

OVERVIEW

In the 2007/08 Management Plan, Council adopted an Original Budget position that was balanced. The forecast result adopted by Council for the September Quarter Review was a deficit of \$200K. This deficit position was due to a reduction in the Federal Assistance Grant.

The December Quarter Review now forecasts a full year General Fund deficit of \$360K. This position is predominantly due to external factors outside of Council's control being a significant reduction in Development Income, \$768K unfavourable, and the change in timing from 2007/08 to 2008/09 of the \$1,693K grant funding for the 2007/08 Estuary Management works, \$370K unfavourable. To address these income shortfalls budget adjustments have proposed in order to maintain a relatively balanced budget. The main offset is a proposed reduction in the Secondary Roads Rehabilitation Works program of \$618K and a postponement of Future Planning studies of \$280K.

The December Quarter Review also includes a number of significant adjustments in Water and Sewer, outlined in the following section, resulting in an unfavourable adjustment Water & Sewer of \$167K. These adjustments reflect actual conditions, continuation of water restrictions and reduced consumption, and suspension of proposed drought works.

GENERAL FUND

The following table lists the major adjustments for General Fund included in this review.

Table: Proposed Budget Adjustments - December Quarter – General Fund

Key – Reason for Adjustment

| | |
|-----|--|
| EXT | External Factors – outside Council's control |
| INT | Council / Management / Operational Decisions |
| OBC | Original Budget Correction |

| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|--------------------|---------------------------------------|---|----------------------|
| EXPENDITURE | | | |
| 1.01.26 | Public Toilets Maintenance & Upgrades | OBC - Increase budget to achieve current service levels for cleaning, maintenance and vandalism repairs. This increase will result in a total budget of \$622K, which is in-line with the actual prior year expenditure levels and price indices, 06/07 \$599K ¹ . | (\$ 140K) |
| 1.07.07 | Beach Operations | OBC - Increase budget to achieve current service levels for cleaning and life guard patrols. The budget increase is consistent with budget performance last year and is in part caused | (\$ 212K) |

| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|---------|---|--|----------------------|
| | | <p>by the increase in Lifeguard services provided as agreed by Council to provide one extra lifeguard at each patrolled beach during shoulder season, unfavourable adjustment of (\$158K).</p> <p>The increase is also driven by external factors including the level of contracted lifeguard services for Fraser Beach and Vera's Water Garden (\$54K). These service increases are completely funded via payments from the relevant contract customers and are a net nil adjustment.</p> | |
| 3.02.02 | Lakes Management | INT – Revision of Lakes Management - Dredging program required for 2007/08, budget not required under current seasonal conditions, the main focus will now be on the Entrance Channel dredging. | \$ 100K |
| 3.02.12 | Implementation of Estuary Management Plan & Other Stormwater Management Works | <p>EXT – Revision of Estuary Management Plan (EMP) works program as a result of the delay of \$1.7M in Federal Grant funding. Nb Grant conditions do not allow for the forward funding of programs.</p> <p>The original EMP programs have been reviewed in light of this funding deferral for 2007/08 and a revised works program has been developed. This has included utilisation of \$1.3M of the Storm Water Management Levy Reserve, after which the program is short-funded by \$0.4M.</p> <p>Consideration has been</p> | (\$143K) |

| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|---------|---------------------------------------|---|----------------------|
| | | given to the design lead time and program outcomes of the EMP. As a result, a number of the programs have been initiated in 2007/08 despite this \$370K shortfall in funding. It is proposed that they be funded through an offset in the Secondary Roads Rehabilitation works with operational staff redeployed to these programs where appropriate. | |
| 3.03.01 | Community Environmental Works | INT – 2007/08 Bush Regeneration works program has been revised. | \$ 50K |
| 4.01.04 | Secondary Roads Rehabilitation | INT - Reduction in Works Program proposed to partially off-set the organisations budget priorities in light of the external factors resulting in loss of revenue from Development Application Fees and proposed timing in EMP works. | \$ 618K |
| 4.01.07 | Car Park Maintenance and Construction | INT – Opportunity identified by Council for the acquisition of land in Margaret Street, Wyong, for future car park construction funded by Section 94, refer adjustment 6.09.30. Net nil adjustment. | (\$1,010K) |
| 5.01.02 | Personnel & Payroll | EXT – Reduction in budget required for implementation of 'Work Choices' Legislation, no longer required. | \$ 50K |
| 5.01.02 | Personnel & Payroll (Recruitment) | INT - Increased budget required due to high cost of recruitment for key positions eg Director of Shire Services, Director Corporate Services, and repeated advertising of key management roles | (\$ 150K) |
| 5.01.06 | Shire Services Salaries | INT - Savings from staff vacancies | \$ 150K |
| 5.01.07 | Shire Planning Salaries | INT - Savings from staff vacancies relating to | \$ 300K |

| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|---------------|---|--|-----------------------------|
| | | reduction in Development activities in the Wyong Shire. This is offset by a reduction in budgeted rezoning income of \$300K. Refer part Income Adjustment 6.09.04. | |
| 5.03.04 | Shire Services Operations | EXT - Funding for unplanned works required at Depots partly in response to the June 2007 storm event: <ul style="list-style-type: none"> ▪ Depot Roof Repairs, and ▪ Purchase and installation of two back-up generators to ensure future business continuity during significant power outages. | (\$ 100K) |
| 5.03.05 | Future Planning Studies | INT – Deferral of studies to the 2008/09 financial year. Studies include: <ul style="list-style-type: none"> * Toukley Strategy (Study deferred pending the consideration of draft Central Coast Regional Planning Strategy) * Wallarah Coal Mine (Study deferred in line with expected project completion time frames from external customer) As a result of the deferrals, these studies have now been budgeted to occur in 2008/09. | \$ 275K |
| 5.03.05 | Future Planning Studies | EXT – Savings from reduction in rezoning studies. This is offset by a reduction in budgeted rezoning income of \$711K. Refer part income adjustment 6.09.04. | \$ 711K |
| INCOME | | | |
| 6.04.Variou | Development Application Income | EXT - Reduction in income from development assessment services due to lower than projected application activity | (\$ 768K) |
| 6.03.13 | Property Rental Income | EXT - Revised estimate | \$ 88K |
| 6.08.13 | Environmental Systems | EXT – Delay in Federal Grant Funding until 2007/08. Consideration has been given to the long lead time and effectiveness | (\$1,693K) |

| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|-------------|---|--|-----------------------------|
| | | for the EMP with the result being the continuation of a revised program now being funded through alternative funding sources. | |
| 6.09.04 | Contribution from Land Owners for Rezoning | EXT – Reduction in budgeted income for Rezoning works. This is offset by savings from staff vacancies \$300K and a reduction in related studies \$711K. | (\$1,011K) |
| 6.09.13 | Beach Management - Holiday Parks & Sponsorships | EXT - Additional Sponsorships & Funding | \$ 54K |
| 6.09.30 | Car Park Construction (s.94) | INT – Section 94 funding provided for acquisition of land in Margret Street for future car park construction, refer Expenditure above 4.01.07 Car Park Construction. Net Nil adjustment. | \$1,010K |
| 6.12.11 | Water Tax Equivalentents | OBC – Estimate revised based on actual calculation | \$ 83K |
| 6.12.11 | Sewer Tax Equivalentents | OBC – Estimate revised based on actual calculation | \$ 82K |
| 6.13.03 | Transfer From Reserves | INT – The following adjustments are proposed as funding from Council's reserves to address the short-fall in 2007/08 due to the deferral of the timing of the Federal Grant funding on the Estuary Management Plan (EMP). Proposed Transfers from Reserves are: ▪\$1,307K – transfer in balance of 2006/07 Stormwater Levy Reserve ▪\$250K – Transfer in State Government Grant funding currently held as reserves. | \$1,557K |
| 6.13.03 | Transfer To Reserves – Holiday Park | INT – A revision of Estuary Management Plan (EMP) works program has identified a reduction in the 2007/08 works to be completed under the Holiday Park funding arrangements. These | (\$ 91K) |

| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|---|--|--|----------------------|
| | | funds will be carried forward for expenditure in 2008/09 and are to be transferred back to the Holiday Park Reserves for future use. | |
| Various | Loan Funding of WYCRA funded by Reserve transfers (\$360K) | EXT - Council Resolution to underwrite WYCRA | NIL |
| | Other Minor Adjustments | | \$ 30K |
| Proposed Dec Qtr Adjustments | | | (\$ 160K) |
| Adopted Sept Qtr Adjustments | | | (\$ 200K) |
| Total Full Year Proposed Budget Adjustment | | | (\$ 360K) |

Notes:

1. *At time of preparation of the 2007/08 Management Plan the forecast expenditure levels for Public Toilets were understated. The 2008/09 Management Plan will be updated to reflect current service levels and cost structures.*

WATER

Additionally, significant budget adjustments have been included for the Water & Sewer Fund Business Activity due to the following:

- Lower than budgeted water usage consumption / income, \$3M unfavourable;
- Reductions in the proposed Drought Management Works, \$12M favourable due to lower than forecast water purchases and budgeted operational costs of temporary desalination which are currently not required. This has an off-setting reduction in the loan funding for the Drought Management Works \$7.5M and reduction in income from Gosford Council of \$4.5M, net nil adjustment;
- Reduced Interest Income, \$1M unfavourable, due to lower than budgeted cash balances;
- Reduction in costs of the loan borrowing program for Water which has been recalculated based on actual and balance of anticipated borrowings, and to reflect actual rates and time-frames. This has resulted in a reduction of \$1.9M in Water Loan Repayments.
- Overall the above adjustments result in a requirement for loan borrowings of \$2.1M to maintain a balanced budget in Water and Sewer. This level of loan borrowing is \$5.4M less than the original budget but represents a change in the allocation of loan funds.
- Increase in Water & Sewer Tax Equivalents, \$83K and \$84K unfavourable.

The following table lists the major adjustments for Water & Sewer Fund included in this review.

Table: Proposed Budget Adjustments - December Quarter – Water & Sewer Fund

Key – Reason for Adjustment

| | |
|-----|--|
| EXT | External Factors – outside Council's control |
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| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|---------|----------------------------------|---|----------------------|
| 4.03.09 | Water Loan Repayments | INT – Reduced loan repayments (principal & interest) resulting from a reduction in loans required to fund the reduced expenditure program and significant changes in anticipated timing of draw-downs. | \$1,920K |
| 4.03.11 | Water – Tax Equivalents | INT – Updated estimate of Tax equivalents based on current valuations. | (\$ 83K) |
| 4.03.12 | Drought Management Works | INT – Reduction in programmed expenditure, in particular operation of temporary desalination plant and Hunter Water purchases. This reduction in expenditure is offset by a reduction in Joint funding from Gosford Council, a reduction in Water User Charges and a reduction in | \$12,225K |

| Line | Management Plan Line Description | Adjustment Description | Amount Fav / (Unfav) |
|---|---|---|-----------------------------|
| | | loans. | |
| 4.04.10 | Sewer – Tax Equivalents | INT – Updated estimate of Tax equivalents based on current valuations. | (\$ 84K) |
| 6.03.05 | Water User Charges | EXT – Decrease budget to current forecast income levels reflect reduced water usage resulting from continued water restriction. | (\$ 3,046K) |
| 6.05.03 | Interest Banks & Securities (WSA) – Water | INT – Reduced Interest Income, \$1M unfavourable, due to lower than budgeted cash balances. | (\$ 1,000K) |
| 6.09.10 | Contribution – Joint Scheme (Water & Sewer Authority)- (Gosford City Council) | INT – Reduced income from Joint scheme as a result of reduced expenditure on joint funded works. | (\$4,500K) |
| 6.10.01 | Loans – Water Operations | INT – Reduction in operating loans required for Drought Works \$7.725M, and increase in operating loans to fund budget adjustments due to lower than forecast water consumption and income \$2.126. | (\$5,599K) |
| Total Full Year Proposed Budget Adjustment | | | (\$167K) |

BUDGET CONTROL DEVELOPMENTS

Budget Managers and Finance are continuing to improve budgetary control through the constant review of the original budget estimates and phasings to actual outcomes during the year. It is important to understand and accept that variability between budgeted and actual phasing is normal and that the important thing is being able to understand why there is a the variation. This is particularly important given that the concept and implications of phasing budgets is still relatively new to budget managers.

The main variations between the YTD Budgets and YTD Actual in this review are timing differences. That is, expenditure patterns are not matching the budget phasing developed by Managers. As Managers continue to improve the budget dissection and phasing through the Power Budget tool, timing variations will be minimised.

2007/08 BUDGET RISKS / EMERGING ISSUES

As Council's Management become aware of any risks to meeting the agreed budget or service level, it will investigate all options available before seeking additional funding from Council.

In summary the known areas of risk are:

| Directorate | Issue Description | Est. Potential Impact FAV/(UNFAV) |
|-------------|--|--------------------------------------|
| Shire Serv. | Additional contract costs for Tip Rehabilitation | TBC |
| Shire Serv. | Natural Disaster Funding – Council is working with the Roads and Traffic Authority, and the Department of Commerce to finalise the funding of the June storm event. There will be some cost sharing on items such as road repairs. | TBC |
| Shire Serv. | Cabbage Tree Harbour Land Slip – Continuing Safety & Surveillance costs | TBC |