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ITEM 9 - MAYORAL MINUTE - UNALLOCATED COST RECOVERY

REPORT IN BRIEF

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|----------------------------|---|
| Reason For Report | Seeking Council's direction on the matter unallocated cost recovery charge. |
| Policy Implications | yes |
| Budget Implications | yes |
| IPR Linkage | 3.3.5.a. Review community need for new and upgraded facilities |
| Annexures | 1. Cudal APH |
| File Number | \\OFFICIAL RECORDS LIBRARY\GRANTS AND SUBSIDIES\PROGRAMS\PUBLIC RESERVES MANAGEMENT FUND PROGRAM - 2015-2016 - 762502 |

RECOMMENDATION

THAT Council:

1. Determine its position in regard to recovering unallocated costs associated with community grants over Council owned or controlled land.
2. Determine its position in regard to the unallocated cost recovery charge imposed on the Cudal A&P Society.

GENERAL MANAGER'S REPORT

Council's financial management framework incorporates the recovery of otherwise unallocated costs associated with the administration and management of the organisation. Typically these unallocated costs include employment costs for senior staff and back office functions (finance, IT, administration, engineering, HR, economic development, administrative support, strategic technical services etc), administration office and depot operating costs and the like. These costs are 'unallocated' because they are not, in the main, directly linked to specific projects. The unallocated costs at Cabonne are often referred to as the Administration Charge or Corporate Charge or similar and are currently calculated as being 15% of the total annual operating cost of the council.

To account for the unallocated 15%, council allocates an additional 15% on top of the cost of each project the Council administers. It is important to note that the 15% is an average and it is acknowledged that some projects do not require the full 15% to contribute their fair share to the unallocated costs and equally, the 15% is not sufficient to cover the costs on others. Some large projects have a substantially lesser percentage, calculated to more accurately reflect their contribution. In almost all cases the 15% is calculated at the time the

budget is constructed and has a zero impact upon the required funding for the project as it is added in addition to the estimated cost of the project.

Occasionally Council will become involved in projects which were not envisaged or even overlooked at the time of the budget. Consistent with the aforementioned the unallocated cost recovery for these projects is also set at 15% (unless there are reasons to vary this, as noted above). This includes projects which are funded from grants, including grants applied for by community groups over land which council owns or is the trustee for. The rationale for this has been that wherever council is administering a project, regardless of the funding source and regardless of who initiated the funding initiative, the same management principles of cost recovery should apply.

The practice of recovering unallocated costs is commonly employed in the public and private sectors and is prudent financial management. Cabonne has employed the practice for 16 years and has refined it in recent years by improving our budgeting process to separately account for the charge so that confusion surrounding the amount allocated for the undertaking of a project is clearly separated from the budgeted 15% allocated in addition to it.

Similarly, the practice of recovering unallocated costs to council administered projects which have been initiated by eg a community group and which are grant funded has also been in place for 16 years and the practice has continued without significant issue, until recently. It is noteworthy that the costs for administering these projects, particularly the smaller ones, is thought to be consistently greater than 15% of the cost of the project, however this is anecdotal only. Accordingly, council is most probably already making an unfunded contribution to these projects.

Recently the Cudal A&P Society was successful in being awarded \$39,100 through the Public Reserve Management Fund Program for the construction of kitchen upgrades at the Cudal Showground, which council is the trustee for. As per the requirements of the grant, council is to administer and acquit that grant. This includes the raising of purchase orders, the administration of the funds and the administration of the grant for the grantor. The unallocated costs associated with council performing these tasks is set at 15% of the total grant. As a consequence, when this grant was received by council our budget was amended to reflect a total value of \$39,100, including the 15% (\$5,100). This meant the total available for constructing the project was \$34,000, not \$39,100.

However, given council has GST free status, the practical application of these types of grants is that every \$1 of the grant buys \$1 worth of product or service, as opposed to 90.9c worth of product or service, as the case would be should GST be charged. Accordingly, a grant of \$39,100, if administered directly by a community organisation without GST free status (the Cudal A&P Society does not have GST free status) would have a true value (less GST) of \$35,545. Council's 15% cost recovery charge would reduce the \$39,100 grant to

\$34,000. Therefore, the true reduction in the value of this grant to the Cudal A&P Society is \$1,545, which is just under 4%, not 15%.

The issue being raised by the Cudal A&P Society is that they were unaware that council would impose the 15% charge. They were also unaware that as a consequence of council's GST free status the true impact of the reduction in available funds would be 4% as opposed to 15%. Notwithstanding the GST fee status, they maintain their position that the 15% charge has limited their ability to complete their project (copy of email from Cudal A&P Society attached).

It is unclear whether members of the Cudal A&P Society were aware of the 15% charge or not, however the matter has highlighted certain deficiencies in the grant administration process which need to be rectified so that whatever Council's position is regarding cost recovery and other procedural matters is made clearer, noting the other current grants of this type have been proceeding with the 15% cost recovery charge without issue.

It is proposed to establish a formal position of council in these matters and in so doing, direction is sought about whether council wishes to recover its costs for the administration of unplanned or unknown (at the time of budget) grant funded projects. It should be noted here that many grantors provide for funding for administration costs, however some don't.

Options are these (for community grants, not anticipated by the budget to be administered by council):

1. No application or partial application of the cost recovery charge.
 - a) Council not apply the cost recovery charge (currently 15% of total project value) to unbudgeted community grant projects unless the grantor specifically provides for an administration component to be incorporated within the grant. If there is an administration component incorporated into the grant council will be entitled to all of that component of the grant or 15% of the total grant, whichever is the greater or the full value of the allowable amount should the grantee not have applied for the administration component of the grant where it was available, and
 - b) Allocate \$45,000 within the 2016/2017 budget to offset potential community grant administration costs to council, and
 - c) Account for the administration of these grants as part of council's donations or grants program, and
 - d) Prepare a policy to administer community grants.
2. Application of the cost recovery charge

- a) Council apply the cost recovery charge (currently 15% of total project value) to all community grant projects, budgeted or not budgeted, on land owned or administered by council, and
- b) Prepare a policy to administer community grants.

In the specific case of the Cudal A&P Society the following options are relevant:

1. Vote \$5,100 (being 15% administration cost recovery charge for the \$39,100 grant for the Cudal Showground kitchen upgrade project); or
2. Vote \$1,545 (being 4% balance of the administration cost recovery charge for the \$39,100 grant once GST has been removed); or
3. Charge the full administration cost recovery charge (currently 15%) in accordance with established practice.

Please note that guidelines have been issued under Section 23A of the Local Government Act titled "Council decision making during merger proposal periods". Council must consider the guidelines in relation to each decision they make during the proposal period. Should the council wish to provide a contribution it could be funded from the Community Facilitation Fund.

-----Original Message-----

From: Kirsty-Ann Sansom [<mailto:ksansom@live.com.au>]

Sent: Wednesday, 25 May 2016 3:26 PM

To: Stephen Harding

Subject: Cudal Showground Kitchen Grant Funds

Good Afternoon Stephen,

My name is Kirsty Sansom and i have been put in charge of getting a new kitchen installed at Cudal Showground using the grant funds that Catherine Kearney applied for and received for it. I have been told how much is remaining which doesn't add up on my end and upon investigating have found 2 things i wasn't told about.

1/ We don't pay for gst out of our grant funds and i should only be adding up the amount excluding gst.

Now thats fine as too me that means we have more money than anticipated. Except some of the figures don't add up that i received from councils finance department. There breakdown of the funds spent is different to mine, which leads me to point no. 2.

2/ I was told council charges on cost price an extra 15% for administration costs!

Now i am furious, to say the least, to learn we are losing money supplied by Crown Lands in the way of a grant to council when it was the Cudal Show Society who applied for the grant to be used on the show ground! That could mean the difference between the kitchen shed guttering getting fixed or not! To us at the show committee we want to be able to use the whole \$39,100 in grant money to make our kitchen facilities better for everyone of the 3 committees that use it.

Now explain to me why this is only just being charged on this grant but not on any other grant the Show Society (aka Catherine Kearney) has applied for and received! Not only is it ludicrous that we don't have direct access to the grant funds but it takes council up to 3 weeks to get back to me with confirmation on purchase orders, etc. Ive only just found out the remaining balance after asking almost a month ago and now finding out that we are being stiffed 15% on cost price! You might as well just charge us the gst that you guys get to claim back!

I have also contacted Crown Lands in regards to this matter as they have a right to know that this is being done with there grant money!

Please rectify this and get back to me with the actual proper figure which i will know if its correct as it will just be the price off EVERY invoice i have received and sent to council excluding GST. Please don't hesitate to give me a call on the below mobile number. I will be expecting a reply by the end of the week so i can get the rest of the kitchen sorted out before our deadline in September.

Kind Regards,
Kirsty-Ann Sansom
Mob: 0431592432