

SHIRE OF KOJONUP
Kojonup



AGENDA

Special Council Meeting

28 February 2023

TO: THE SHIRE PRESIDENT AND COUNCILLORS

NOTICE is hereby given that a Special Meeting of the Council will be held in the Council Chambers, Administration Building, 93 Albany Highway, Kojonup on Tuesday, 28 February 2023 commencing at 3:00pm.

I certify that with respect to all advice, information or recommendation provided to the Council in or with this Agenda:

- i. The advice, information or recommendation is given by a person who has the qualifications or experience necessary to give such advice, information or recommendation; and
- ii. Where any advice is directly given by a person who does not have the required qualifications or experience, that person has obtained and taken into account in that person's general advice the advice from an appropriately qualified or experienced person.

GRANT THOMPSON
CHIEF EXECUTIVE OFFICER

24 February 2023

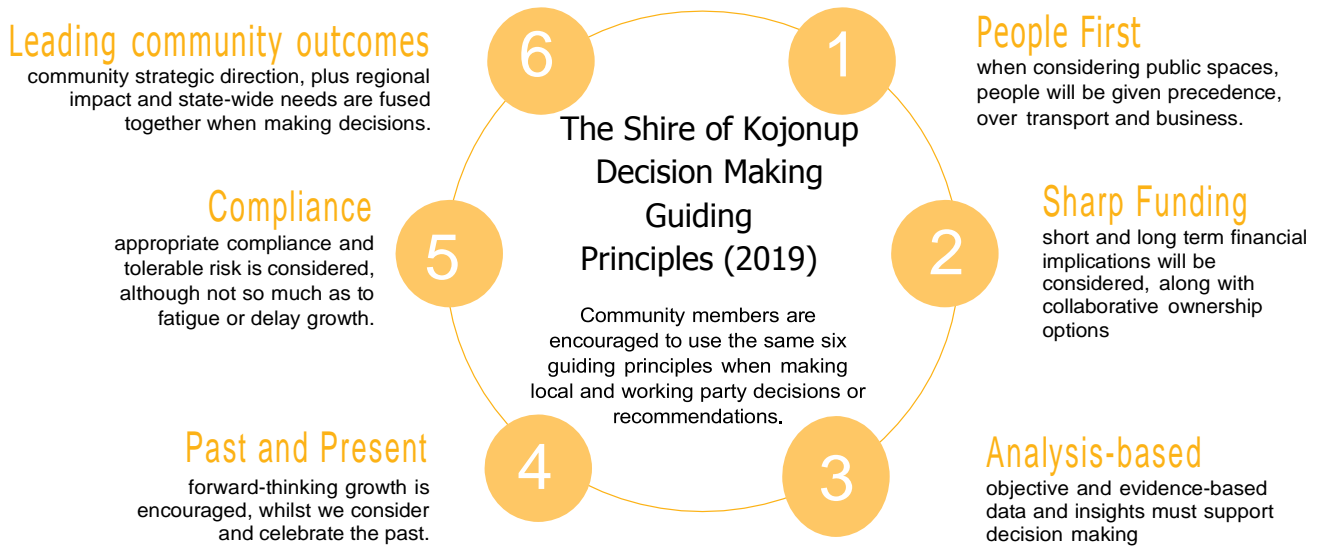
AGENDA FOR SPECIAL COUNCIL MEETING TO BE HELD ON 28 FEBRUARY 2023

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The Shire of Kojonup has a set of six guiding principles it uses when making decisions. These principles are checked and enhanced every two years in line with the Strategic Community Plan review schedule.



AGENDA

1 DECLARATION OF OPENING AND ANNOUNCEMENT OF GUESTS

The Shire President shall declare the meeting open at ____ and draw the meeting's attention to the disclaimer below:

Disclaimer

No person should rely on or act on the basis of any advice or information provided by a Member or Officer, or on the content of any discussion occurring, during the course of the meeting.

The Shire of Kojonup expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any advice or information provided by a member or officer, or the content of any discussion occurring, during the course of the meeting.

Where an application for an approval, a license or the like is discussed or determined during the meeting, the Shire warns that neither the applicant, nor any other person or body, should rely upon that discussion or determination until written notice of either an approval and the conditions which relate to it, or the refusal of the application has been issued by the Shire.

Acknowledgement of Country

The Shire of Kojonup acknowledges the first nations people of Australia as the Traditional custodians of this land and in particular the Keneang people of the Noongar nation upon whose land we meet.

We pay our respect to their Elders past, present and emerging.

Prayer

Almighty God, we pray for wisdom for our reigning monarch King Charles.

We ask for guidance in our decision making and pray for the welfare of all the people of Kojonup.

Grant us grace to listen and work together as a Council to nurture the bonds of one community.

Amen

2 **ANNOUNCEMENTS FROM THE PRESIDING MEMBER**

3 **ATTENDANCE**

COUNCILLORS

Cr N Radford

Cr P Webb

Cr F Webb

Cr Wieringa

Cr Gale

Cr Singh

Cr R Bilney

Cr A Egerton-Warburton

Shire President

Deputy Shire President

STAFF

Grant Thompson

Emily Sleight

Judy Stewart

Chief Executive Officer

Sport and Recreation Officer

Senior Administration Officer

3.1 APOLOGIES

3.2 APPROVED LEAVE OF ABSENCE

4 **DECLARATION OF INTEREST**

5 **PUBLIC QUESTION TIME**

Questions may be submitted using the special email address for Council Meeting Public Question Time being cmpqt@kojonup.wa.gov.au

The Chief Executive Officer will table all correspondence received.

5.1 RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE
Not applicable

5.2 PUBLIC QUESTION TIME

6 CONFIRMATION OF MINUTES

Nil

7 PRESENTATIONS

- 7.1 PETITIONS
- 7.2 PRESENTATIONS
- 7.3 DEPUTATIONS
- 7.4 DELEGATES' REPORTS

8 METHOD OF DEALING WITH AGENDA BUSINESS

9 REPORTS

9.1 KEY PILLAR 1 – ‘PLACE’ REPORTS

9.1.1 KOJONUP COMMUNITY MEN’S SHED INC. FACILITY – REQUEST FOR PROPOSAL 01 OF 2022/2023 AND SITE LOCATION ANALYSIS

| | |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AUTHOR | Emily Sleight – Sport and Recreation Officer |
| DATE | Wednesday, 21 February 2023 |
| FILE NO | FM.TND.15 |
| ATTACHMENT(S) | <p>9.1.1.1 – Western Environmental Quote</p> <p>9.1.1.2 - Nqpetro WA Quote 1749 - Shire of Kojonup - Tank Decommissioning</p> <p>9.1.1.3 – WestAir Dust Extraction System Quote</p> <p>9.1.1.4 – Vinsan Demolition Quote</p> <p>UNDER SEPARATE COVER</p> <p>9.1.1.5 – Document Package RFP 01 of 2022-2023</p> |

| STRATEGIC/CORPORATE IMPLICATIONS | | |
|---------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| “Smart Possibilities – Kojonup 2027+” | | “Smart Implementation – Kojonup 2018-2022” |
| Key Pillar | Community Outcomes | Corporate Actions |
| KP – 1 Place | 1.3 – Have systems in place to attract youth to the region, even in a transient manner | 1.3.7 – Co-location of Men’s Shed, Kojonup Tourist Railway and Kojonup Historical Society to heritage rail precinct |
| KP – 2 Connected | 2.1 – Be growing our state-wide and local tourism and shopping capabilities through regional alliances | 2.1.3 – Cooperate to increase activation of Main Street and better use of underutilised Main Street spaces |
| KP – 3 Performance | 3.4 – Be organised and transparent with our financial management | 3.4.2 – Act with sound long-term and transparent financial management and deliver residents value for money |

DECLARATION OF INTEREST

Nil

SUMMARY

The purpose of this report is for Council to consider the variables that were investigated in regards to the location of the proposed Kojonup Community Men’s Shed (Men’s Shed) and, after taking these variables into consideration, reconsider the endorsement of the

document package, as at Attachment 9.1.1.5, for the Request for Proposal (RFP) 01 of 2022/2023.

BACKGROUND

Discussions with the Men's Shed regarding their existing facility no longer being fit for purpose began in early 2021. With the announcement of Phase Three of the Local Roads and Community Infrastructure (LRCI) Federal grant round in May 2021, the allocation of a portion of these funds was set aside for the relocation, planning and construction of the new Men's Shed facility. Work Schedules to this effect were submitted to the Department of Infrastructure, Transport, Regional Development and Communications on 19 May 2022, with their acceptance of the projects received 6 June 2022.

Initial planning for the relocation of the Men's Shed to the Benn Parade site formed part of the 'Kojonup SMART Future Project' Regional Growth Fund grant application in 2018, and the facility construction project is included in the 2022/2023 Annual Budget.

The path forward was discussed with Council at the 13 December 2022 Briefing Session, and staff have worked on the RFP documentation and process following this. At its 7 February 2023 Ordinary Meeting, Council resolved as follows:

"That the Kojonup Community Men's Shed Request for Proposal 01 of 2022/2023 (RFP) report be tabled for discussion at a Special Council Meeting on 28 February 2023 and that the Chief Executive Officer investigate the option of a new Men's Shed location being on the existing Men's Shed site (Lot 135 Albany Highway, Kojonup) and report to Council on the impact taking into consideration the following:

- 1. Regulatory requirements to remediate the site prior to any construction;*
- 2. Demolition of the existing Men's Shed (including removal of asbestos);*
- 3. Decommissioning of underground fuel tanks;*
- 4. Remediation of the soil where required;*
- 5. Inclusion of dust extraction equipment; and*
- 6. Formation of a car park on the title."*

Reason for change to Officer Recommendation: Council wished to explore the option of placing a new Men's Shed on the existing Men's Shed site and for officers to research the regulatory and cost requirements involved to do so.

COMMENT

The Men's Shed currently operates out of a Shire of Kojonup (Shire) owned building located on the corner of Albany Highway and Spencer Street. This building has previously operated as a wool store, carpentry business and a service station. The building has areas of asbestos in the exterior and interior cladding. The front section of the lot has underground fuel storage tanks in situ, which will require removal and soil remediation works to remove contamination. The rear of the building previously housed an oil-powered jack, with the

underground oil tank component still retained; this will require removal and soil remediation.

As per Council’s request, the following were investigated and information gathered:

1. Regulatory requirements to remediate the site prior to any construction;
2. Demolition of the existing Men’s Shed (including removal of asbestos);
3. Decommissioning of underground fuel tanks;
4. Remediation of the soil where required;
5. Inclusion of dust extraction equipment; and
6. Formation of a car park on the title.

Estimate costs have been sourced from suitable suppliers for the purpose of evaluating the Albany Highway site as per the above. It needs to be noted that these costs were provided in good faith and on the premise that they do not represent a formal quote. A formal RFQ or RFP process will need to be explored for all of the above requirements, as per the Shire’s Purchasing and Creditor Control Policy 2.1.2.

Western Environmental were approached to provide a cost estimate on the process only for *investigating* tank removal, soil remediation, asbestos removal and any additional requirements. Their scope of work and fee structure is at Attachment 9.1.1.1. The fee estimate of \$37,750.00 plus GST is summarised in the below two tables and it is important to note that the fee is for the required environmental assessment of the site and does not cover the remediation work that may be required:

Table 1: Project Costs – EDD with Targeted Surface Soil Sampling

| Scope Item | Cost (ex GST) |
|-------------------------------------------------------------------|--------------------|
| Project Management Fees | \$510.00 |
| Desktop Review incl. FOI search fees | \$2,240.00 |
| Field Labour – site inspection and targeted surface soil sampling | \$1,620.00 |
| Soil Analysis (laboratory) | \$1,080.00 |
| Disbursements (sampling equipment, vehicle, PPE) | \$500.00 |
| Preparation of Environmental Due Diligence report | \$4,800.00 |
| SUB TOTAL | \$10,750.00 |

Table 2: Groundwater and Sub-surface Soil Investigations

| Scope Item | Cost (ex GST) |
|--------------------------------------------------------------------------------------------|---------------|
| Project Management Fees | \$1,200.00 |
| Service location fee (estimate) | \$1,600.00 |
| Field Labour – groundwater well installation and subsurface soil sampling | \$2,840.00 |
| Subcontractor Driller (based on anticipated depth to groundwater of 5m below ground level) | \$8,900.00 |
| Subcontractor Surveyor (estimate) | \$1,600.00 |
| Field Labour – groundwater sampling | \$1,620.00 |

| | |
|---------------------------------------------------------------------------------------------------------|--------------------|
| Laboratory Analysis – groundwater | \$1,620.00 |
| Laboratory Analysis – soil | \$1,690.00 |
| Disbursements (vehicle, subsistence, water quality meter, sampling equipment, PID, consumables and PPE) | \$2,280.00 |
| Reporting | \$3,650.00 |
| SUB TOTAL | \$27,000.00 |

The timeline for this process has been advised at four (4) weeks for the initial Environmental Due Diligence report. The groundwater and sub-surface soil investigation timeframe would be dependent on the availability of contractors to complete the service location, drilling and sample analysis and, given the current market conditions, could add an additional eight (8) to twelve (12) weeks. This investigative process would push any remediation works out to June or July 2023, past the timeframe for significant works commencement as per the LRCI grant conditions.

Nqpetro Pty Ltd were approached as certified subsurface petroleum storage removalists and provided a quote as at Attachment 9.1.1.2, with the estimate cost being \$42,864.00 plus GST (for certified removal of petroleum storage tanks). This quote details a list of exclusions and assumptions which, if required, could alter the final cost substantially. The quoted price *excludes* the following:

- site fencing;
- permits;
- removal of surrounding infrastructure;
- clean fill;
- any further discovered pipework or tanks;
- surface reinstatement;
- structural engineering;
- repairs to any damaged underground services;
- disposal fees for tank, tank contents and soil;
- compaction; or
- soil remediation if contaminants are found external to the tanks.

Given the exclusions, it is necessary to conduct testing by a suitably qualified environmental assessment company prior to engaging a contractor for tank removal. This is required to manage the risk to the Shire of cost overruns and to ascertain volumes and all costs of disposing of petroleum contaminated material. The quote also excludes decommissioning of the oil tank to the rear of the facility, which would incur additional expense to the Shire.

Vinsan Demolition were requested to provide estimate pricing on the demolition and removal of the existing Men’s Shed building. Their quote is at Attachment 9.1.1.4, and is for \$63,500.00. As stated in the quote, all salvageable items from the demolition would remain property of Vinsan Demolition on completion of the project, except for the contaminated waste which would be the Shire’s responsibility.

External advice suggests that if asbestos waste cannot be deposited at the Shire’s waste facility, the additional cost will be circa \$30,000. The demolition quote does not include service disconnection, which would incur extra fees (water, electricity and sewer). As the demolition would potentially uncover the oil powered jack located to the rear of the building, it is noted that removal of this would also incur extra costs, as the quote clearly defines the scope. The demolition process would be completed in one step, requiring the removal and storage of all items inside the building. A suitable storage facility would need to be found for the duration of the construction project.

A dust extraction system quote was sourced from WestAir Filtration, a Perth based company, and the full quote is available at Attachment 9.1.1.3. An estimate floor plan was used for this so, if the end result differs, there may be some alterations in pricing. The total cost of \$64,912.00 plus GST for the provision of this system includes:

- Auto MZ30 dust collection unit;
- 75Ltr collection bin;
- Rear mounted 7.5kW fan with outlet silencer and weather cowl;
- Starter;
- 250mm CARZ explosion isolation flap valve with activation sensor;
- Ducting Kit;
- Table Saw capture hood;
- Cranage;
- Elevated Work Platform use;
- Freight on goods;
- Site Installation;
- Electrical connection; and
- Travel expenses.

The advised timeframe for the supply and installation of the dust extraction system is 12-14 weeks after the provision of a purchase order.

Council’s request to include car parking on the Albany Highway site has been assessed, with guidance from the Shire’s Works and Services Department. The site would allow eight (8) regular bays and one (1) universal access bay, requiring a total of 300m². Estimate costs associated with this are as follows:

| Item | Cost per unit | Expected cost |
|--------------|---------------------|--------------------|
| Earthworks | \$60/m ² | \$18,000.00 |
| Asphalt | \$45/m ² | \$13,500.00 |
| Curbing | \$30/m | \$2,400.00 |
| TOTAL | | \$33,900.00 |

Comparing the two sites, the Railway Precinct site has ample room for informal parking while the Albany Highway site requires carpark installation immediately.

As the investigated site is bounded by Albany Highway, all contractors conducting works that require access from the Albany Highway site entrance will require Main Roads WA approved Traffic Management Plans. Given the desired placement of the building, as close to the eastern boundary as practicable, the main access point will be the Albany Highway site entrance. It will also be a requirement for contractors to seek approval from Main Roads WA to conduct works as the partial closure of the roadway, dual use path or footpath will also be necessary. This would be an additional financial impost for contractors and it would be expected to see this passed on to the Shire. As a comparison, the Railway Precinct site does not have these limitations.

An alteration in site will require additional Scope of Requirement planning and documentation, and this will extend the timeframe for construction commencement. The request to include the six (6) additional requirements, which all have some level of complexity, could extend the planning period by up to eight (8) weeks, with this being required prior to the project going to tender.

Additional practical works would potentially add another three to four (3 to 4) months to the front end of the project, prior to commencing the existing Scopes of Requirement. This puts the project at risk of losing external funding, given the timeframes and requirements of the LRCI grant.

The RFP document package is included as Attachment 9.1.1.5 and will be provided to interested parties on request from the date of advertisement 4 March 2023 until the closing date for submissions 30 March 2023.

Alternative offers for all separable portions will also be considered, providing they meet the requirements in Clause 1.5 of the RFP.

Included as part of the package is a spreadsheet Attachment A – Combined Specification and Pricing Schedule. The completion of relevant components of this document is mandatory for all respondents, and it will be used as part of the evaluation process.

Throughout the consultation process Men's Shed executive have indicated they do not have a preferred site for construction.

CONSULTATION

Council Briefing Sessions 18 October 2022, 29 November 2022, 13 December 2022 and 7 February 2023

Council Ordinary Meeting 7 February 2023

Kojonup Community Men's Shed members

Chief Executive Officer

WALGA Procurement Services

Western Environmental Pty Ltd
Nqpetro Pty Ltd
Vinsan Demolition
WestAir Filtration

STATUTORY REQUIREMENTS

Nil

POLICY IMPLICATIONS

2.1.2 – Purchasing & Creditor Control

The RFP is to be treated in the same manner as a Request for Tender and, as such, will follow the same process as per Policy 2.1.2. If additional works separate to the RFP are required, the process for awarding work will also need to comply with Policy 2.1.2.

FINANCIAL IMPLICATIONS

The current 2022/2023 Annual Budget contains an allowance of \$1,000,000 for this project. \$750,000 of this is confirmed by way of LRCI Phase Three funding. Any balance required would need to be sourced from alternative grant funding options.

The existing RFP documentation contains reference to an estimate budget of \$600,000 for the entire project. This leaves an allowance of \$150,000 for electrical, sewage and water headworks. Given site layout at the Albany Highway location, the current location of mains electricity, sewage and water connections will still need to change and additional expense will need to be allocated for this.

The requirements of the LRCI funding place an expectation of substantial works progress on this project prior to 30 June 2023. While extensions for final funding payments are occasionally granted, if progress is not made prior to 30 June 2023 the Shire risks having to return the entire \$750,000 to the Department of Infrastructure, Transport, Regional Development and Communications. This would make the Men's Shed project unachievable for the foreseeable future. A total of \$4,428.60 has been expended to date on this project, excluding Officer salary/wages and the balance of fees from H&H Architects. The procurement process, including documentation packages, external reviews and research, has incurred significant officer resources over the last 9+ months.

The current estimate of \$242,926.00 plus GST only covers site remediation, demolition, dust extraction, asbestos removal and car park expenses, and does not cover any previously noted exclusions or unknown variables.

RISK MANAGEMENT IMPLICATIONS

| RISK MANAGEMENT FRAMEWORK | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------|
| Risk Profile | Risk Description/Cause | Key Control | Current Action |
| 3.Compliance | Breakdowns in tender or procurement processes | Tender and procurement process | Nil |
| | Impulsive decision making | Tender and procurement process | Nil |
| 7.Environment | Poor management of contaminated sites | Environmental management compliance | Nil |
| 8.Errors, Omissions & Delays | Unrealistic expectations from Council, community or management | Customer Service Charter Staff Training | Implement formal peer review process |
| 12.Misconduct | Undue influence from Manager/Councillor | Elected Member Training Segregation of duties | Nil |
| 13.Project-Change Management | Inadequate project planning | Project Management procedures | Implement formal project management guidelines |
| 14.Safety & Security | Ineffective/inadequate testing, sampling or other health requirements | Asbestos register & procedures | Nil |
| Risk rating – High | | | |
| IMPLICATIONS | | | |
| <p>The utilisation of a site with known contaminants both above and below ground poses a high risk to the Shire. Reputational, financial and safety risks would be present to the Shire if 133-135 Albany Highway was selected by Council for this project. Given investigative works would still be required to ascertain the level of further contamination, in addition to known contamination, further financial risk would be present.</p> <p>Further delays in the procurement process could see the Shire having to relinquish the \$750,000 allocation of LRCI funds, representing a significant reputational and financial</p> | | | |

risk. There are no guarantees that an altered work schedule would be accepted at this late stage by the funding body.

Management of risks throughout the consultation and design process have been handled by both Shire staff and external consultants. Extensive consultation has occurred with interested community groups around the location and components of the facility.

ASSET MANAGEMENT IMPLICATIONS

The current facility located on Lot 135 Albany Highway has a written down value of \$130,000. It has reached the end of its functional life, given the construction materials and increased obligations for the Shire in relation to Work Health and Safety legislation.

SOUTHERN LINK VROC (VOLUNTARY REGIONAL ORGANISATION OF COUNCILS) IMPLICATIONS

Nil

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION

That Council:

1. Endorses the Kojonup Community Men's Shed Request for Proposal 01 of 2022/2023, including the site plan, as per Attachment 9.1.1.5; and
2. Authorises the Chief Executive Officer to proceed with the Request for Proposal process.

9.2 KEY PILLAR 2 – 'CONNECTED' REPORTS

Nil

9.3 KEY PILLAR 3 – ‘PERFORMANCE’ REPORTS

9.3.1 RESERVE ACCOUNT APPROPRIATENESS REVIEW – 2022/2023

| | |
|----------------------|------------------------------------------|
| AUTHOR | Grant Thompson – Chief Executive Officer |
| DATE | Wednesday, 22 February 2023 |
| FILE NO | FM.FNR.2 |
| ATTACHMENT(S) | Nil |

| STRATEGIC/CORPORATE IMPLICATIONS | | |
|-----------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Smart Possibilities – Kojonup 2027+” | | “Smart Implementation – Kojonup 2021 +” |
| Key Pillar | Community Outcomes | Corporate Actions |
| KP 3 - Performance | 3.4 – Be organised and transparent with our financial management. | 3.4.1 - Increase regularity of readable financial reporting to the community. 3.4.2 – Act with sound long-term and transparent financial management and deliver residents considered value for money. |

DECLARATION OF INTEREST

Nil

SUMMARY

The purpose of this report is to undertake the annual review of appropriateness of each reserve account in accordance with Council Policy, and the motion that was moved by Council in 2022 expanding the scope of the review.

BACKGROUND

Council resolved, at its Ordinary Meeting held 29 November 2022, that a review of the Reserves should be conducted and presented to its February meeting:

“That Council defers the presentation of the following information to its 7 February 2023 Ordinary Meeting:

A report on how the reserve accounts operation could be enhanced in respect to the following, but not to the exclusion of other issues that appear during the process:

- *Council motions regarding contributions.*
- *Timing of cash movements.*
- *Monthly reporting of account balances.*
- *Detail provided in budgeting of reserve account transfers.*

- *The concept of saving for plant and equipment purchases versus borrowing the capital required at the time of purchase.”*

Council Policy 2.1.8 – ‘Financial Governance’ has a section relating to reserve accounts, which states as follows:

‘In addition to grant funding, the Shire’s reserve accounts are one of the primary funding sources for major projects and will be prioritised in the annual budget.

Cash reserves are to be established and maintained to accumulate funds for the following purposes:

1. To smooth funding allocations over future years;
2. To offset liabilities in respect of previously earned employee entitlements to the extent they require an outflow of funds not allocated in the annual budget;
3. To meet statutory obligations;
4. To fund renewal of existing physical/built assets;
5. To fund future strategic initiatives and the provision of new services and facilities to future residents;
6. To buffer against unpredictable events;
7. To hold unspent grants and contributions; and
8. Other purposes as determined by the Council from time to time.

When preparing the annual budget each year, consideration will be given to establishing reserve accounts for major projects as contained within the Community Strategic Plan.

The Manager of Corporate and Community Services will conduct an annual review for the Council addressing the appropriateness of each reserve account purpose, suitability of current balances, and deficiencies for the funding of future projects as identified in adopted forward plans.

Specifically, the following goals are set for individual reserve account balances:

- Employee Leave – As a minimum, the level of this reserve should meet both:
 - The EBA sick leave liability (clause 29); and
 - The current portion of the long service leave liability for staff with seven (7) years or more service.

This funding goal is to be implemented over several financial years up to 2021/2022 to manage the financial impact.

- Day Care Building Maintenance – 100% of annual rent paid by the tenant is deposited into this account;
- Springhaven Building Upgrade & Renewal - This reserve receives 100% of interest earned from the ‘Springhaven Lodge’ (bonds paid by residents) reserve account;

- Low Income Housing - All operating profit/(loss) is to be transferred to/(from) this reserve in accordance with the joint venture agreement with the Department of Housing;
- Independent Living Units - Operating profits from Loton Close & Soldier Road units are transferred to this reserve;
- Landfill Waste Management - 10% of total rubbish & recycle bin charges are to be allocated to this reserve annually;
- Energy Efficiency - 50% of any savings resulting from expenditure of this reserve account is to be transferred back into the reserve;
- Saleyards - The profit or loss from annual operations of the Saleyards to be transferred to this account.'

OFFICER'S COMMENT

In the absence of a The Manager of Corporate and Community Services as per policy, the CEO has undertaken this review.

Reserve accounts allow the Shire of Kojonup (Shire) to earmark a portion of surplus funds to cover future costs either capital or expenditure. Reserve accounts can be an important component of the Shire's financial planning strategy and support growth and set contingency against setbacks. It must be noted that the success of reserve management depends heavily on self-funded free cash flow funds. That is, you need to have surplus cash to put aside.

Reserves are necessary for a variety of reasons and in a cash healthy organisation they are a sound tool to plan for the future, including:

- To meet 'working capital' requirements (e.g. to allow expenditure to be made ahead of the receipt of a grant or contract income);
- To provide a fund to take advantage of upcoming opportunities for expanding public benefit as and when they arise (e.g. leverage co funded grant opportunities); and
- To leverage funds for resource specified new or expanded projects and 'capital expenditure' plans.

Reserves in Local Government?

Section 6.11 of the *Local Government Act 1995* states that when a local government wishes to set aside money for use for a purpose in a future financial year, it is to establish and maintain a reserve account for each such purpose.

The current Council policy details eight (8) reasons why the Shire of Kojonup establishes its reserve accounts (as per above). The review has determined that the reasons are sound and make absolute sense.

Cashflow Consideration of Reserves

In reviewing the current reserves, consideration of the Shire's cashflow and capacity to allocate funds to the reserves must primarily be taken into account. An organisation should only transfer funds to reserves where its free cashflow status is sustainable i.e. working capital requirements can be met and, just as important, the costs of borrowing can be serviced comfortably.

Whilst the idea of reserves is a sound, financially prudent concept, one of the difficulties with the Shire's current reserves policy is that it is effectively funding the reserves by firstly transferring out the working capital requirement, but then replenishing the fund from the budgeted cash flow for often a similar amount it transferred out, effectively making the purpose of the reserve redundant as it is difficult to grow a reserve to the level required to be of any value.

Furthermore, without regular and accurate information, reserves can sometimes hide the financial risks in the business allowing a potentially financially compromised position to remain undetected as it can be masked by surpluses in restricted funds. The consequences for the Shire may be severe in this case.

The Shire could consider self-funding capital items, either through borrowings or self revenue, in the year the Shire requires the asset. This purchasing change ensures Shire Officers undertake critical due diligence to plan and identify the cost benefit of the required assets, not plan and purchase assets because the Shire has money in reserve. It also releases cash that would be transferred into the reserves for working capital that is currently necessary to fund the day to day operations.

The Council is aware the Shire of Kojonup has a tight, free cashflow position and, therefore, reserving cash for future spend can place pressure on its ability to pay creditors, particularly at the end of the financial year where funds are depleted prior to the next rating season. This is even further highlighted when we have a zero sum budget i.e. the expenditure must match the revenue with a close to zero surplus?

What heightens the risk is the fact that our self-funded revenue is effectively fully utilised in funding the overhead requirements of the core business and the necessary bridging finance (timing of project costs going out and matching grant revenue coming in) required to co-fund projects such as major road upgrades and other asset builds. This places enormous pressure on the financial system at certain times of the year, and could be a catastrophic risk in the era of inflationary pressure or if estimated cashflow is incorrectly forecast.

The necessity to bridge funding places pressure on the Shire's self-funded revenue stream and leaves little free cash as surplus to transfer to reserves, which in turn doesn't allow the reserves to grow accordingly.

The current reserves policy means that we rely further on Government grants and outside sources of revenue to operate and puts us in a position where we are endeavouring to constantly trade the way on the back of grants year on year.

It is, therefore, critical that any free cash that the Council allocates to reserves must be available and have no impact on our working capital requirement. This is a planning and budgeting issue and will be reviewed by the Chief Executive Officer (CEO) in the lead up to the 2023/24 budget with the aim of recommending changes in the cost structure to be more sustainable.

As a consequence the Shire will need to make decisions over the coming period to reduce its overhead costs to a more sustainable level and operate within its means in order to pay off debt and finance future projects. Debt management will be a priority over the coming budgets.

Inefficient use of funds; that is, there is a risk that too high a level of reserves may result in the Shire being criticised for holding reserves unnecessarily e.g. Sale Yards Reserve. This may impact the efficient use of funds and limit cash being put to good use in other key areas.

In the first instance the Council should consider closing and streamlining certain current reserves and releasing cash back into consolidated revenue for a more efficient use.

Existing Reserves

The existing established reserve accounts have good intent, they are established to enable both important building renewal to be funded and major projects prioritised, and to ensure that reserve accounts exist for each building and project and then are funded to an appropriate level.

This investigation concludes that the current range and high number of reserves means that they are not all achieving their set goals due to the inability of the Shire to adequately fund the reserves to grow at the necessary rate. Inadequate reserves only create administrative cost burden to maintain and manage, and serve no purpose if they don't have substantial funds available to fund projects or purchases when required.

It is observed that the Council has too many reserves and, consequently, is spreading its currently low availability of cash thinly over many different reserves, effectively rendering the timeframe to raise funds for any execution obsolete.

As an example the immaterial amounts in some of the reserves suggest that, for a significant capital project to be funded, it would be years before the Shire could self fund or leverage

funds for that project when reality demonstrates that, when the project is ready, there are barely enough funds in that reserve for initial planning of the project therefore making the reserve ineffective when trying to achieve the goal of funding the capital project.

A good tangible example of this is the *Works Depot Building Upgrade & Renewal Reserve* which has a current balance of \$1,006. The requirement to upgrade the Depot is imminent i.e. next three years, and it is unlikely the Shire will have any material funds to support this project. The current level of funding is not enough to fund the cost of a master plan for the Depot.

Borrowings versus Reserves

Under normal circumstances, reserves represent a surplus of unspent revenue that are normally held in the form of cash at bank. However, there are alternatives for the Shire where, in this situation, reserves cannot easily be generated or free cash limits the ability for the Shire to grow the reserve in a timely manner to a scale that is beneficial.

Obviously, borrowing is the option to increase capital instantly including access to overdraft facilities to provide the organisation with the ability to fund growth and working capital. In these circumstances, the Shire needs to be transparent as to how and when loans or overdraft facilities are to be managed.

Another option is to increase rates, fees and charges, and rents at a faster escalation on properties within the Shire to increase free cash to put away for future projects, which is not always the most acceptable option with the community.

The value of borrowing is relevant to the project at the time but the disadvantage is that the cost of borrowings are funded from self-funded revenue i.e. rates and, furthermore, there is a debt ceiling which the Shire is currently getting close to hitting.

Reasons why the Shire might borrow rather than save include:

- Debt can be a less expensive source of capital;
- Debt can be somewhat less complicated to arrange for the Shire than trying to finance reserves from less than sustainable cash flows; and
- Debt can be used to finance a wide variety of activities including capital expenditures (such as asset builds), acquisitions of land, plant and equipment, to name a few. The term or maturity of the indebtedness should generally match the period associated with the assets being financed. For example, Plant & Equipment loans could normally be three years or longer, and other loans financing real property may typically be 15 years or longer since those assets have longer valued lives for the Shire.

The Shire's risk related to debt management is: as the level of debt rises as a percentage of total revenue so does the probability that the Shire, especially as high depreciation charges

will now follow new asset builds, will have insufficient free cash to service the debt, its working capital requirements for its core services and the current number of reserves.

We are seeing signs of this in the Shire. It is evident with the reduced levels in reserves not adequately growing and problems scaling them up to the required level to be of value, the increased borrowing cost of the Shire and the depreciation increasing due to new builds over the last two years, all placing pressure on the system to adequately maintain the current number of reserves. The overuse of reserves is a factor here.

Therefore, a balanced approach to reserves and debt is warranted. Cost and financial management will be addressed through another forum with the Council, however, it is fair to say that any free cash should go to paying debt down as a priority in the short term to ensure a more sustainable level, and any free cash needs to be limited to going into a reduced number of reserves that are of the highest priority to the Council.

This may place pressure on the Council and restrain it from making decisions to fund major projects in the near future; however, it is the most financially prudent approach in this time.

Sufficient surplus cash flow generated to “service” the debt interest and principal payment obligations and to fund the reserves that are in place must be readily available. The author observes that currently the Shire has minimal free cash generated in the organisation to seriously fund the current breadth of reserves and recommends that the number is trimmed to a meaningful level.

The Council may consider negotiating an increase to its overdraft facility to avoid any unforeseen potential issues.

Timing of Transfers

Timing of transfers was addressed in the Ordinary Council meeting held on 18 October 2022. The recommendation is that the CEO investigate how transfers in and out of reserve accounts aligns to actual expenditure through the financial year.

Monthly reporting of account balances.

Monthly reporting of reserves currently occurs in the monthly financial reporting; however, if the timing of cash out of reserves changes then the report will be updated to reflect these changes.

Detail provided in budgeting of reserve account transfers.

As mentioned in the above content, it is recommended that the Council implement the recommendations in this report in line with the current budget review and consider other changes in the 2023/24 budget.

Summary

Reserves are vital to the Shire to maintain and smooth out certain types of investment. The reserve holds money that the Shire can use when either unexpected events occur with assets or to prepare for major investment.

It is recommended to reduce the number and burden of reserves management as the Author observes there are too many reserves to realise the full potential or create value for the future needs of the Shire.

It is important that the Shire should only fund reserves when it has the ability to do so with free cash that does not impact the organisation on those reserves that are highest priority.

In the short term it is the Author's recommendation that the Shire focuses on a plan to reduce debt, giving it the capacity to fund more capital projects over the next four years.

The following section gives explicit recommendations on each of the reserves and their use.

Appropriateness of Existing Reserve Account Balances:

The following table shows reserve account balances as at 30 June 2021 and (budgeted) 30 June 2022 and a commentary on the appropriateness of these balances in conjunction with major projects planned in *Smart Implementation*. Recommendations within the table are made based on the following key:

X - Close Reserve

🔴 - More funds required

🟢 - Currents funds are appropriate;

🟡 - Funds are surplus to needs of the account; and

? – Needs further intervention to be relevant

Recommendations have also been colour coded using a traffic light system.

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| | Name of Reserve | Actual Balance 30 June 2022 | Budgeted Balance 30 June 2023 | Officers Comment | This Year's Rec. |
|----|-------------------------------------------------|-----------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 1. | Employee Leave | \$ 235,650 | \$ 245,886 | Policy 2.1.8 has set a plan to increase the level of this reserve in accordance with a set formula of minimum balance. This reserve is a priority. The reserve needs to grow at a higher escalation as the current employee benefit provisions is circa \$731,667. Recommendation: Continue to increase the balance of the reserve over time and actively manage leave accruals. Review in 2023/24 budget considerations. | ↑ |
| 2. | Shire Office/Library Building Upgrade & Renewal | \$ 1,007 | \$1,008 | Close this reserve due to lack of free cash to fund any meaningful investment. Will need to look at other revenue sources if and when this is required. Recommendation: Close and transfer funds to Municipal Account. | x |
| 3. | Bushfire Communications | \$ 89,346 | \$ 89 | Close this Reserve as the Tower project commences this financial year. Recommendation: Close and transfer funds to Municipal Account and use as per terms of reference. | x |
| 4. | Community Grant Scheme | \$ 9,745 | \$9,755 | This reserve account is currently holding funds set aside for the Kojonup Theatrical Society (KTS - \$6,000) and a Council donation to the KTS (\$3,000). Recommendation: Implement last years recommendation to change the name of this reserve account in the to "Memorial Hall – Theatrical Infrastructure" and maintain. | ✓ |
| 5. | Day Care Building Maintenance | \$ 14,766 | \$ 7,781 | As Wanslea take over the day to day lease and minor maintenance close this account. Recommendation: Close and transfer funds to Municipal Account as per terms of reference and use funds to undertake the required maintenance on the asset to baseline the building for lease with Wanslea. | x |

| | Name of Reserve | Actual Balance 30 June 2022 | Budgeted Balance 30 June 2023 | Officers Comment | This Year's Rec. |
|-----|----------------------------------------|-----------------------------|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 6. | Spencer Street Youth Precinct | \$ 31,270 | \$11,301 | This reserve needs discussion by Council aligned to its commitment to the Youth precinct project being the construction of a new skate park, pump track and youth centre and therefore increased amounts of funding need to be allocated to this reserve. Recommendation: Close and transfer funds to Municipal Account for planning and design as per terms of reference, dependent on the Council's decision for the Youth Precinct. | X |
| 7. | Springhaven Building Upgrade & Renewal | \$2,165 | \$ 4,362 | With decisions pending on Springhaven and whilst this reserve has been nearly fully drawn down in recent years it is timely to close it. The Council can always reinstate this reserve in future if circumstances change. Recommendation: Close and transfer balance of funds to Municipal Account. | X |
| 8. | Springhaven Equipment | \$ 16,503 | \$ 6,520 | With decisions pending on Springhaven and whilst this reserve has been nearly fully drawn down in recent years it is timely to close it. The Council can always reinstate this reserve in future if circumstances change. Recommendation: Close and transfer balance of funds to Municipal Account to fund the current Springhaven need for new equipment. Use as per terms of reference. | X |
| 9. | Low Income Housing | \$ 83,483 | \$ 85,066 | This reserve 'operates' the Jean Sullivan joint venture housing, i.e. profit from rent transferred to reserve to fund major maintenance. Rental amounts are set by the State. Recommendation: Retain | ✓ |
| 10. | Independent Living Units | \$ 158,168 | \$ 139,533 | This reserve was nearly fully withdrawn with the construction of new ILU's. Rental returns will rapidly improve the reserve over time, importantly from an asset replacement perspective in the long term. Recommendation: Retain | ✓ |
| 11. | Benn Parade Multi-Facility | \$ 14,301 | \$ 14 | Provide a new facility for Kojonup Community Men's Shed, Kojonup Tourist Railway and possibly other community groups. This is a major imminent project where construction is expected in the first half of 2023. Recommendation: Transfer the current funds to Municipal in preparation of construction as per terms of reference. Close reserve. | X |

| | Name of Reserve | Actual Balance 30 June 2022 | Budgeted Balance 30 June 2023 | Officers Comment | This Year's Rec. |
|-----|-----------------------------|-----------------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 12. | Townscape | \$ 49,801 | \$ 50 | The scope of future works is currently being defined and need reserve funds to fund design and assess costings. Total project over numerous financial years will be multiple millions. Recommendation: Transfer the current funds to Municipal in preparation of design and costings required as per terms of reference. Close reserve. | X |
| 13. | Landfill Waste Management | \$ 80,047 | \$ 56,597 | Current operations and improvement required in waste management highlights that this will be an area of future expenditure needs. Post closure management expenses need to be saved for the duration of the operation of a facility to ensure appropriate funding of required works following closure. From 1 July 2018, the reserve definition was updated to include 10% of rubbish bin charges being allocated to this account. Recommendation: Change the Policy to remove Council's obligation to fund this from 10% of waste charges. Retain and fund as free cashflow allows. | ✓ |
| 14. | Energy Efficiency | \$0 | \$0 | Installation of solar array at the Works Depot achieved major energy savings identified and closure of this reserve. Recommendation: Close and Change Policy to reflect the closure. | X |
| 15. | Natural Resource Management | \$ 97,430 | \$ 74,363 | NRM needs a deep review. Recommendation: Hold for possible closure pending Council decision. Officer recommends closure. Change Policy for funding mechanism. | X |
| 16. | RSL Hall Building Renewal | \$ 10,301 | \$ 10,311 | The scope of any future works in this precinct needs to be defined, or indeed if this building is to be retained. Strategic direction required. Recommendation: Transfer the current funds to Municipal. Close reserve. | X |

| | Name of Reserve | Actual Balance 30 June 2022 | Budgeted Balance 30 June 2023 | Officers Comment | This Year's Rec. |
|-----|---------------------------------------------|-----------------------------|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 17. | Memorial & Lesser Hall Upgrade & Renewal | \$ 7,146 | \$ 7,153 | Very important community asset that has large asset renewal backlog. Grant funding in the previous 2 years has seen in excess of \$350,000 expended on a new roof, brick repairs, front room repairs and new storage thereby greatly reducing the immediate need for renewal funding. Recommendation: Transfer funds to Municipal account and Close reserve. Fund as required from Year On Year (YOY) Budget. Use remaining funds to finish front rooms. | X |
| 18. | Sporting Complex Building Upgrade & Renewal | \$ 1,080 | \$ 1,081 | Very important community asset that has substantial upgrade requirements to meet user needs. Kitchen upgrade (including cool room) and building extension for storage/office space, swimming pool club rooms and deck extension are all identified future projects. Recommendation: Merge all sporting Complex reserves into one reserve for ease of administration. | ? |
| 19. | Sporting Facility | \$ 62,737 | \$ 20,622 | Major expenditure 2020 - 2022 will meet the immediate demands for facility upgrades. Possible parking/kerbing/footpath upgrades are all identified future projects. Recommendation: Merge all sporting Complex reserves into one reserve for ease of administration. | ? |
| 20. | Netball Court Resurfacing | \$ 1,007 | \$ 4,508 | This reserve required under grant funding agreement signed in 2020 for Netball Court Reconstruction project. Reserve requirements approximately \$35,000 each ten (10) year. Recommendation: Merge all sporting Complex reserves into one reserve and maintain escalation into reserve. | ? |
| 21. | Playground & Parks | \$ 20,027 | \$ 10,047 | Asset renewal and upgrade reserve established in 2020/2021. Recommendation: Transfer funds to Municipal account and Close reserve due to cashflow constraints. Fund as required from YOY Budget. Current use required to co fund Apex Park playground maintenance and fixtures. | X |

| | Name of Reserve | Actual Balance 30 June 2022 | Budgeted Balance 30 June 2023 | Officers Comment | This Year's Rec. |
|-----|-----------------------------|-----------------------------|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 22. | The Spring | \$ 16,018 | \$34 | A new reserve created in 2020/2021 financial year to provide improvements at The Spring in line with an adopted Master Plan. This is a major imminent project where construction is expected to be staged over the coming years. Project funding has high probability from external grant sources, however, matching funds will be required by the Shire Recommendation: Transfer the current funds to Municipal in preparation of design and costings required. Close reserve as the timeframe will not match the required funding requirements due to current cashflow constraints. | X |
| 23. | Trails Network Construction | \$ 6,009 | \$15 | A new reserve created in 2020/2021 financial year to implement the Shire's Trails Master Plan. Grant funding and Shire contribution for the Town Walk Trail in 2021/2022 is a major start, combined with staff resources to achieve planning and land tenure requirements defined under the plan results in funding being more of a medium term priority. External project grant funding probability is considered low. Recommendation: Transfer the current funds to Municipal in preparation of design and construction required on Town Walk Trail. Close reserve as the timeframe will not match the required funding requirements due to current cashflow constraints. Fund construction from YOY budget. | X |
| 24. | Swimming Pool | \$ 40,469 | \$ 40,509 | This asset will require upgraded drainage (wet decks) in the short term and possible full asset replacement in the medium to long term future and therefore major funds are required. \$40,000 was spent in 2018/2019 to repaint the pool as a vital maintenance item. Total upgrade project into the future will be multiple millions. Recommendation: Merge all sporting Complex reserves into one reserve. | ? |

| | Name of Reserve | Actual Balance 30 June 2022 | Budgeted Balance 30 June 2023 | Officers Comment | This Year's Rec. |
|-----|--------------------------------------------|-----------------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 25. | Economic Development | \$ 88,507 | \$ 24,596 | Council consideration is to fund new economic programs in the new SCP will require funding over time. Recommendation: Transfer the current funds to Municipal in preparation of design and costings required for new Hub as per the new Strategic Community Plan and other initiatives. Close reserve as the timeframe will not match the required funding requirements due to current cashflow constraints. Fund development from YOY budget. | X |
| 26. | Land Acquisition and Development | \$ 37,289 | \$326 | Given the shortage in available residential and industrial land, and the opportunities to develop land in John Street, Soldier Road and Thornbury Close, substantially more funds are required in this area. However, it is noted that developments could be funded by loans and this reserve utilized to deposit sale proceeds and meet loan repayments. Recommendation: Transfer the current funds to Municipal. Close reserve as timeframe will not match the required funding requirements due to cashflow constraints. Fund any land development from YOY budget or borrowings. | X |
| 27. | Saleyards | \$ 39,555 | \$ 29,985 | Future of the Saleyards currently under review by the Council Recommendation: Transfer the current funds to Municipal. Close reserve as not required. | X |
| 28. | The Kodja Place Building Upgrade & Renewal | \$ 17,628 | \$ 7,646 | Relatively new building that has minimal renewal issues at present, with the exception of the rammed earth walls. Recommendation: Merge all Kodja Place Building reserves into one reserve. | ? |
| 29. | The Kodja Place Master Plan Implementation | \$0 | \$10,000 | Slowly increase the balance of this reserve to implement recommendations contained within the plan, noting that many of the recommendations are very low cost initiatives. Recommendation: Merge all Kodja Place Building reserves into one reserve. | ? |
| 30. | Plant Replacement | \$582,448 | \$ 379,978 | Recommendation: Retain and change terms of reference. Council to consider changing this to Plant Emergency or unbudgeted Repairs and cap the amount. | ✓ |

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| | Name of Reserve | Actual Balance 30 June 2022 | Budgeted Balance 30 June 2023 | Officers Comment | This Year's Rec. |
|-----|----------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| 31. | Works Depot Building Upgrade & Renewal | \$ 1,006 | \$1,007 | Major operational building cluster that requires upgrade and renewal. Recommendation: Transfer the current funds to Municipal in preparation for depot master plan creation. Close reserve as timeframe will not match the required funding requirements due to cashflow constraints. Fund any Depot plan from YOY budget. | X |
| 32. | Kodja Place Tourist Precinct | \$10,007 | \$17 | | |
| | Shire Held Funds | \$1,824,916 | \$1,180,160 | | |
| 33. | Springhaven Lodge Bonds | \$ 2,195,000 | \$ 2,195,000 | This reserves operates as a trust fund for resident bonds held (Not the property of the Shire). Recommendation: Retain - Regulatory | ✓ |
| | Total Reserves | \$ 4,019,916 | \$ 3,375,160 | | |

Recommendations

Based on the commentary above, it is recommended that the 2022/2023 budget review streamlines and consolidates the number of reserves to those projects/expenditure that are relevant, regulated, create high value to the Community, and, most importantly, achievable to raise the required funds in the planned timeframe.

The Council should consider self-funding plant and equipment and analysing the best option of lease versus buy at the time of the purchase of all major plant or equipment.

In reviewing the 2023/24 budget and the current 2022/23 budget review, include the following decisions to reserve accounts:

Reserves to Close and Discontinue

Natural Resource Management
Energy Efficiency
Land Acquisition and Development
Springhaven Equipment
Saleyards
Shire Office/Library Building Upgrade & Renewal
Day Care Building Maintenance
Community Grant Scheme
Economic Development
Townscape
Springhaven Building Upgrade & Renewal
Bushfire Communications
Spencer Street Youth Precinct
The Spring
Trails Network Construction
Benn Parade Multi-Facility
Playgrounds & Parks
Memorial & Lesser Hall Upgrade & Renewal
RSL Hall Building Renewal

Some of these reserves' objectives are already being met by current budget elements or grants. Springhaven equipment is a good example where required items are budgeted.

Reserves to Merge

Sporting Complex Building Upgrade & Renewal
Swimming Pool
Sporting Facility
Netball Court Resurfacing

New Name

Sporting Complex – P&E, Upgrades & Renewal

Reserves to Manage

The Kodja Place Master Plan Implementation
The Kodja Place Building Upgrade & Renewal

New Name

Kodja Place Renewal & Upgrades

Effectively reducing the administration of 6 similarly created reserves down to two.

Reserves to Retain

Employee Leave

Springhaven Lodge (Bonds)

Sports Complex P&E Upgrade & Renewal (Newly Merged Reserve)

Independent Living Units

Plant Replacement

Landfill Waste Management

Low Income Housing

The Kodja Place P&E, Upgrade & Renewal (Newly Merged Reserve)

A number of key regulated reserves must be retained.

Points for Consideration:

The table above highlights the following evolving issues for the Shire's reserve accounts:

- a) When excluding Springhaven Bonds, the estimated balance of reserves is immaterial as a percentage of revenue. This may appear that our savings are diminished, which is a true statement when comparing to our budgeted capital expenditure; however, the reserves are only of any use if the Shire can sustain financial escalation of funds.
- b) At the moment sustainable cashflow management is a higher priority for the Shire than increasing reserves.
- c) Over the next two financial periods the Council has important financial decisions to make due to the current debt levels compared to revenue, and the cost base of the Shire which together diminish the free cash in the organisation to put aside.
- d) In the very short term cost management, debt reduction and financial performance should be the Shire's priority at the expense of new projects and activity in the community.
- e) Future expenditure requirements for existing assets such as the Kevin O'Halloran Memorial Swimming Pool is material but should not be funded unless we have the right co-funding mechanism in place, which includes our own ability to either borrow sustainably or fund from our own generated revenue.

Additional/New Reserve Accounts

It is not recommended that any new reserve accounts be created as part of this review.

CONSULTATION

Nil

STATUTORY REQUIREMENTS

Council will be required to advertise the changes to the Community as per section 6.11 of the *Local Government Act 1995* which legislates reserve accounts and states:

- (1) Subject to subsection (5), where a local government wishes to set aside money for use for a purpose in a future financial year, it is to establish and maintain a reserve account for each such purpose.
- (2) Subject to subsection (3), before a local government —
 - (a) changes* the purpose of a reserve account; or
 - (b) uses* the money in a reserve account for another purpose, it must give one month’s local public notice of the proposed change of purpose or proposed use.

** Absolute majority required.*
- (3) A local government is not required to give local public notice under subsection (2) —
 - (a) where the change of purpose or of proposed use of money has been disclosed in the annual budget of the local government for that financial year; or
 - (b) in such other circumstances as are prescribed.
- (4) A change of purpose of, or use of money in, a reserve account is to be disclosed in the annual financial report for the year in which the change occurs.

POLICY IMPLICATIONS

This report has been completed in accordance with Council Policy 2.1.8 – ‘Financial Governance’ - as outlined in the background of this report.

FINANCIAL IMPLICATIONS

The changes to the reserves will have an immediate positive effect on cashflow and will lower cost of administration by processing a large number of reserves that are effectively redundant due to their immaterial value, but it will reduce the Shire’s reserve cash at bank and ability to use funds for future projects.

RISK MANAGEMENT IMPLICATIONS

| RISK MANAGEMENT FRAMEWORK | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|----------------|
| Risk Profile | Risk Description/Cause | Key Control | Current Action |
| 1 – Asset Sustainability Practices | -Inadequate financial management and planning (capital renewal plan) - Insufficient budget to maintain or replace assets | Asset replacement schedule Reserves management | Nil |
| Risk rating – Adequate | | | |
| IMPLICATIONS | | | |
| Maintaining a suitable forward planning process that is intrinsically linked to long term financial planning minimizes many risks, including those associated with the funding of major projects or the provision of essential equipment and infrastructure. | | | |

ASSET MANAGEMENT IMPLICATIONS

Reserve accounts can be a major funding source for projects and a very important financial tool in managing the finances of the Shire day-to-day and, therefore, this review ensures the relevance to the needs and, importantly, the financial position of the Shire.

It must be noted reserves created by the Shire specifically address the Shire's most important assets as identified in the Building Assessment Framework. As such, Councillors should consider that changing the intention of reserves may have a corresponding effect on asset renewal. However, it is the Author's opinion that sustainable cashflow and reduction of debt now outweighs the impact on those assets.

The ability to fund future major upgrades, renewal and replacement of assets as identified in the asset management plan will be an operational issue to be managed accordingly.

SOUTHERN LINK VROC (VOLUNTARY REGIONAL ORGANISATION OF COUNCILS) IMPLICATIONS

Nil

VOTING REQUIREMENTS

Absolute Majority

OFFICER RECOMMENDATION

That:

1. The annual review undertaken addressing the appropriateness of all reserve accounts' purposes, financial sustainability, suitability of current balances, and deficiencies for the funding of asset management and future projects as identified in forward plans be received;
2. The Council advertises the proposed recommended changes, as presented, in accordance with section 6.11 of the *Local Government Act 1995* reserve accounts;
3. If nil public submissions are received the Council authorises the Chief Executive Officer to action the changes in the 2022/23 budget review; and that the 2023/2024 draft budget include the streamlined and reduced number of reserves as recommended.

9.3.2 FINANCIAL MANAGEMENT – LOAN REVIEW – 39 VANZUILECOM STREET, KOJONUP RENOVATIONS

| | |
|-------------------|------------------------------------------|
| AUTHOR | Grant Thompson - Chief Executive Officer |
| DATE | Thursday, 23 February 2023 |
| FILE NO | FM.FNR.2 |
| ATTACHMENT | Nil |

| STRATEGIC/CORPORATE IMPLICATIONS | | |
|----------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Community Strategic Plan 2017 – 2027 “Smart Possibilities – Kojonup 2027+” | | Corporate Business Plan 2017 – 2021 “Smart Implementation – Kojonup 2021 +” |
| Key Pillar | Community Outcomes | Corporate Actions |
| KP – 3 Performance | 3.4 – Be organised and transparent with our financial management. | 3.4.1 - Increase regularity of readable financial reporting to the community. 3.4.2 – Act with sound long-term and transparent financial management and deliver residents considered value for money. |

DECLARATION OF INTEREST

Nil

SUMMARY

The purpose of this report is to consider changing the loan allocated to 39 Vanzuilecom Street, Kojonup renovations and reallocate the loan funds to the Bowling Club Green and Chemical Shed upgrades, and to request the Western Australian Treasury Corporation to reallocate the loan.

BACKGROUND

At its 18 October 2022 Ordinary Meeting the Council resolved as follows:

“That Council:

1. *Seeks a sworn rental valuation for 39 Vanzuilecom Street, Kojonup.*
2. *Advertises, under Section 3.58 of the Local Government Act 1995 - Disposing of property:*
 - a) *its intent to lease 39 Vanzuilecom Street, Kojonup, to The George Church Community Medical Centre Inc. (GCCMC) on a 10 year lease with an extension of a further 10 (ten) years, on the provision that the GCCMC renovates the house to an agreed suitable standard using the GROH (Government Regional Officers Housing) functional specifications as its renovation guide; and*
 - b) *that the lease amount will be negotiated on the basis that renovation costs, up to \$200,000, are wholly provided by the GCCMC, as well as a minimal rent amount covering the Shire of Kojonup’s (Shire) costs associated with water and other utility costs.*
3. *Delegates authority to the Chief Executive Officer and Shire President to negotiate the lease and renovation specifications with the GCCMC if no public submissions are received.*

4. *Reallocates 39 Vanzuilecom Street, Kojonup, from staff housing to housing for the attraction and retention of a General Practitioner to the Shire and updates Council Policy 2.2.7 accordingly.”*

COMMENT

Due to Council resolving to now lease 39 Vanzuilecom Street, Kojonup to The George Church Community Medical Centre Inc., the loan for the renovations of \$150,000 is redundant and should be reviewed and either paid down or reallocated to other capital projects.

The Western Australian Treasury Corporation has been consulted and an absolute majority resolution from Council is required to reallocate the borrowings to other projects.

The Author recommends that the funds from the loan be reallocated to the Bowling Club Green upgrade (Shire contribution - \$114,500) and to the upgrade of the new Chemical Shed (\$35,500).

CONSULTATION

Senior Finance Officer
Western Australian Treasury Corporation

STATUTORY REQUIREMENTS

Nil

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

No financial impact of the recommendation; however, if the loan was to be paid back, the Council will need to pay the loan from its Municipal account.

RISK MANAGEMENT IMPLICATIONS

Nil

ASSET MANAGEMENT IMPLICATIONS

Change in borrowings against an asset

SOUTHERN LINK VROC (VOLUNTARY REGIONAL ORGANISATION OF COUNCILS) IMPLICATIONS

Nil

VOTING REQUIREMENTS

Absolute Majority

OFFICER RECOMMENDATION

1. That Council approves the Loan for 39 Vanzuilecom Street, Kojonup be reallocated to fund the new Kojonup Bowling Club Green upgrade (contribution of \$114,500) and the new Chemical Shed (\$35,500);
2. That Council authorise the Chief Executive Officer (CEO) apply to the Western Australian Treasury Corporation (WATC) to reallocate the borrowed funds to the above expenditure items; and
3. If approved by WATC The CEO make the changes accordingly in the financial statements.

9.3.3 FINANCIAL MANAGEMENT – MID-YEAR BUDGET REVIEW 2022/23

| | |
|-------------------|------------------------------------------------------------------------------------|
| AUTHOR | Grant Thompson Chief Executive Officer |
| DATE | Tuesday, 5 April 2022 |
| FILE NO | FM.FNR.2 |
| ATTACHMENT | 9.3.1.1 – Kojonup Budget Review Report 31 January 2023 V2 24022023 |

| STRATEGIC/CORPORATE IMPLICATIONS | | |
|----------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Community Strategic Plan 2017 – 2027 “Smart Possibilities – Kojonup 2027+” | | Corporate Business Plan 2017 – 2021 “Smart Implementation – Kojonup 2021 +” |
| Key Pillar | Community Outcomes | Corporate Actions |
| KP – 3 Performance | 3.4 – Be organised and transparent with our financial management. | 3.4.1 - Increase regularity of readable financial reporting to the community. 3.4.2 – Act with sound long-term and transparent financial management and deliver residents considered value for money. |

DECLARATION OF INTEREST

Nil

SUMMARY

The purpose of this report is for Council to consider and adopt the Budget Review Report, with any amendments, for the period 1 July 2022 to 31 January 2023.

BACKGROUND

The substantial direction setting and oversight role of the Council e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets is regulated and an important function.

The *Local Government (Financial Management) Regulations 1996* state that a local government must undertake a budget review annually.

Regardless of Statutory Requirements, conducting a budget review at least once each year is sound financial management practice. It enables the Council to analyse the financial performance of the year to date and make changes to the authorisations that it puts in place for the performance of the local government’s functions.

COMMENT

The budget review has been prepared to include the information required by the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996, and the Australian Accounting Standards.

A detailed analysis at account level incorporating year to date actual results and budget projections to 30 June 2023, for the period ending 31 January 2023, is presented for consideration. Statements of Financial Activity at nature/type level have been prepared to

provide a summarisation of the budget review results, as well as a Statement of Closing Funds detailing the projected surplus as at 30 June 2023.

In summary, based on current trends, it is anticipated that a balanced budget can be achieved as at 30 June 2023.

The detailed budget review papers are attached to this agenda as a separate document.

This budget review has resulted in the following proposed material changes:

- Contribution for development of assets improves to the planned budget by adding the Kojonup-Darkan Road widening project of \$1,800,000 capital expenditure, and funded by the corresponding \$1,800,000 grant funding;
- Reduced revenue (identified from lotteries West Grant) for Men's Shed construction by \$ 205,685 and \$150,000 overestimated FAGS Grant;
- Reduced cost in elements of the budget to cover the adventure playground of \$211,000 which was circumstantial from previous year and not budgeted. This includes deferring Loton Close wall and Shed build, trails hub construction, and other technological projects until the 2023/24 budget.
- Adjust employee costs up to reflect the actual wage cost.
- Numerous minor changes within operating accounts to better reflect actual expenditure or revenue outcomes;
- Of note financing activities increases by \$486,923 due to changes to Reserves as per the reserves appropriateness review recommendations.

CONSULTATION

The Management Team has assisted in the compilation of the Budget Review at a cost element level.

STATUTORY REQUIREMENTS

The Local Government Act provides for local governments, including regional local governments, to prepare an annual budget.

6.2. Local government to prepare annual budget

(1) *During the period from 1 June in a financial year to 31 August in the next financial year, or such extended time as the Minister allows, each local government is to prepare and adopt*, in the form and manner prescribed, a budget for its municipal fund for the financial year ending on the 30 June next following that 31 August.*

****Absolute majority required.***

The Local Government (Financial Management) Regulations 1996 require local governments to undertake a review of the Annual Budget and Regulation 33A states:

“Review of budget

- (1) *Between 1 January and 31 March in each year a local government is to carry out a review of its annual budget for that year.*
- (2) *Within 30 days after a review of the annual budget of a local government is carried out it is to be submitted to the Council.*
- (3) *A Council is to consider a review submitted to it and is to determine* whether or not to adopt the review, any parts of the review or any recommendations made in the review.*

****Absolute majority required.***

(4) Within 30 days after a Council has made a determination, a copy of the review and determination is to be provided to the Department.”

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

The main changes in this budget reflect the need to manage cash flow more prescriptively and a focus on managing cost and debt levels of the organisation.

The financial implications of this report are detailed in the commentary section. Based on current trends, the budget review analysis predicts:

1. Budget in Zero (\$0) balance - no change;
2. an overall increase in operating revenue of; \$14,551;
3. an overall increase in operating expenditure of; \$70,880;
4. an overall increase in investment activities
(non-operating revenue) of; \$416,052;
5. an overall increase in financing activities of; \$424,726
6. Loans – No changes to the budgeted loan accounts.

The budget review recommends changes to the adopted budget and, consequently changes the projects and execution of services and or projects previously authorised by the Council.

RISK MANAGEMENT IMPLICATIONS

Nil

ASSET MANAGEMENT IMPLICATIONS

Nil

SOUTHERN LINK VROC (VOLUNTARY REGIONAL ORGANISATION OF COUNCILS) IMPLICATIONS

Nil

VOTING REQUIREMENTS

Absolute Majority

OFFICER RECOMMENDATION

That the 2022/2023 Annual Budget be amended in accordance with the proposed changes outlined in the attached 2022/2023 Mid-Year Budget Review document as presented.

9.4 KEY PILLAR 5 – ‘PROSPERITY’ REPORTS

9.5 KEY PILLAR 5 – ‘DIGITAL’ REPORTS

Nil

10 APPLICATIONS FOR LEAVE OF ABSENCE

Nil

11 MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

12 QUESTIONS FROM MEMBERS WITHOUT NOTICE

Nil

13 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF THE MEETING

Nil

14 MEETING CLOSED TO THE PUBLIC

14.1 MATTERS FOR WHICH THE MEETING MAY BE CLOSED

Nil

14.2 PUBLIC READING OF RESOLUTIONS THAT MAY BE MADE PUBLIC

Nil

15 CLOSURE

There being no further business to discuss, the President thanked the members for their attendance and declared the meeting closed at _____ pm.

16 ATTACHMENTS (SEPARATE)

| | | |
|------------|---------|-----------------------------------------------------------------|
| Item 9.1.1 | 9.1.1.1 | Western Environmental Quote |
| | 9.1.1.2 | Nqpetro WA Quote 1749 - Shire of Kojonup – Tank Decommissioning |
| | 9.1.1.3 | WestAir Dust Extraction System Quote |
| | 9.1.1.4 | Vinsan Demolition Quote |
| Item 9.3.3 | 9.3.1.1 | Kojonup Budget Review Report 31 January 2023 V2 24022023 |

UNDER SEPARATE COVER

| | | |
|------------|---------|--------------------------------------|
| Item 9.1.1 | 9.1.1.5 | Document Package RFP 01 of 2022-2023 |
|------------|---------|--------------------------------------|