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**14.1 2017/18 Budget Review for the period ended 31 October 2017**  
*(File No. 12/05/0013)*

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**Disclosure of Interest** The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

**OFFICER RECOMMENDATION**

That the Audit Risk and Governance Committee:

1. Endorse the 2017/18 Budget Review for period ended 31 October 2017 for adoption at Council, resulting in a projected closing municipal surplus of \$484,070 as at 30 June 2018;
2. Endorse the new/expanded initiatives as per the below table (already included in the above municipal surplus figure):

Project	Current Budget	Proposed Budget	Funding	Muni Impact
Illegal Dumping	\$50,000	\$100,000	\$100,000	\$0
Landfill OHS	\$0	\$102,000	\$102,000	\$0
Stage 2 Telecommunications renewal & upgrade project (renewal)	\$0	\$500,000	\$0	\$500,000
Kevin Scott Oval Irrigation compound (upgrade)	\$0	\$20,000	\$0	\$20,000
South Hedland Aquatic Centre - Work to renew and upgrade to working condition	\$500,000	\$1,300,000	\$1,300,000	\$0
Faye Gladstone Netball Courts Clubroom Upgrade	\$1,361,972	\$1,461,972	\$1,365,805	\$96,167
Pinga Street - Rehabilitation of Existing Pavement	\$2,236,246	\$2,686,246	\$1,478,678	\$1,207,568
Marquee Park pump replacement and repair (renewal)	\$0	\$20,000	\$0	\$20,000
Drainage Renewal Program	\$300,000	\$450,000	\$0	\$450,000

3. Endorse Council to commit all proceeds received from the sale of lots at Kingsford Smith Business Park are transferred to the Asset Management – Infrastructure and Community Facilities Reserve.

**ABSOLUTE MAJORITY VOTE REQUIRED**

**PURPOSE**

This report presents the 2017/18 first quarterly Budget Review for period ended 31 October 2017. The review is an opportunity to evaluate the current budget and allocate funding for emerging community and social priorities, allowing the organisation to respond and provide the best result for the Town.

There are also others factors that are affecting the operational activities and revenue streams which have resulted in budget variations and are discussed in the background of this report. The proposed budget changes from the review indicate an overall budget variation of \$128,806, resulting in an estimated closing municipal surplus of \$484,070 as at 30 June 2018.

## DETAIL

Following the 2017/18 Budget adoption on 26th July 2017, the *Local Government (Financial Management) Regulations 1996* state that we are required to carry out a review of the Annual Budget between 1 January and 31 March in each Financial Year. The purpose of this report is to review the budget as at 31 October 2017 and present the proposed revised budget to be received by the Audit, Risk and Governance Committee (ARG).

The Budget Review is an opportunity to evaluate the current budget as a result of numerous factors that affect the operational activities and revenue streams. The reviews are used as a tool for decision making for current and future activities and they are a key component of prudential financial management practices in order to mitigate financial risk exposure to Council. In conjunction with compliance to legislation, the review conducted aimed to reconsider all budget items and review them by taking into account any changes in the macro or minor economic variables and any other relevant information.

Summary of actual financial position as at 30 September 2017:

- Capital expenditure to date is tracking at 17% budget spent to date, with committed orders bringing the current financial completion to 45%. Pinga Street Rehabilitation has been completed, drainage construction at the Faye Gladstone Netball Courts is near completion, the Marina Development is awaiting a response from the State Government and South Hedland Aquatic Centre Works are well underway with a proposed re-opening date set for January 2018.
- Operating expenditure is currently 17% of budget. This is slightly under the expected budget YTD, mainly due to lower than expected expenses across the all areas.
- Rating income is overall on target YTD with grant payments under budget due to timing of payments and interest income ahead of schedule due varied timing of maturities.

For more detailed information, please refer to the Statement of Financial Activity for the period ended 30 September 2017 as adopted at OCM on 1 November 2017.

A Statement of Financial Activity by Nature and Type is attached which demonstrates the current annual budget, the proposed annual budget following the variations included as part of this budget review and amendment. The significant movements are detailed below:

- Operating Revenue overall reduction of \$377k:
  - \$1,014K decrease in Operating Grants, Subsidies and Contributions attributed mainly to a portion of the 2017/18 FAG Grant received prior to 30 June 2017 and recognised in the 2016/17 financial year;
  - \$73K decrease in Fees and Charges mainly in relation to reduced Fines and Penalties revenue as a result of providing additional education to the Community regarding the Local Laws; and for reduced kiosk sales at the Matt Dann;
  - \$579K increase in Other Revenue recognises reimbursement income from the YMCA for a Variation of \$150K due to the closure of SHAC, and reimbursements totaling \$376K to the TOPH for their share of less than budgeted deficits for Wanangkurra Stadium, GAC and SHAC; and reimbursement income from North West Festival 2017 for \$55K from Sunset events for sponsorship the TOPH sourced for the event.

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- \$131K increase for the Profit on Sale of Assets due to additional lots being secured for sale at Kingsford Smith Business Park (the profit recognised in a non-cash item and is the net value of proceeds from sale less the written down value of the asset);
- Operating Expenditure overall reduction of \$325K
  - \$512k decrease in employee costs attributed to vacancies recognised. The reduced employee cost figure takes into account all redundancies paid to date;
  - \$139K decrease to Materials & Contracts overall with a number of movements:
    - \$237K increase to Contractors – trade: new/expanded initiatives including \$50K for Illegal Dumping scope expansion funded by reserves and \$102K for OSH issues at the Landfill; \$23K for increased collection of green waste this pre-cyclone clean-up; \$40K to repair irrigation due to unforeseen blowouts in Wise terrace and South Hedland CBD funded by savings identified in material and parts; and \$65K engagement of ITVision to support the Rates department through the PRC;
    - \$114K decrease in consumables at the Landfill and Depot;
    - \$74K decrease for registration costs mainly relating to Fleet;
    - \$70K decrease for consultant costs across the organisation mainly in relation to Building Services and Landfill;
    - \$32K reduction in Gratwick Aquatic Centre
    - \$27K reduction on Management Contract agreements, mainly with YMCA;
  - \$25K increase to Utilities mostly attributed to unbudgeted electricity costs for the records storage shed at the Airport;
  - \$300K increase to Other Expenditure for:
    - \$276K increase to North West Festival management payment for expenditure carried forward from 2016/17
    - \$26K for the lease of the Depot Building
- Capital Expenditure and Revenue:
  - \$899K increase of Capital Expenditure – refer to attached Capital Work Program for a detailed breakdown of movements. Majority of movements have been funded by reserves;
  - \$512K increase in revenue from proceeds of sale of land at Kingsford Smith Business Park – to be transferred to the Asset Management Infrastructure & Community Facilities Reserve;
  - \$171K net decrease in Non-operating grants, subsidies and contributions to correctly identify WANDRRA funding approved and for revenue in relation to the Faye Gladstone Netball Pavilion grant funding payable on practical completion;
  - \$799,474 of additional transfers from reserves to municipal to release funds for expenditure incurred in 2016/17 but not transferred from reserve;
  - \$132K net increase in transfers to reserves to move KSPB proceeds from sale and adjustment of the waste management reserve following budget review amendments;
- Municipal Surplus Brought Forward 1 July 2017 has been amended to reflect the final audited closing balance of \$4,1M as per the 2016/17 Annual Financial Statements to be presented to ARG at this same meeting. This was originally estimated in the budget at \$4,5M.

*New/Expanded Initiatives*

Included in the operating and capital expenditure increases identified through the budget review are a number of new/expanded initiatives and projects proposed for this financial year as outlined below:

<b>Project</b>	<b>Current Budget</b>	<b>Proposed Budget</b>	<b>Funding</b>	<b>Muni Impact</b>	<b>Commentary</b>	<b>Priority</b>
Illegal Dumping	\$50,000	\$100,000	\$100,000	\$0	Additional funds requested to expand the scope of the Illegal Dumping project and investigate long term solutions (2 Mile \$60k; Collier Drive \$40k). Additional budget to be funded from the Waste Management Reserve \$50K.	High
Landfill OHS	\$0	\$102,000	\$102,000	\$0	Require additional unbudgeted amounts for OHS issues which have come to light as a result of recent safety review. Work required to include traffic management, Landfill drainage and operator compliance training. To be funded by the Waste Management Reserve.	High
Stage 2 Telecommunications renewal & upgrade project (renewal)	\$0	\$500,000	\$0	\$500,000	Upgrade 50 year old copper infrastructure to fibre optic cable linked directly to each building. Core construction is required as it was outside the NBN installation route.	High
Kevin Scott Oval Irrigation compound (upgrade)	\$0	\$20,000	\$0	\$20,000	Fencing required around irrigation compound as per the non-potable water irrigation guidelines. Fencing was allowed for in the tank replacement project in the 2016/17 budget but due to adjacent construction of the Faye Gladstone netball pavilion was	Medium

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					unable to be installed at that time.	
South Hedland Aquatic Centre - Work to renew and upgrade to working condition	\$500,000	\$1,300,000	\$1,300,000	\$0	Additional funds required to remove wave rider and address water filtration issues which are currently not compliant and for additional civil works. \$500K <b>Approved by Council Decision CM201718/055 at Special Council Meeting held 04/10/2017. To be funded by the Asset Management Reserve.</b>	High
Faye Gladstone Netball Courts Clubroom Upgrade	\$1,361,972	\$1,461,972	\$1,365,805	\$96,167	Additional funds required to cover additional seating, hydrostatic membrane and fencing as well as extra stainless steel balustrade as existing drop is greater than minimum. Increase funded by municipal.	High
Pinga Street - Rehabilitation of Existing Pavement	\$2,236,246	\$2,686,246	\$1,478,678	\$1,207,568	Additional \$450K required to complete project. <b>Approved by Council Decision CM201617/246 at Ordinary Council Meeting held 28 June 2017. Increase to be funded by the Asset Management Reserve.</b>	High
Marquee Park pump replacement and repair (renewal)	\$0	\$20,000	\$0	\$20,000	Purchase and installation of a new pump and service existing pump at Marquee Park. There has been problems with the probe which is associated with the dosing of the system.	High
Drainage Renewal Program	\$300,000	\$450,000	\$0	\$450,000	Additional \$150K requested for continuation of program and installation of better stabilisation products.	Low

Through the review it has been identified that there is not an over-arching Council decision on how the proceeds from the sale of lots at the Kingsford Smith Business Park (KSBP) should be utilised. In previous years, funds have been placed into the Airport Reserve, however given the lease of the PHIA for the next 50 years, it is recommended the KSBP proceeds from sale be placed into the Asset Management Reserve to secure the funds for future maintenance, refurbishment, renewal, replacement and upgrade of Council owned infrastructure assets and community facilities. This will ensure the proceeds are not used to fund operations.

### **LEVEL OF SIGNIFICANCE**

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of medium significance, because budget reviews are vital to ensure the Town is forecasting expected expenditure and revenue in line with current conditions and commitments. Budget reviews are used as a tool for decision making for current and future activities and they are a key component of prudential financial management practices in order to mitigate financial risk exposure to Council.

### **CONSULTATION**

#### *Internal*

The 2017/18 Budget has been reviewed by all Budget Managers and the Executive Leadership Team, who collectively have considered the impact of the budget amendments presented to benefit the community as a whole and keep within the budget guidelines of a balanced budget.

### **LEGISLATION AND POLICY CONSIDERATIONS**

A local government is required to carry out a budget review between the 1 January and 31 March of each financial year in accordance with regulation 33A(1) of the *Local Government (Financial Management) Regulations 1996*. The review must consider the financial performance between 1 July to 31 December, the financial position at the date of the review, and review the outcomes for the end of financial year forecast as stipulated in regulation 33A(2A).

Although there is no statutory requirement to present the review to the Audit, Risk and Governance Committee a section has been included in the Committee's terms of reference under 7.4.7 to receive quarterly budget reviews. It is the Committee's role to provide comment and feedback on the review in terms of the overall aspects of the review. This review was prepared as at 31 October 2017 to provide the Committee and Council with overview and insight to the budget progress and amendments identified throughout the financial year.

Any budget review must be submitted to Council within 30 days of completion, with Council to determine whether or not to adopt the review by absolute majority as required by regulation 33A(2) and (3). The budget review will be presented to Council at its Ordinary Meeting on 13 December 2017 for consideration.

If the local government has delegated to the CEO the exercise of its power to make payments from the municipal fund or the trust fund, as this Council has, Regulation 13 of the *Local Government (Financial Management) Regulations 1996* requires the Town to prepare a list of accounts paid by the CEO each month showing for each account paid since the last such list was prepared —

- (a) the payee's name; and
- (b) the amount of the payment; and
- (c) the date of the payment; and
- (d) sufficient information to identify the transaction.

### **FINANCIAL AND RESOURCES IMPLICATIONS**

The 2017/18 first quarter Budget Review for period ended 31 October 2017 has identified a decreased operating revenue and a decrease in operating expenditure, resulting in an operating deficit increase of \$52K. In addition to the budget amendments presented, this report also provides to amend the municipal surplus brought forward at 1 July 2017 to match the final audited Annual Financial Statements 2016/17 with a brought forward figure of \$4,1M. The overall result of the budget amendments is a proposed increase to the closing municipal surplus, resulting in an estimated closing municipal surplus of \$484,070 as at 30 June 2018.

Figures presented in this report are indicative and subject to change following further budget review processes which will be undertaken during January and April 2018 and presented to ARG Committee and Council accordingly.

### **STRATEGIC AND SUSTAINABILITY IMPLICATIONS**

This following section of the Council's *Strategic Community Plan 2014-2024* are applicable in the consideration of this item:

*4.1 Strategic and best practice local government administration*

- Deliver high quality corporate governance accountability and compliance
- Maintain a strong and sustainable financial position
- Be efficient and effective in use of resources, infrastructure, assets and technology
- Attract, develop and retain an effective workforce to deliver organisational outcomes

There are no significant identifiable environmental, social or economic impacts relating to this item.

### **RISK MANAGEMENT CONSIDERATIONS**

As per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Medium (6) .

There is a risk rating of medium (6) assigned to the risk that the review not be submitted to Council within 30 days after the review has been finalised. This risk has an unlikely possibility and a moderate impact in relation to compliance with significant regulatory requirements imposed.

There is a risk rating of medium (9) assigned to the risk that the Council do not adopt the 2017/18 Budget Review for period ended 31 October 2017, resulting in the delay or inability to perform specific capital works which are essential but do not currently have an approved budget item line. This risk has a possible possibility and a moderate impact in relation to compliance with significant regulatory requirements imposed.

## **OPTIONS**

### *Option 1 - Adopt Officers Recommendation*

ARG Committee endorse the 2017/18 Budget Review for period ended 31 October 2017 for adoption at Council, resulting in a projected closing municipal surplus of \$484,070 as at 30 June 2018 including new/extended initiatives and projects; and endorse Council to commit all proceeds received from the sale of lots at Kingsford Smith Business Park are transferred to the Asset Management – Infrastructure and Community Facilities Reserve.

### *Option 2 – Do not adopt Officers Recommendation*

That ARG Committee do not endorse the proposed amendments presented in the 2017/18 Budget Review for period ended 30 October 2017.

## **CONCLUSION**

This report presents a summary of the 2017/18 Budget Review for period ended 31 October 2017. A number of variations are proposed as part of this review to meet community and organisational requirements and reflect reduction in some revenue streams. The outcome of the review presents an estimated municipal surplus of \$484,070 as at 30 June 2018. A further review and feedback from the Audit, Risk and Governance Committee may see a change to this final position. The Audit, Risk and Governance Committee is only required to receive the budget review in accordance with the terms of reference.

## **ATTACHMENTS**

1. 2017/18 Budget Review Financial Statements and Supplementary Documents for period ended 31 October 2017.