 million by September 2020 as presented to Executive. By January 2022 the cost to completion is estimated at \$6.8 million as per the Project Control Group Report produced by

Savills, an increase of 23% all to be borne by the City. In addition, a Council resolution for Morley Sport and Recreation Centre – Basketball Court Extension, resolved by Council at the Special Council Meeting on 30 June 2021 with a transfer of \$2.9 million from reserves from the Les Hansman Centre Development Reserve be used to fund the project. We understand that the Les Hansman Centre will still be developed, though it has not been confirmed the extent, timing and cost of this.

Although this may be a worthy project and benefits for the community received, it does not appear that this project was specifically within strategy or consequently the LTFP and has been largely in response to funding being offered, rather than a project which the City had identified and prioritised.

Where funding is offered of this nature, as per our recommendation above, the full impact of the project should be costed and approved prior to accepting and if necessary additional funding should be sought.

Consideration should also be given and evidence documented that section 3.18 of the Local Government Act has been explicitly considered:

- (1) *A local government is to administer its local laws and may do all other things that are necessary or convenient to be done for, or in connection with, performing its functions under this Act.*
- (2) *In performing its executive functions, a local government may provide services and facilities.*
- (3) *A local government is to satisfy itself that services and facilities that it provides —*
 - (a) *integrate and coordinate, so far as practicable, with any provided by the Commonwealth, the State or any public body; and*
 - (b) *do not duplicate, to an extent that the local government considers inappropriate, services or facilities provided by the Commonwealth, the State or any other body or person, whether public or private; and*
 - (c) *are managed efficiently and effectively.*

Early engagement with politicians and stakeholders, including Finance could manage expectations better and proactively generate funding for existing strategic priorities.

Recommendation	Management Comment
<p>4.1 Grant funding/acceptance processes should be documented and include identifying, assessing, applying and delegated authorisation. This should be similar in nature to the project management framework and include documented consideration of strategic alignment, section 3.18 of the Act, a whole of life cost assessment, risk assessment and relevant timeframes.</p>	<p>The City’s current approach to grant management is decentralised. The City may benefit from a centralised ‘approach’ to the management of grants.</p> <p>The development of a Grant Management and Funding Framework is a substantial piece of work and will require appropriate resourcing and expertise to develop.</p> <p>Services are reviewed annually as part of the business planning process. Services linked with grant funding can also be reviewed at this time. It should not be completed as a separate exercise.</p> <p>A ‘deep dive’ service review could be undertaken for grant funding and management. This would need to be appropriately resourced, the findings of the review could be considered as an input by Council for the 2024/25 annual business planning process.</p> <p>Agreed Action: Review the grant management service approach and develop a Grant Management and Funding Framework for approval by ELT.</p>
<p>4.2 Consideration should be given to reviewing existing services to assess if they are mandatory or not and if the City wishes to continue provision.</p>	<p>As part of the development of the Framework, resourcing of the service is to be considered and fed into the responsible areas service plan as part of the Business Planning Process.</p> <p>Director Corporate and Strategy 31 December 2023</p>

5. INVESTMENTS

There is an Investment Policy and Investment Manual for standardisation of cash deposits for excess cash held by the City.

There is a Land Acquisition and Disposal Policy in place, and reporting of the status of implementation is provided to the ARMC on a regular basis. It was noted from the ARMC agenda for the meeting of 6 December 2022 that there is an implementation plan for the policy and its status is reported to ARMC and Council, but that the more strategic elements of the action plan have not yet started, such as the:

- Establishment of Land Management Working Group
- Governance and Management Practice to support the strategy
- Obtaining commercial advice on the locations and opportunities for strategic and investment acquisitions, and
- Implement a process for reviewing the strategy.

The report states that the plan is on track but no timeframe for implementation of these points is documented.

A clear strategy within investments could result in better alignment with an updated LTFP as the objectives would be clearly understood, resulting in an increased likelihood of their achievement.

Recommendation	Management Comment
<p>Actions arising from the Land Acquisition and Disposal Strategy should be given timeframes for monitoring against and the outputs aligned with the LTFP.</p>	<p>Part four of the Land Acquisition and Disposal Strategy identified ‘surplus’ land that requires further investigation to enable a Council decision on the disposal or redevelopment of properties.</p> <p>Following a Council workshop to identify specific properties for further investigation in relation to disposal, redevelopment or retention, Council will consider the results of the investigations and will decide on which ones are to be disposed, retained or redeveloped and this will then feed into the City’s LTFP</p> <p>Agreed Action: Land Acquisition and Disposal Strategy to be updated following Council decision on the disposal, retention or redevelopment of specified properties within the City’s portfolio.</p> <p>Outcomes will be fed into LTFP and business planning process to enable progression of the Council recommendations and monitoring.</p> <p>Director Community and Development 30 June 2023</p>

6. FOLLOW-UP OF THE 2020 PAXON REPORT

The Financial Sustainability review was performed by Paxon in 2020.

The key areas that were addressed are as follows:

- Limitations in revenue growth
- Shifting responsibility for social and infrastructure programs from Federal and State governments to the City
- Inadequate long-term financial planning, and
- Under resourced financial reporting function.

It was presented to the committee in August 2020, at which it was deferred to the November 2020 meeting to enable the CEO to develop management actions in response to the recommendations. It was then delayed to the February 2021 committee, at which the report was noted and management action plans added to and subsequently tracked within the Audit Log.

The process for progressing management actions to a completed status was documented within the committee agenda of 12 September 2022, as follows:

“Actions deemed complete by management follow a close-out process. This process requires Internal Audit to obtain evidence that audit actions have been implemented by management before recommending close-out to the committee. Evidence is collected and/or reviewed by the Coordinator Risk Management each quarter and reviewed by the Internal Auditors on an annual basis.

If an action is closed-out by management in the audit log register but close-out is not agreed by internal audit, the audit action will go back into the audit log register and be monitored until adequate evidence is produced that it can be closed out. On an annual basis all closed-out actions are reported to the committee through the Audit Log Report.”

As the City has an appropriately designed process in place for monitoring and reporting the status of management actions through the committee and there is independent verification of the completion of actions we have not performed a review of items completed, as they have already progressed through the process outlined above. However, we have performed a sense check of the current reported status to assess if it aligns with the work performed during this review and have not noted any issues.

The following key recommendations were noted in the 2020 Report:

1. Rate settings that ensure the creation of intergenerational equity
2. Creation of a formalised framework that seeks integration for the development of budgeting, long term strategic and financial plans. It is imperative that input within this framework is provided by both from elected members and management
3. Develop a framework to support Commercial Activities. The framework would include a business case for each proposal that contains stringent metrics that can demonstrate the social and economic benefit to the City both in the short term and long term
4. Cost reduction strategies that seek to utilise partnerships with neighbouring local governments;
5. Continue to exit aged care and related assets, and
6. Provide adequate resourcing within the Finance area to support the increased compliance burden, improve inter-directorate share of financial data and analytics and ensure assessment and reporting against the long-term financial plans.

Recommendations from the review were added to the Audit Log and reported to committee for the first time in May 2021. The status of recommendations are summarised below, as reported to the committee:

Status	May 2021	August 2021	December 2021	February 2022	September 2022
Total	29	29	29	29	29
Completed	10	11	12	14	15

The remaining open recommendation action plans relate to the update of documents required by the Integrated Planning and Reporting Framework, in particular the Long Term Financial Plan and Asset Management Plans and the development of policy in certain areas.

Actions of this nature are medium term implementations as they require consultation with Council and in some instances the community, which the timeframes within the Audit Log reflect.

However, the recommendations for consideration made in the 2020 report that have been marked as completed may still be relevant for on-going consideration by management as they may be or become potentially viable options for the City in the future. We are not saying that they should be reopened within the audit log.

All completed recommendations are identified below, with the relevant one's that could be reconsidered in bold:

5.1.3 Impact of Covid 19

5.1.6 Usage of specified area rebates to be considered

5.1.8 Consideration of grant funding resource

5.2.1 Pro-active management of cost shifting from State to Local Government

5.2.3 Partnerships

5.3.2 Optimising investment revenue

5.3.3 Sales of aged care assets

5.3.4 Identify infrastructure renewal gaps

5.3.5 Review of operational costs

5.3.6 Consideration of loan borrowings

5.4.1 Resourcing of Finance Function

5.6.1 Corporate reporting System

5.8.1 Report functionality for reporting to Committee

5.8.2 Governance Framework

5.8.3 Budget Review & Expenditure Committee

Recommendation	Management Comment
6.1 Consideration should be given to the closed actions from the 2020 report that are strategic in nature and which although maybe not have been appropriate for consideration when last considered may become so.	<p>Comment: On-going. As part of continued improvement processes, closed actions may be revisited as the operating environment changes.</p> <p>Agreed Action: Continue to monitor implementation of actions through the Audit Register process.</p> <p>Coordinator Risk Management</p> <p>On-going</p>

Within **Appendix A** we have included the full 2020 Report.

7. APPENDIX A – 2020 PAXON REPORT