

4.3 2011-12 BUDGET ADOPTION

Proponent : City of Albany
Attachment : 2011/2012 Budget documents
Responsible Officer : Chief Executive Officer (Faileen James)

IN BRIEF

- The City Executive has worked with Council members through workshops in preparing the 2011-12 draft Budget for adoption.

ITEM 4.3 RESPONSIBLE OFFICER RECOMMENDATION 1 VOTING REQUIREMENT: SIMPLE MAJORITY

THAT Council:

- NOTES** the three public submissions regarding the proposed differential rate.
- NOTES** the previously delegated expenditure of \$1.25 million per week from 1 July 2011 until the 2011-12 Budget is adopted by Council (OCM 21 June 2011 Item 4.5).

ITEM 4.3 RESPONSIBLE OFFICER RECOMMENDATION 2 VOTING REQUIREMENT: ABSOLUTE MAJORITY

THAT Council **APPROVES** the 2011-12 Budget.

BACKGROUND

- City Executive staff working with Council has spent considerable time in the last three months preparing a draft 2011/12 budget for endorsement by Council.
- Gross Rental Value (GRV) for properties has also been received from the Valuer General. The last GRV revaluation was undertaken four years ago.
- As the GRV amounts have, in some instances, significantly changed, with a resultant potential impact on Rates Revenue, considerable analysis and scenario modelling on Rates Revenue occurred.
- Under section 6.36 of the *Local Government Act 1995*, the City is required to advertise the proposed differential rates amounts for the 2011/12 financial year. Those proposed amounts were advertised for a period of 21 days in compliance with legislation.

DISCUSSION

- Through Council workshops, Council members have considered various factors in developing a financially responsible budget while ensuring compliance with occupational health and staffing requirements, continuation of the various services provided by the City, cost-saving initiatives and new capital projects that are “project ready”.

CEO:

RESPONSIBLE OFFICER:

- Particularly, the Council considered issues relating to:

- a. Maintenance of existing infrastructure, particularly roads and drainage infrastructure;
 - b. New Capital Works projects;
 - c. Employee costs, balanced against the need for sufficient staff resources to undertake current and planned projects and initiatives and current service provision, while ensuring employment equity and OHS;
 - d. Rate amount increases, and in particular the impact that the GRV changes will have on families and land owners; and
 - e. Mayoral Allowance, including changes to legislation regarding provision of a Mayoral Vehicle for use.
7. Capital Expenditure within this budget includes:
- a. Pathways projects – City contribution of \$419,030 (including carryovers) to supplement State Government funding, making a total proposed budget expenditure for pathways of \$1,498,497;
 - b. Road repair and improvement projects – City contribution of \$1,874,414 (including carryovers) to supplement State Government funding, making a total proposed budget expenditure in this area of \$5,691,989;
 - c. City contribution of \$1,134,570 (including carryovers) to Flood Management projects; and
 - d. City contribution of \$106,721 (including carryovers) to improve the City's developed Reserves.
8. The above projects are in addition to "usual maintenance" expenditure on roads, drainage and other infrastructure.
9. In respect of employee costs, the budget envisages employment of 254 FTE staff in 2011/12. This is compared to 250 in 2010/11 and 251 in 2009/10.
10. Employee costs have risen over the past three years predominantly as a result of wage increases negotiated through enterprise bargaining and general CPI. This budget envisages total employee costs of \$18,006,796 (compared to \$16,866,380 in 2010/11 and \$15,561,821 in 2009/10).
11. Total operating employee costs comprise 38% of the total operating expenditure, which is comparable to the 38% in the Australian Bureau of Statistics, Government Finance Statistics, Western Australia Local General Government Operating Statement 2009-10.
12. Full time equivalent (FTE) employees in 2009-10 totalled 250, of which 16 were Manager or Supervisor level. In 2010-11 FTE employees totalled 250, including 19 Manager / Supervisors. The projection for FTE in the 2011-12 Budget is 254, with 17 Managers / Supervisors.
13. Operating employee costs increased by 9% in 2010-11 when compared to 2009-10. This increase incorporated an allowance of 5% for EBA negotiated salary increases. Operating employee costs are projected to increase by 9% in 2011-12 when compared to 2010-11. Slightly more than 5% of this increase results from either finalised or yet to be finalised but anticipated EBA negotiated salary increases.
14. The City will be adopting a new staff training and development framework. This framework will enable equitable application of the training budget across all City staff, address areas of critical skills shortage, and ensure maintenance of mandatory or legislated qualifications or skills.

15. Overall, the training and development budget is 1% of gross salaries and wages, which is marginally less than last financial year.
16. The budget allocates \$10,000 to the ANZAC Centenary Reserve (current balance of \$150,000). In addition to the monetary contribution within the budget, in-kind staff time committed to this event will amount to approximately \$116,000 in salary costs in 2011-12. A significant component of that salary amount is the full time engagement of a project liaison officer for the planning, design and project management of the significant infrastructure work planned for City of Albany assets to enable the Centenary events, including the Mt Clarence and Forts precincts.
17. Issues of waste management remain a challenge for the City. As the City grows, a very strategic approach to good-practice and sustainable waste management is needed. Alternate future waste refuse sites will need investigating and regional waste management strategies considered. This budget anticipates that.
18. There has been considerable debate at Council workshops on an appropriate amount for the Mayoral Allowance. In 2010/11 the Mayoral Allowance was \$28,400, with the 2011/12 budget allowing an amount up to \$65,000.
19. In addition to a proposed change in the Allowance, changes have occurred to Legislation which specifically allows for the provision of a motor vehicle to the Mayor for Council business, with more rigorous accounting and vehicle usage recording requirements.
20. Principal Loan Repayments of \$7.1 million include two loans of \$1.5 million each and one loan of \$3.3 million. The proposed Budget 2011-12 includes loan re-financing of \$3.8 million and the remaining commitment to be funded from Cull Rd sales and general revenue.
21. Section 6.11 of the *Local Government Act 1995* allows a local government to set aside money for a purpose in a future financial year and requires the local government to establish and maintain a reserve account for each such purpose. An absolute majority decision of Council is required to use the money for another purpose. Section 6.2 (4) (e) of the *Local Government Act 1995* requires the annual budget to incorporate details of:

'...the amounts to be set aside in, or used from, reserve accounts and of the purpose for which they are to be set aside or used.'

Any change to the use of reserves (as defined in a budget) will only be as a result of Council resolution.

22. The 2011-12 Budget proposes the use of \$1.3 million from the Airport Reserve to partially fund the security upgrade to the Airport. Aviation Transport Security Regulations 2005 (as amended) require that passenger and cabin baggage screening must apply to passengers departing on aircraft over 20,000 kg. This will be effective from 1 July 2012. The aircraft currently operated by Skywest have a maximum weight of 20,800 kg meaning that, by 1 July 2012, Albany Airport is required to have passenger and checked baggage screening.
23. The Reserves Balance at 30 June 2012 is estimated to be \$4.8 million compared to an estimated balance of \$6.5 million at 30 June 2011. Major movements include a decrease in the Airport Reserve to fund the Security Upgrade (\$1.3 million) and an increase in the Refuse Reserve to fund future capital expenditure on waste sites (\$0.9 million).
24. Section 3.59 of the *Local Government Act 1995*, defines a trading undertaking as:

'An activity carried on by a local government with a view to producing a profit...'

Regulation 9 of the *Local Government (Financial Management) Regulations 1996* requires separate financial records to be kept for each trading undertaking and each major land transaction. Regulation 27 of the *Local Government (Financial Management) Regulations 1996* details the disclosure requirements in the annual budget for trading undertakings. Apart from the Cull Road development, the City does not currently have any trading undertakings; it is a social enterprise which operates for the benefit of the community, with any surplus derived from activities being re-invested for social benefit. The City has many business units which it subsidises or which operate on a break-even basis. None of the City's business units are operated with a view to making a "profit" and, accordingly, none are reported separately.

20. The City has received the Valuer General's updated Gross Rental Value amounts for the Albany area. Council uses valuations provided by the Valuer General in its calculation of rates.
21. Council has balanced the impact any rates amount will have on families and land owners because of the revaluation of the Gross Rental Value (GRV) with the need to ensure that the City continues to provide a sustainable level of service.
22. Every four years the Valuer General performs a revaluation of GRV properties which include homes, commercial properties and vacant residential land. The last GRV increase occurred in 2007/08 year which saw an increase in residential property GRVs by 37% and residential vacant land GRVs by 185%.
23. This year the revaluations have seen a further increase in residential property GRVs by 33%.

GOVERNMENT CONSULTATION

24. Under Section 3.59 of the *Local Government Act 1995* and Regulation 7 of the *Local Government (Functions and General) Regulations 1996*:

'...an agreement, or several agreements for a common purpose, under which a local government is to –

- (a) *acquire or dispose of an interest in land; or*
- (b) *develop land'*

...which is more, or worth more, than the prescribed amount' of \$1,000,000.

The Department of Local Government was consulted and advised that the Cull Road development is a Major Land Transaction, under legislation. As such, the Budget includes separate disclosure relating to Cull Rd.

PUBLIC CONSULTATION / ENGAGEMENT

25. At the OCM on 21 June 2011, the Audit Committee recommendation at Item 1.5 to advertise proposed differential rates was adopted.
26. Differential rates were advertised in accordance with section 6.36 of the *Local Government Act 1995* with three submissions received.
27. A schedule of these submissions forms part of this item.

STATUTORY IMPLICATIONS

28. Local Government Act 1995, s 6.2(1) states that:

- (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.*

Local Government Act 1995, s 6.8(1) states that:

- (1) *A local government is not to incur expenditure from its municipal fund for an additional purpose except where the expenditure —*
- (a) *is incurred in a financial year before the adoption of the annual budget by the local government;*
 - (b) *is authorised in advance by resolution*;* or
 - (c) *is authorised in advance by the mayor or president in an emergency.*

STRATEGIC IMPLICATIONS

27. This item directly relates to the following elements from the Albany Insight ~ Beyond 2020 Corporate Plan...

Priority Goals and Objectives:

Goal 4: Governance..... The City of Albany will be an industry leader in good governance and service delivery.

Objective 4.1: The City of Albany will be a cohesive Council delivering ethical and responsible government committed to excellence in board governance.

City of Albany Mission and Values Statement:

At the City of Albany we apply Council funds carefully.

POLICY IMPLICATIONS

28. Nil.

RISK IDENTIFICATION & MITIGATION

29. The risk identification and categorisation relies on the City's Risk Management Framework.

Risk	Likelihood	Consequence	Risk Rating	Mitigation
Council does not endorse the 2011-12 Budget.	Unlikely	Extreme	Extreme	<ul style="list-style-type: none"> • Further delegated authority to the CEO to incur expenditure under the <i>Local Government Act 1995</i> until Budget endorsement. • Hold a special Council meeting prior to 31 August 2011 to reconsider the Budget.

FINANCIAL IMPLICATIONS

30. The 2011-12 Budget sets the parameters for expenditure of City resources.

LEGAL IMPLICATIONS

31. The City must meet its legislative and debt obligations through endorsement of a budget. Failure to do so incurs considerable risks to the City.

ALTERNATE OPTIONS

32. Council could refuse to endorse the budget, but this would mean that the “business” of the City will be significantly impacted, and the City and Council will incur considerable risk in doing so.

SUMMARY CONCLUSION

33. Endorsement of the budget provides delegated authority to the CEO to incur expenditure from 1 July 2011 until 30 June 2012.

Consulted References	Local Government Act 1995 Local Government (Financial Management) Regulations 1996.
File Number (Name of Ward)	FM.BUG.2
Previous Reference	

**DIFFERENTIAL RATES PROPOSAL
SCHEDULE OF SUBMISSIONS**

Name of Submitter	Summary of Submission	Officer Comment	Officer Recommendation
Mr Warren Marshall	<p>Mr Marshall provided the following comments/requests:</p> <ul style="list-style-type: none"> • That the rate increase should be applied to specific priorities and projects. • That the past practice of basing rates increases on CPI plus 1% is not personally supported. • That the rates proposal is in accord with the Five Year Plan (acknowledging that the change in leadership at the City may not make this possible) • That greater transparency of process and more intense modelling be applied to proposed rates increases. • That the City make more effort to consider relief for those who cannot afford to pay their rates • That the practice of offering a prize as an incentive for early payment is discriminatory. 	<ul style="list-style-type: none"> • Specific projects have been identified to utilise the funds provided by the rate increase. • The Five Year Plan will be completed following Council endorsement of the Strategic Plan. • The City has had discussions in recent weeks with a financial counselling agency and makes considerable effort to accommodate payment plans for those in difficult financial circumstances. 	<ul style="list-style-type: none"> • That Council note Mr Marshall's comments.

DIFFERENTIAL RATES PROPOSAL

SCHEDULE OF SUBMISSIONS

Name of Submitter	Summary of Submission	Officer Comment	Officer Recommendation
Mr Rod Hedderwick – Harley Global	<p>Mr Hedderwick provided the following comments/requests:</p> <ul style="list-style-type: none"> • Increasing the rates on vacant land will not promote development of land but may discourage creation of developable lots thereby reducing the choice in the land bank and escalating prices to the detriment of orderly sustainable growth of Albany • That the final effective and payable rate on vacant land increase ideally by a maximum of 5% on the previous year and certainly no more than 9%. • It is recognised that there will be a difference in individual rates due to the revaluation and that council may need to change the c/\$ levy across the board for vacant GRV land as a result of the old 5% and new 3% figure applied by the VG. 	<ul style="list-style-type: none"> • The increase in rate revenue is proposed to be 5%. 	<ul style="list-style-type: none"> • That Council note Mr Hedderwick's comments.
Mr Matthew Swainston	<ul style="list-style-type: none"> • As proposed some years ago, it would be fair to have Council rates go up by CPI + 1% every year. 		<ul style="list-style-type: none"> • That Council note Mr Swainston's comments.