

Minutes

Strategic Financial Management Committee

MEETING HELD ON TUESDAY, 28 APRIL 2009

CITY OF JOONDALUP

MINUTES OF THE STRATEGIC FINANCIAL MANAGEMENT COMMITTEE MEETING HELD IN CONFERENCE ROOM 2, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON TUESDAY, 28 APRIL 2009

ATTENDANCE

Committee Members:

Cr Geoff Amphlett - Presiding Person
Cr Russ Fishwick - Deputy Presiding Person *from 1823 hrs*
Mayor Troy Pickard
Cr Tom McLean
Cr Brian Corr

Officers:

Mr Garry Hunt Chief Executive Officer
Mr Mike Tidy Director Corporate Services
Mr Jamie Parry Director Governance and Strategy
Mr Said Hafez Manager Financial Services
Mrs Lesley Taylor Acting Administrative Services Coordinator

DECLARATION OF OPENING

The Presiding Person declared the meeting open at 1732 hrs.

APOLOGIES/LEAVE OF ABSENCE

Apology: Cr Michele Rosano

Apology for late attendance: Cr Russ Fishwick

CONFIRMATION OF MINUTES

MINUTES OF THE STRATEGIC FINANCIAL MANAGEMENT COMMITTEE
MEETING HELD ON 11 FEBRUARY 2009

**MOVED Cr McLean, SECONDED Mayor Pickard that the minutes of the meeting
of the Strategic Financial Management Committee held on 11 February 2009 be
confirmed as a true and correct record.**

The Motion was Put and

CARRIED (4/0)

In favour of the Motion: Crs Amphlett, Corr and McLean, Mayor Pickard

ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

Nil.

DECLARATIONS OF INTEREST

Nil.

IDENTIFICATION OF MATTERS FOR WHICH THE MEETING MAY SIT BEHIND CLOSED DOORS

Item 1 – Confidential Report – 20 Year Strategic Financial Plan Review.

PETITIONS AND DEPUTATIONS

Nil.

REPORTS

**ITEM 1 CONFIDENTIAL REPORT - 20 YEAR
STRATEGIC FINANCIAL PLAN REVIEW -
[52582] [51567]**

WARD: All

**RESPONSIBLE
DIRECTOR:** Mr Mike Tidy
 Corporate Services

PURPOSE

For the Strategic Financial Management Committee (SFMC) to consider and recommend to Council the endorsement of the review of the 20 Year Strategic Financial Plan (Plan).

EXECUTIVE SUMMARY

The Plan is due for review by the SFMC. The previous Plan was adopted in 2006. The previous Plan projected the City's financial position for 20 years using the 2006/07 budget as the base year for projections.

The Plan has been extensively reviewed to bring the base year up to date and to incorporate revised projections. The reviewed Plan was considered by the SFMC at its meeting on 11 February 2009. The SFMC requested some further revisions which have been incorporated into the latest version the subject of this report.

With the changes, as before, the projections plot two scenarios. One scenario is based on existing assets only and the required refurbishment and improvement of these to maintain them. The other scenario incorporates projected new capital assets in addition to the refurbishment and improvement of existing assets.

In both cases the scenario projects substantial and increasing cash deficits in the first eleven to thirteen years which then plateau and reduce. These results are predicated on a series of assumptions which are dealt with in the report.

It is recommended that the Strategic Financial Management Committee RECOMMENDS that Council ADOPTS the Strategic Financial Plan 2008/09 – 2027/28 forming Attachments 1 and 2 to this Report

BACKGROUND

The SFMC considered the revised Plan at its meeting held on 11 February 2009. A number of changes were requested. These changes include:

- 20 year projections that recognise a pattern of economic cycles based on historic precedent,
- Identifying the Cultural Facility and Percy Doyle Master Plan as being the only projects funded from the Tamala Park Land Sale Proceeds Reserve,
- Identifying the multi level car park construction projects to be funded from loans,
- The start of the cash flow from Tamala Park land sales being put back 2 years, and
- The adjustment of the timing of a number of projects to achieve a better financial fit.

DETAILS

Before considering the detail of the report there is a disclaimer that needs to be made.

Disclaimer

The 20 Year Strategic Financial Plan is a planning tool. It is based on many assumptions. It also includes projects and proposals that in some cases:

- *Have been approved by Council and are in progress,*
- *Have been considered by Council but are yet to receive final approval,*
- *Have only been considered by Elected Members at a strategy level,*
- *Have only been considered by Officers*
- *Are operational in nature and based on the continued provision of services and maintenance of City assets and infrastructure in accordance with management and other plans*

Any of the assumptions and any of the projects or proposals not already approved could prove to be inaccurate both as to likely requirement, timing and financial estimates or may not come to pass at all. They have, however, been included based on the best available information and knowledge to hand at this time in relation to likely requirement, timing and financial estimates. Adoption of the 20 Year Strategic Financial Plan by Council does not constitute a commitment or agreement to any of the projects or proposals that have not already been approved.

As referred to in the background a number of changes to the Plan were requested by the SFMC at its previous meeting and these have now been incorporated into the latest version which is the subject of this report.

Since the 2006 Plan the City has made decisions or is progressing to a point of making decisions in relation to assets and services that now need to be included in the projections. For example the 50 metre pool at Craigie Leisure Centre and the introduction of paid parking were not covered in the first five years of the original Plan. The original Plan used as a base year the 2006/07 Budget. The financial position has changed and the base year now needs to be reset at the 2008/09 Budget. Also since the original Plan there has been significant data gathering and development of the City's database in relation to existing asset condition. While still not complete the information in relation to the City's assets is now better known and understood and more reliable than was the case at the time of the 2006 Plan.

In the process of reviewing the Plan the following has occurred:

- Consultation with City Officers in relation to projects, proposals and projections.
- The baseline starting year has been updated to the 2008/09 budget.
- Projects that the City has committed to since the previous Plan or which have some likelihood of being committed to have been incorporated into the Plan.
- All asset refurbishment and improvement projections have been reviewed and revised based on current known asset condition data and where current expenditure levels are not sufficient to achieve effective asset refurbishment and improvement the projections include increases to meet this objective.

The overall projections going forward have been based on a number of fundamental assumptions.

The baseline assumptions for average percentage increases in revenues and expenses over the life of the Plan have taken account of the current economic climate. They assume a worsening situation in 2009/10 with a modest recovery in 2010/11 and then improvements through to a peak in 2013/14 and 2014/15. The economic cycle then repeats with general declines followed by improvements on a roughly five (5) year cycle.

It should be noted that in the economic cycles it is not predicted that economic conditions expected in 2009/10 will be repeated again in the twenty (20) year life of the Plan.

Other assumptions incorporated in the projections are –

- 1 On and off street parking fees based on the existing implementation have been treated the same as other fees and charges, however, additional revenue has been factored in from the projected provision of multi storey car parking. This revenue is identified separately in the Plan and is linked to the projected timeframes for the construction of these facilities.
- 2 Government grants have been broken into two parts. Those grants that would normally be expected based on the City's current activities and these include projected increases. The others are new grants that relate to specific individual projects that have been projected to occur at different points over the life of the Plan. These new grants are once offs occurring in particular financial years or split over a couple of years and there is no growth factor or continuing grant income in relation to these.

- 3 The City has a small number of existing loans and has budgeted in 2008/09 for some additional loan borrowing. The repayment of interest and principal on these existing loans and projected 2008/09 loans has been included into the forward projections. In addition projected loan borrowings have been included in:
- (a) 2009/10 to complete the 50 metre pool at Craigie and to undertake the Westcoast Drive Upgrade, and
 - (b) In 2012/13, 2015/16, 2017/18 and 2020/21 for the construction of multi storey car parks.
- 4 The City anticipates receiving substantial revenues from land sales resulting from its participation in the development of Tamala Park. The projections for the Plan are predicated on the basis that initially all of these funds will be placed in reserve. In 2014/15 some of these funds will be used to construct the Cultural Facility and commence the Percy Doyle Master Plan implementation which will also extend into, 2015/16 and 2016/17. These are the only currently planned uses of the Tamala Park land sale proceeds in the Plan.

The Plan is included as Attachment 1. It includes two graphs one of which represents the net cash position if new capital projects are not included and the other represents the net cash position if new capital projects are included. It should be noted that these projections are all cash based and represent the projected municipal fund cash surpluses/deficits. The table of assumptions on which the projections are based is also included at the bottom.

A summary of the projected balance of reserve funds is included at the bottom of the table of financial projections but are not included in the net operating position figures or reflected in the graphs. It should be noted that in the case of the net cash position without new capital projects, the reserve fund balances exceed the cash deficits for the first seven years of the projected Plan. The net cash projections and balance are cumulative. In relation to the net cash position with new capital projects for the first two years reserves exceed the deficits however from that point onwards the net cash deficits exceed the reserve funds.

The Plan at Attachment 1 shows from the top of the table the income projections for 20 years represented by note numbers 1-10 followed by the operating expenditure projections numbered 11-16 (please note that although depreciation is listed for the purposes of information all projects are cash based and the depreciation figures are reversed out in the totals). This results in a net operating result. Capital then follows numbered 17-20. The capital is broken up into existing capital and new capital with loan repayments (principal) shown separately. Below capital numbered 21-27 are the cumulative brought forwards, transfers to and from reserves, proceeds from land sales at Tamala Park, the sale of other assets and borrowings.

Attachment 1 is supported by explanations and notes that relate to the overall summary document. These are included as Attachment 2. These provide a description and explanation of each line item in the Attachment 1 summary. In addition they provide a summary that highlights the major variations between the financial years and identifies the key projects that cause those variations.

Issues and options considered:

A broad range of assumptions have been made in relation to putting together the financial projections as explained in the Details section above. Any one of these assumptions could be modified and in combination there are many permutations. In terms of the basic underlying assumptions related to the percentage increases, any variation to these can potentially have a major impact on the projections because there is a compounding effect over the 20 year life of the projections. The percentage projections have been made relatively conservatively and it is felt that this is the most appropriate approach.

The City has made a number of strategic position statements (refer CJ120-07/08) that have impacted the Plan projections.

Tamala Park Land Sale Proceeds

Position Statement

Funds from Tamala Park should be used for the following purposes as a minimum:

- *To invest in income producing facilities*
- *To build a Cultural Facility and other significant one-off facilities such as Ocean Reef*

The only two (2) uses proposed in the Plan for the Tamala Park land sale proceeds are the Cultural Facility and the Percy Doyle Master Plan implementation. This is in keeping with the position statement.

Loans

Position Statement

The City should have a Debt Strategy

The Strategy should include:

- *Debt is to be used for long term building infrastructure rather than for parks and roads*
- *Debt to apply to an asset for no more than 50% of the life of the asset*

Loan proposals included in the Plan are to fund:

- Construction of 50 metre Pool
- West Coast Drive landscaping project
- Construction of multi story car parks

The pool and car parks are in accord with the position statement. The West Coast Drive project is neither, a park or road and is not a building either. Nevertheless it is a unique once off project and certainly meets the second part of the position statement that the period of debt is no more than 50% of the life of the asset.

Arena Joondalup

In the event that the State Government agrees to the transfer of this large scale leisure and recreation facility to the City, the transfer is supported on the following conditions as a minimum:

- *A train platform to be funded before transfer*
- *Maintenance issues to be addressed before transfer*
- *A funding stream from the State Government to be provided which reduces into future years*
- *All caveats on the land which impede alternative land uses to be withdrawn.*
- *The State Government to contribute to the construction of an independent facility within the Structure Plan area for a West Perth Football Club facility.*

While clearly this issue is in the City's thinking at this point, how this event might be financially structured is not known other than that there is a strong desire for it to be self funding or cost neutral. It is on this basis that it has not been included in the Plan.

CBD Land

Development of high rise commercial office space within the CBD on Council owned land is supported under the following conditions:

- *Development should be iconic.*
- *Review the adequacy of the Administration Building.*
- *Would require a Business Plan.*

While clearly this issue is in the City's thinking at this point, how this event might be financially structured is not known other than that there is a strong desire for it to be self funding or cost neutral. It is on this basis that it has not been included in the Plan.

It should be noted that the Plan does not include any projections related to the potential rationalisation of assets. This is on the basis that no specific rationalisation has been committed to and as such is in line with adopting a conservative approach. The projections therefore include refurbishment and improvement of all existing assets.

Link to Strategic Plan:

1.3.2 The City maintains a long-term Strategic Financial Plan which is reviewed regularly.

Legislation – Statutory Provisions:

Section 5.56 of the Local Government Act 1995 provides that -

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

The 20 Year Strategic Financial Plan is an integral part of the City's planning for the future.

Risk Management considerations:

The Plan is based on many assumptions. There is a risk that those assumptions could be wrong or may not come to pass, however, it is a planning tool and the City is not committed to anything in the Plan by virtue of endorsing it. Periodic review and update of the Plan will ensure that it remains a relevant and useful document to manage the City's financial affairs into the future.

Financial/Budget Implications:

The Plan represents projections and estimates, based on many assumptions and is a planning tool. Endorsement of the Plan does not constitute a commitment or agreement by the City to the projects and proposals or the projections included in the Plan.

Policy Implications:

Not Applicable.

Regional Significance:

Not Applicable.

Sustainability Implications:

The Plan represents the primary and key financial planning document for the City and has a direct bearing on planning for the financial sustainability of the City.

Consultation:

The Plan has been prepared after consulting with City staff and the Strategic Financial Management Committee.

COMMENT

The original 2006 Plan has been reviewed and significantly updated with a new base year of 2008/09 and revised projections and estimates for the 20 year lifespan of the Plan. It is based on known revenue and expenditure estimates, existing or expected Council commitments and projections for what is required in relation to the refurbishment and improvement of existing assets and the development of new capital assets. It is important to appreciate that it includes many assumptions. It is possible that these assumptions could prove to be inaccurate or may not come to pass at all. It will continue, therefore, to be reviewed, updated and reassessed into the future.

The key purpose of the Plan is as a long term planning tool and is an overall guide to the financial sustainability of the City. It provides a point of reference against which debate about future projects and proposals and their implications can be assessed and measured.

ATTACHMENTS

- Attachment 1 20 Year Strategic Financial Plan 2008/09 - 2028/29
- Attachment 2 20 Year Strategic Financial Plan Explanations and Notes

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION: That the Strategic Financial Management Committee RECOMMENDS that Council ADOPTS the Strategic Financial Plan 2008/09 – 2027/28 forming Attachments 1 and 2 to this Report.

The Director Corporate Services provided an overview of the report, together with an explanation of the adjustments that had been made as a result of discussions that had occurred at the February meeting of the Committee.

Discussion ensued.

Cr Fishwick entered the Room at 1823 hrs.

MOVED Mayor Pickard, **SECONDED** Cr Corr that the Strategic Financial Management Committee **REFERS** the 20 Year Strategic Financial Plan Review dated 28 April 2009 back to the administration for further refinement in relation to:

- Potential property and landholdings for asset rationalisation and potential income streams;
- Revamping of Attachment 1 for period 0-10 and 11-20;
- The interest for debts raised and earnings on investments being factored into the model;
- A review being undertaken on the timing of the potential multi-storey car parking projects;
- A full list of capital programs by year for:
 - Line 17 - Existing Capital Program
 - Line 18 - New Capital Program
- Reserves being overlayed on the graph.

The Motion was Put and

CARRIED (5/0)

In favour of the Motion: Crs Amphlett, Corr, Fishwick and McLean, Mayor Pickard

MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil.

REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION

Nil.

CLOSURE

There being no further business, the Presiding Person declared the Meeting closed at 1832 hrs; the following Elected Members being present at that time:

Cr Geoff Amphlett
Mayor Troy Pickard
Cr Brian Corr
Cr Russ Fishwick
Cr Tom McLean