

## Executive Summary

### 12.5 2016-2017 Draft Annual Budget

*Enquiries: (Kim Jaensch: Corporate Development)*

#### Council Plan

Community Outcome:	3. Sustainable City
Strategy:	3.3 Ensure good governance and management of Council resources
Priority Action	3.3.1 Ensure the organisation is financially sustainable

#### **Purpose**

The *Local Government Act* 1989 (the 'Act') requires Council to prepare a draft Budget prior to it being made available for public comment. Following this initial preparation by Council, prescribed advertising needs to occur disclosing information about the Proposed Budget and providing an opportunity for submissions to be received by Council. A minimum period of twenty-eight (28) days is prescribed for this process.

#### **Recommendation (Director Corporate Development)**

That Council resolves to endorse the Proposed Budget 2016-2017 for public notice as follows:

1. The Draft 2016-2017 Annual Budget, included in Attachment A in the attached agenda, be the Proposed Budget 2016-2017 prepared by Council for the purposes of Section 127(1) of the *Local Government Act* 1989.
2. The Chief Executive Officer, or such other person that the Chief Executive Officer selects for the purpose of giving effect to this resolution, be authorised to give public notice of the preparation of the Proposed Budget 2016-2017 in accordance with Section 129(1) of the *Local Government Act* 1989, noting the dates for public notice are from Thursday 7 April 2016 to Friday 6 May 2016.
3. That Council invites submissions on any proposal contained in the Proposed Annual Budget 2016-2017 in accordance with Section 129(2) of the *Local Government Act* 1989 and notes that submissions will be considered at a meeting of Council to be held on Monday 9 May 2016 at 7.00pm at the Civic Centre, Davey Street, Frankston.
4. That subject to changes to the Proposed Budget after consideration of all submissions, the Proposed Budget 2016-2017 be presented for adoption as Council's Budget for 2016-2017, in accordance with Section 130(1) of the *Local Government Act* 1989, at a meeting of Council to be held on Monday 16 May 2016 at the Civic Centre, Davey Street, Frankston.

#### **Key Points / Issues**

There are a number of key components of the proposed 2016-2017 Annual Budget to highlight as covered in the below points:-

- The Budget is based on the endorsed Long Term Financial Plan 2013 – 2017 (Year 4 Update).
- The proposed 2016-2017 Annual Budget is based on a rate capped average increase in Council rates of 2.50 per cent as prescribed by the State Government of Victoria.
- While the annual green waste charge is not being increased, the general waste charge has increased by approximately 10% to cover the continuation of the hard waste service and set up and operating costs at the Frankston Regional Recycling and Recovery Centre.

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- Following the purchase of the new Frankston Regional Recycling and Recovery Centre (FRRRC) Councillors have given strong consideration to the continuation of the annual hard waste collection, and have included this in the proposed budget. But we are looking for community feedback on what form this service will take – is there a preference for continuing with the current blanket collection, or for a system where each residence gets one pre-booked collection a year?
- A reduced investment in the delivery of capital works, however a continued commitment to maintain the condition of community assets through asset renewal (\$21.38 million in 2016-2017 increasing to \$23.96 million in 2020-2021)
- Capital works budget of \$39.88 million (\$59.15 million in 2015-2016 Forecast including carry forwards).
- No further borrowings are planned in 2016-2017
- Whilst the annual cost escalation factor for Council has been assessed at 4.00 per cent for 2016-2017, the preparation of this annual budget involved a review of all operational services and costs. As a result of this review, budget reductions were identified and factored into the proposed 2016-2017 Annual Budget.

Operating Expenditure Movement	Budget	Budget	Variance
	2015-2016 \$'000	2016-2017 \$'000	
Expenses	141,873	145,104	2.28%

**Financial Impact**

The proposed 2016-2017 Annual Budget is for the year 1 July 2016 to 30 June 2017 and is prepared in accordance with the *Local Government Act* 1989 and relevant Australian Accounting Standards.

The proposed 2016-2017 Annual Budget closely accords with the financial framework established by Council in its Long Term Financial Plan and continues to address the Infrastructure renewal challenge faced by both this Council and the Local Government Industry.

This budget includes projected revenues and expenditures for the 2016-2017 year prepared in accordance with relevant Act and Regulations. The Annual Budget includes financial statements being an income statement, balance sheet, cash flows and capital works. These statements have been prepared for the year ended 30 June 2017 in accordance with Australian Accounting Standards and other mandatory professional reporting requirements and in accordance with the relevant Act and Regulations. It also includes detailed information about the rates and charges to be levied, the capital works program to be undertaken and other financial information which Council requires in order to make an informed decision about the adoption of the Annual Budget.

It is noted that the State Government has introduced legislation that prevents Councils from raising rates above inflation levels from 1 July 2016. Victorian council's will be forced to cap rates at the consumer price index (CPI) which has been declared for 2016/17 at 2.50 per cent. The CPI (based on a basket of common household goods and services that Council purchases very little of) is a very poor index of the cost of providing Council services that is very heavily based on labour costs.

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The financial gap between the previous editions of Council's Long Term Financial Plan and the revised plan in terms of rate revenue over the next four year period is approximately \$28 million; this increases to \$43 million over a five year period. This reduction will have a severe impact on Council's ability to maintain services, deliver key initiatives and improvements and maintain adequate levels of capital expenditure.

It is also noted that in 2015/2016, Council's debt will peak at \$37.2 million. While this debt has been used to deliver key community assets such as the Peninsula Aquatic Recreation Centre (PARC), Frankston Yacht Club and the Frankston Regional Resource and Recycling Centre (FRRRC), the cost of servicing this debt in a rate capping environment will severely limit Council's ability to provide further improved facilities and services.

**Consultation****1. External Stakeholders**

The 2016-2017 Annual Budget process involves publicly advertising the availability of the budget document and inviting the community to make written submissions in respect of the proposed Budget. The final date for receipt of submissions is Friday, 6 May 2016 with a hearing date of submissions on Monday 9 May 2016 commencing at 7.00pm.

**2. Other Stakeholders**

In November 2015 Councillors adopted parameters within which the budget document was developed.

This document was then further developed and refined through consultation with both the Executive Management Team and Councillors through series of workshops held through February and March 2016.

Full detail of the budget planning process is described within the budget document.

**Analysis (Environmental / Economic / Social Implications)**

Economic implications in regards to this report are detailed under Section 'Financial Implications' above. The proposed budget allocates significant resources to the implementation of the Council Plans Key Strategies.

**Legal / Policy / Council Plan Impact**Charter of Human Rights and Responsibilities

The Charter of Human Rights and Responsibilities has been considered in the preparation of this report but is not relevant to the content of the report.

Legal

The proposed 2016-2017 Annual Budget is prepared in accordance with the *Local Government Act* 1989 and relevant Australian Accounting Standards.

Policy Impacts

There are no policy or protocols affect the decision of this report or are relevant to the report.

**12.5 2016-2017 Draft Annual Budget****Executive Summary**Officer's Declaration of Interests

Council officers involved in the preparation of this report have no Conflict of Interest in this matter.

**Risk Mitigation**

There are no direct risk implications arising from this report.

**Conclusion**

The proposed 2016-2017 Annual Budget provides for the delivery of the financial framework established in Council's Long Term Financial Plan. As such it is an important step towards Council achieving a greater degree of financial sustainability in addressing our infrastructure challenges, and to deliver a range of important community projects and services.

This report proposes that Council endorse the 2016-2017 Annual Budget for the purposes of placing the Budget on public display for the required 28 days and receive and consider public submissions in respect of the Budget prior to a final adoption on 16 May 2016.

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**ATTACHMENTS**

Attachment A: Draft 2016-2017 Annual Budget

**12.5 2016-2017 Draft Annual Budget  
Officers' Assessment****Background**

The proposed 2016-2017 Annual Budget is built around embedding long term financial sustainability. The Annual Budget forms an integral part of Council's overall strategic planning framework and endeavours to resource the directions that have been established in the Council Plan 2013 to 2017 (Year 4 Update). Council has established its four-year strategic directions and developed actions to implement these directions, which flow directly through to this Budget.

In preparing this budget Councillors have held a number of meetings to determine the key areas for focus and funding for 2016-2017 to ensure the longer term goals of the Council Plan are realised. This budget has captured the key priorities and transformed them into a program of work for 2016-2017 to meet these priorities and build the foundation for long term financial sustainability going forward.

This budget continues to deliver value to the Frankston community in the provision of services and capital works.

**Issues and Discussion**

The 2016-2017 Budget highlights some key outcomes that are covered in the below points:-

**a) Capping of Council Rates**

On 2 December 2015, the Victorian Government passed legislation to restrict Council from increasing rate income by more than the average cap set by the Minister for Local Government.

The Minister for Local Government announced on 22 December 2015 that Victorian council rate rises would be capped to the rate of inflation in the 2016-2017 financial year. That is, the Consumer Price Index (CPI) as published by the Victorian Department of Treasury and Finance, which is **2.50 per cent** for the 2016-2017 financial year.

Where the level of income raised under the rate cap is insufficient to meet specific needs, councils can apply to the Essential Services Commission for a higher cap. Frankston City Council has not elected to apply for variation to the rate cap in the 2016-2017 year.

During the 2015-2016 year, a revaluation of all properties within the municipality was undertaken and will apply from 1 July 2016 for the 2016-2017 year. The outcome of the general revaluation has been a significant change in property valuations throughout the municipality. Overall, property valuations across the municipal district have increased by 11.4 per cent. Of this increase, residential properties have increased by 12.7 per cent, commercial properties by 4.5 per cent and industrial properties by 1.7 per cent. Due to the impact of the revaluation in the 2016-2017 year, the rate percentage charged will not be a consistent 2.5 per cent. On average, residential properties rates component will increase by 3.8 per cent, commercial properties will decrease by 3.7 per cent and industrial properties will decrease by 6.2 per cent.

## 12.5 2016-2017 Draft Annual Budget Officers' Assessment

Type or class of land	No. of Assessments	% movement in valuation	Change in Rates
Ordinary Rate	54,359	12.7%	3.8%
Retirement Villages	574	9.5%	0.9%
Commercial Land	2,289	4.5%	(3.7%)
Industrial Land	2,461	1.7%	(6.2%)
Vacant Residential Land	604	18.6%	9.3%
Acacia Heath	240	9.0%	4.8%
Farm Land	13	(2.1%)	(9.7%)
Derelict Land	8	84.6%	70.2%
Rateable recreational properties	5	14.0%	4.9%
Rate by agreement (including Baxter Village)	527	9.6%	1.0%
<b>Total</b>	<b>61,080</b>	<b>11.4%</b>	<b>2.5%</b>

The following table summarises the **average** valuation changes between the 2014 and 2016 general revaluations for residential, commercial and industrial properties:

Average general residential rate	2015-2016	2016-2017	Variance %	Variance \$
Median residential valuation in Frankston	\$ 377,906	\$ 426,083	12.7%	
Residential rate in the dollar	0.003118	0.002873		
Total rates	\$ 1,178.31	\$ 1,224.14	<b>3.9%</b>	\$45.83
Municipal charge	\$ 148.85	\$ 152.55	<b>2.5%</b>	\$3.70
Council garbage charge (120L)(No GST)	\$ 286.50	\$ 315.20	<b>10.0%</b>	\$28.70
<b>Total rates and charges median residential</b>	<b>\$ 1,613.66</b>	<b>\$ 1,691.89</b>	<b>4.8%</b>	<b>\$78.23</b>

Average commercial rate	2015-2016	2016-2017	Variance %	Variance \$
Median commercial valuation in Frankston	\$ 876,509	\$ 915,951	4.5%	
Commercial rate in the dollar	0.003897	0.003592		
Total rates	\$ 3,415.90	\$ 3,290.10	<b>(3.7%)</b>	(\$125.81)
Municipal charge	\$ 148.85	\$ 152.55	<b>2.5%</b>	\$3.70
Council garbage charge (120L)(GST Incl)	\$ 315.20	\$ 346.77	<b>10.0%</b>	\$31.57
<b>Total rates and charges median commercial</b>	<b>\$ 3,879.95</b>	<b>\$ 3,789.42</b>	<b>(2.3%)</b>	<b>(\$90.54)</b>

Average industrial rate	2015-2016	2016-2017	Variance %	Variance \$
Median industrial valuation in Frankston	\$ 534,819	\$ 543,911	1.7%	
Industrial rate in the dollar	0.003897	0.003592		
Total rates	\$ 2,084.28	\$ 1,953.73	<b>(6.3%)</b>	(\$130.55)
Municipal charge	\$ 148.85	\$ 152.55	<b>2.5%</b>	\$3.70
<b>Total rates and charges median industrial</b>	<b>\$ 2,233.13</b>	<b>\$ 2,106.28</b>	<b>(5.7%)</b>	<b>(\$126.85)</b>

The purchase of the Frankston Regional Resource and Recycling Centre provides residents with an “all year round” facility for the disposal of hard and other waste. Council has continued to budget for a blanket hard waste collection in 2016-2017 and will retain an “at call” service for the convenience of residents and ratepayers. The provision of all services have increased costs to Council which has been passed on to ratepayers by way of a nil increase to green waste charges and 10 per cent increase to general waste charges.



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**Officers' Assessment**

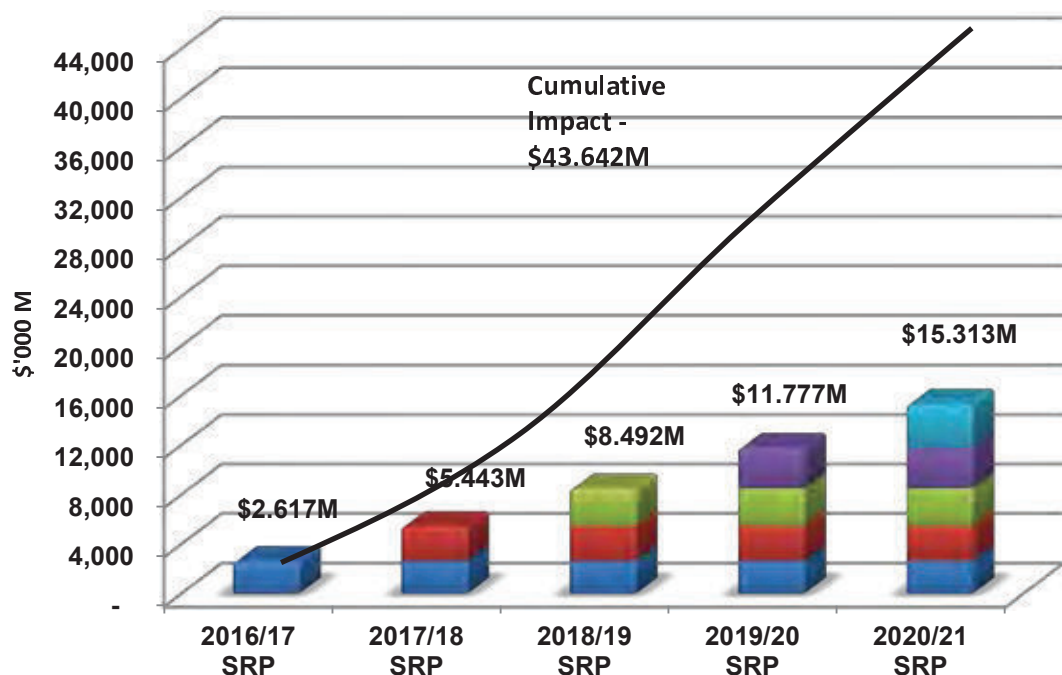
Key drivers:

- To fund ongoing service delivery – business as usual (balanced against greater service demands from residents)
- To fund renewal of infrastructure and community assets
- To cope with growth in the population of the Frankston City residents
- To cope with cost shifting from the State Government
- To cope with a reduction in funding from the Commonwealth Government via the Victoria Grants Commission caused by their freezing of indexation of the grant

Note that for every \$100 in taxes paid by Victorian residents, rates make up approximately \$3.50. The other \$96.50 goes to the State and Federal Governments. Refer Section 7 for further Rates and Charges details.

Rate capping will have a detrimental effect on Council's ability to provide community services and facilities in the future – leaving our services very vulnerable. The outcomes will have implications for future years and the Strategic Resource section of this budget document presents the cumulative impact in dollar terms of the forecast reduction in community services / capital spending to be realised.

**Proposed rate capping – Rates and Charges revenue reduction  
Cumulative impact**



SRP - Strategic Resource Plan estimates

## 12.5 2016-2017 Draft Annual Budget Officers' Assessment

This budget continues to deliver value to the Frankston community in the provision of services and capital works. This budget provides for:

- \$26.93 million invested in the preservation of local amenity and promotion of a safe, clean and attractive city including shopping centres, natural reserves, foreshore infrastructure, recreation reserves and waste management;
- \$14.58 million to support and enhance the health and wellbeing of families, children and young people. Also to provide home and community based services to older people and people with disabilities;
- \$13.01 million to support the social, recreational, cultural and economic life of the community through innovative planning and development initiatives, delivering projects and managing quality public spaces;
- \$8.03 million to ensure the safety of the community;
- \$7.83 million to stimulate activity in the municipality through events, festivals, arts and libraries;
- \$4.53 million to undertake research and implement policies and programs to enhance community wellbeing, social inclusion, participation, empowerment and resilience;
- \$4.45 million to deliver, maintain and retire facility buildings in Frankston Council;
- \$24.00 million to be invested in maintaining and renewing existing community assets such as buildings, parks, footpaths and drains;
- \$15.38 million to be invested in new and upgrade capital works;
- \$0.50 million to be invested in asset expansion capital works;
- \$0.11 million in new operational initiatives to provide greater service capability to the community now and in the future.

### b) New Initiatives

To meet the rate cap of 2.5 per cent, new initiatives have been kept to a minimum during the preparation of the proposed 2016-2017 Annual Budget. The 2016-2017 Annual Budget does however include a total of \$0.11 million in new program initiatives including the following:

- |  |           |
|--|-----------|
| • \$30,000                                       | Corporate |
| performance reporting system – business analysis |           |
| • \$80,000                                       | Debt      |
| management project                               |           |

### c) Maintaining the asset renewal challenge

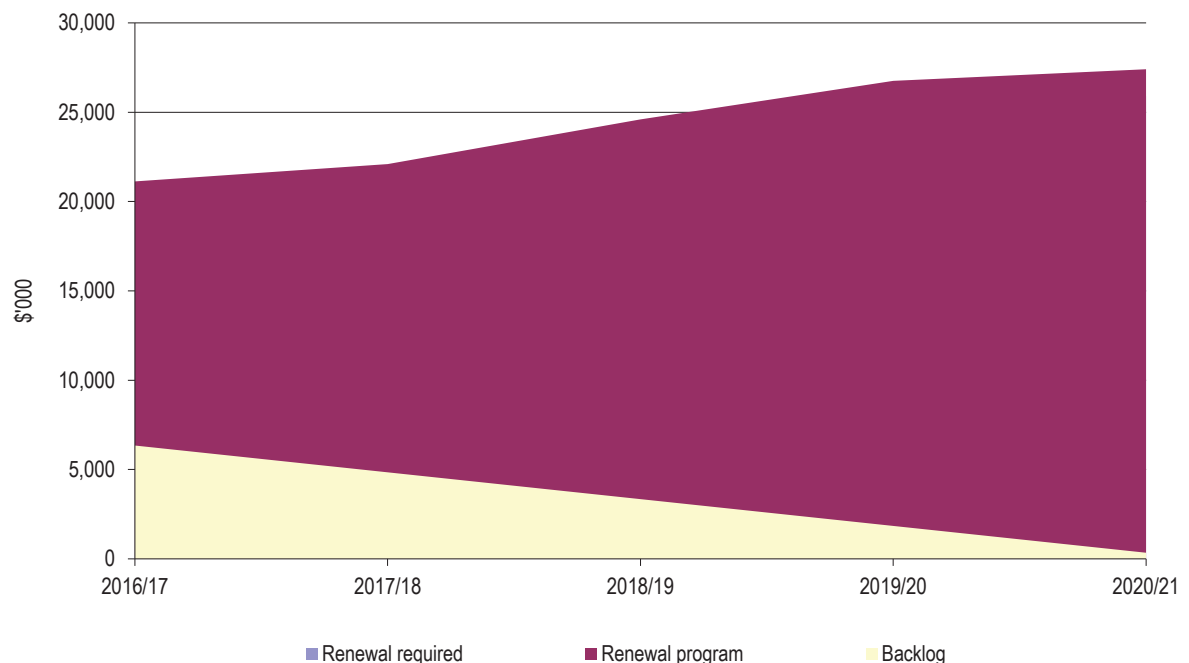
Sound asset management requires Council to understand long term as well as short term financial obligations. The table included over-page highlights the estimated annual renewal requirements based on data from condition audits and the projections in the current Road, Drains, Parks and Building Asset Management Plans.



## 12.5 2016-2017 Draft Annual Budget

### Officers' Assessment

Over the next five years, \$122 million has been allocated to the renewal program to replace infrastructure, plant and equipment, information and communication technology assets as they become unserviceable or fail. The table below shows our renewal funding strategy over the asset classes for the next five years.



- The challenge to fund the appropriate replacement of existing assets (roads, drains, buildings etc.) is one that City of Frankston shares with many other municipalities.
- Council has replenished its asset renewal spend in 2016-2017 and onwards to maintain the level of resources required to renewing our assets and address the renewal backlog.

#### d) Strategic Major Projects

There has been significant investment in the infrastructure of Frankston City in the past few years, including:

- \$49.0 million Peninsula Aquatic Recreation Centre (PARC)
- \$12.3 million Frankston Regional Resource and Recycling Centre
- \$10.0 million Frankston Yacht Club
- \$3.4 million Frankston Park Function centre

The introduction of rate capping has restricted Council's ability to deliver major projects in the future and must maintain its existing assets and meet the asset renewal challenges, whilst continuing to provide a strong suite of operational services to its residents.

**12.5 2016-2017 Draft Annual Budget  
Officers' Assessment****e) Key Infrastructure Projects included in the 2016-2017 Budget**

A significant allocation of Capital Works funds have been allocated to Structure Recreation with an overall budget of \$5.46 million. Significant projects in this category include:

- \$1,300,000 Ballam Park Pavilion - Design and construction of a new pavilion (*\$650,000 Council contribution*)
- \$1,300,000 Carrum Downs Recreation Reserve Pavilion – Construction of a new pavilion (*\$250,000 Council Contribution*)
- \$950,000 Baxter Park Soccer car park upgrade – construction of a new carpark (*\$950,000 Council contribution*)
- \$600,000 Frankston BMX Track – Stage 1 upgrade to the existing track (*\$500,000 Council contribution*)
- \$500,000 Frankston Basketball Stadium Expansion for ongoing design stages – (*Total project budget of \$12.45 million*)
- \$440,000 McClelland Reserve Soccer Pavilion for the completion of the extension to the existing pavilion (*\$340,000 Council contribution*)

An amount of \$850,000 has been allocated to rationalise existing toilets along the Frankston foreshore through both demolishing redundant toilets and replacing existing toilets. The aim is to make all toilets more modern, energy efficient and less maintenance intensive. (*\$850,000 Council contribution*)

Funds allocated to Stormwater drainage amount to \$850,000. The various drainage projects have been selected to support Drainage Masterplans and Strategies with the aim of flood mitigation. (*\$850,000 Council contribution*)

There has been an allocation of \$1.020 million to Playgrounds and Playspace Initiatives. The more significant projects include:

- \$300,000 Ballam Park - construction of playspace area to link existing facilities (*\$300,000 Council contribution*)
- \$350,000 Baxter Park – Upgrade of the existing playground and amenities (*\$350,000 Council contribution*)
- \$250,000 Lawton Park – Construction of a new district playground (*\$250,000 Council contribution*)
- The remaining funds have been allocated for design work to Seaford Community Centre playspace, RF Miles Reserve and Carrum Downs Recreation Reserve.

Budget allocation to pathways including footpaths and shared pathways amount to \$1.28 million. These projects have been identified from a prioritised list in the recently published Frankston Paths Development Plan (Nov 2015). (*\$647,695 Council contribution not including Reserves and contributions.*)

Projects identified in the Open Space, Foreshore & Unstructured/ Passive Initiatives have been allocated a total budget of \$698,000. The main projects include:

- \$150,000 Seaford Foreshore North/ South foreshore path. Works will include track surface upgrade, fencing and vegetation management. (*\$150,000 Council contribution*).
- The remaining funds are allocated to foreshore paths and pedestrian trails at Lloyd Park, Keast Park, George Pentland Botanical Gardens, Frankston Park and Jubilee Park.

**12.5 2016-2017 Draft Annual Budget****Officers' Assessment**

In keeping with Frankston's recently won 2015 National Sustainable City Award the Council has allocated an amount of \$327,735 to install Solar panels to reduce energy costs and greenhouse emissions on 11 Council owned buildings.

An amount of \$437,000 has been allocated to the design of roads including Cranhaven Road in Langwarrin, Barrets Road in Langwarrin South, Stotts Lane in Frankston South and Newton Avenue and Weerona Road in Langwarrin South.

The Frankston Arts Centre has been allocated a budget of \$399,000 for the upgrade of existing kitchen and bar facilities and various technical upgrades to improve the functionality of the facility.