

Attachment 1

## **Annual Budget Overview**



*City of*  
**Wanneroo**

# **Annual Budget**

**Overview**

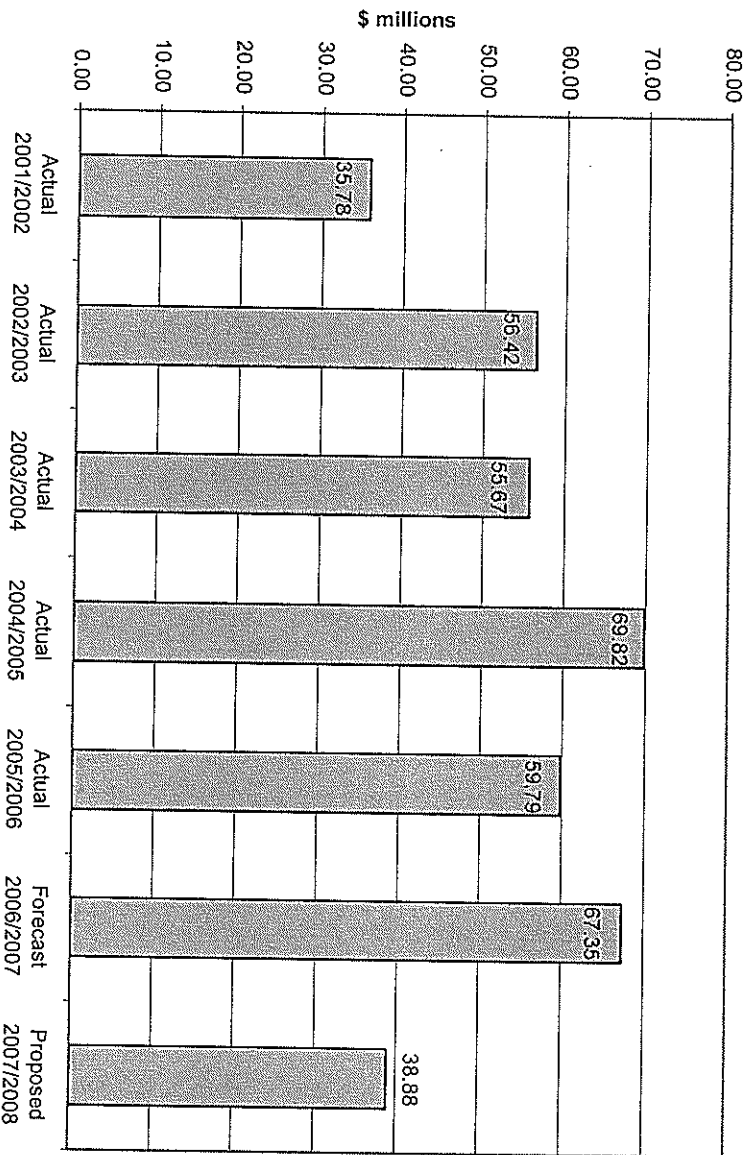
**2007/2008**

## EXECUTIVE SUMMARY

This executive summary provides key information about operating result, rate increases, cash and investments, capital works, financial position and the financial sustainability of the Council.

### 1. Change in Net Assets from Operations

Change in Net Assets From Operations



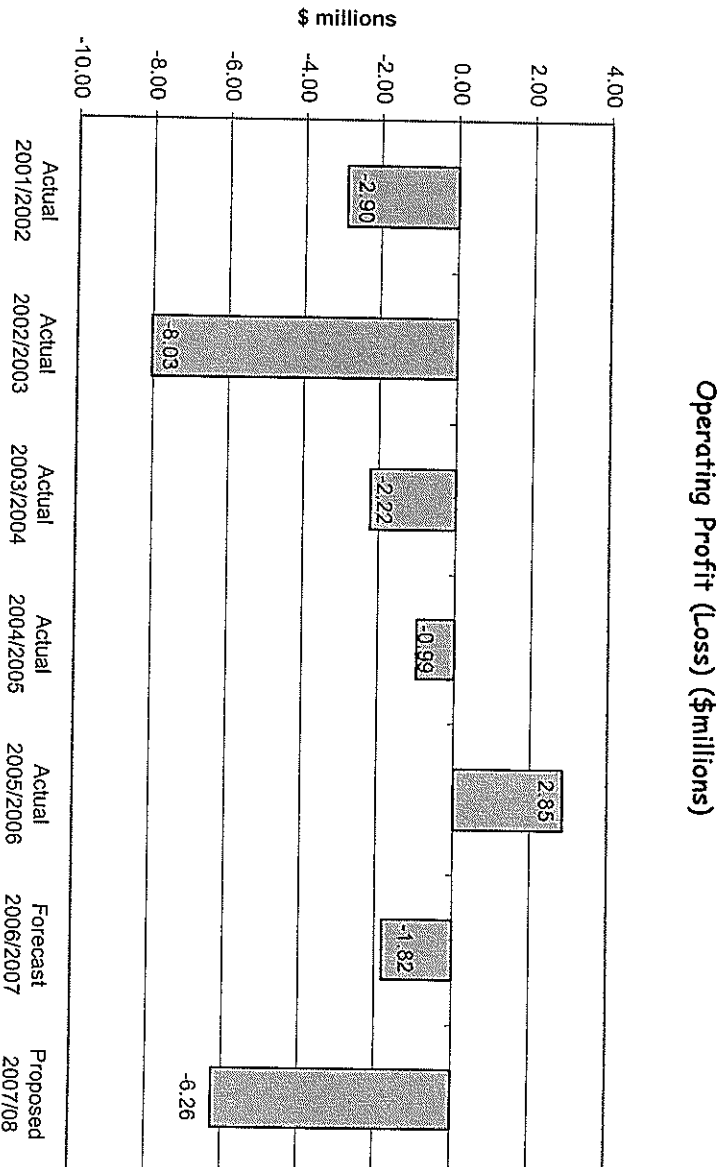
The change in net assets from operations, which includes non-operating items such as capital grants and contributions is \$38.88 million, which is a decrease of \$28.47 million over 2006/2007. The primary reason for this decrease in performance relates to the significant proportion reflected into the Town Planning Schemes, along with a \$7 million reduction in physical assets proposed to be received from Developers in 2007/08.

The change in net assets from operations forms the basis of reporting organisational performance under Australian and International Accounting Standards and significantly distorts the underlying operating performance of the organisation. Current reporting requirements provide for the recognition of the value of physical assets contributed by Developers as Income in the Income Statement.

The inclusion of developer contributions as income in 2006/2007 (\$37.4 million) significantly overstates the performance, which is not supported in the underlying operating result.

# City of Wanneroo – Annual Budget 2007/2008

## 2. Underlying Operating Result



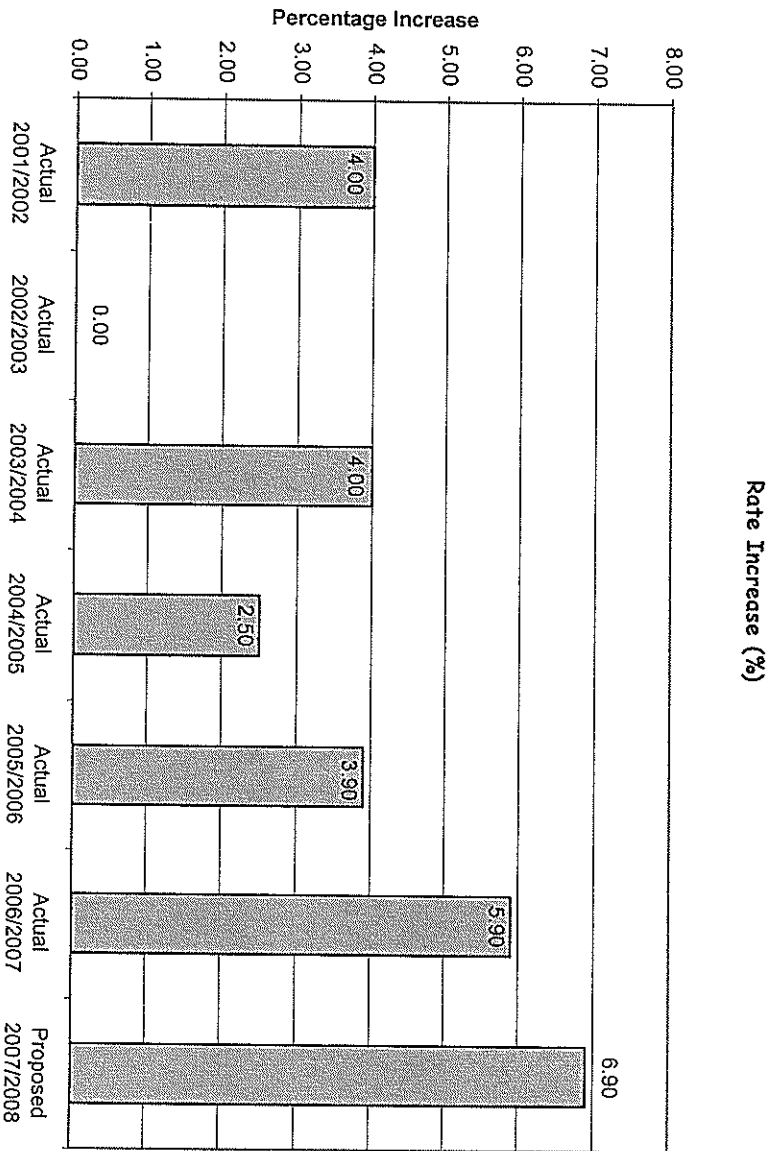
The underlying operating result, which excludes non-operating items such as capital grants and contributions, but includes depreciation is a deficit of \$6.26 million, which is consistent with the budgeted position for 2006/2007, however a favourable operation resulted in a reduction in the level of deficit forecasted for 2006/07. The 2007/08 Rate Setting Statement actually identifies an end of year deficit level of \$4.0m, which given the operating result and level of capital expenditure is considered to be an acceptable outcome.

The decline in underlying operating result is due mainly to a reduction in anticipated interest earnings, and increases in depreciation expenses, loan servicing expenses, additional salary and wage expenses and additional contract expenditure relating to the maintenance of parks and reserves.

The anticipated \$1.6 million increase in depreciation expense results from the significant level of physical assets being contributed to the City on an annual basis and other increases in expenditure relate primarily to increased maintenance costs associated with those assets.

## City of Wanneroo – Annual Budget 2007/2008

### 3. Rates

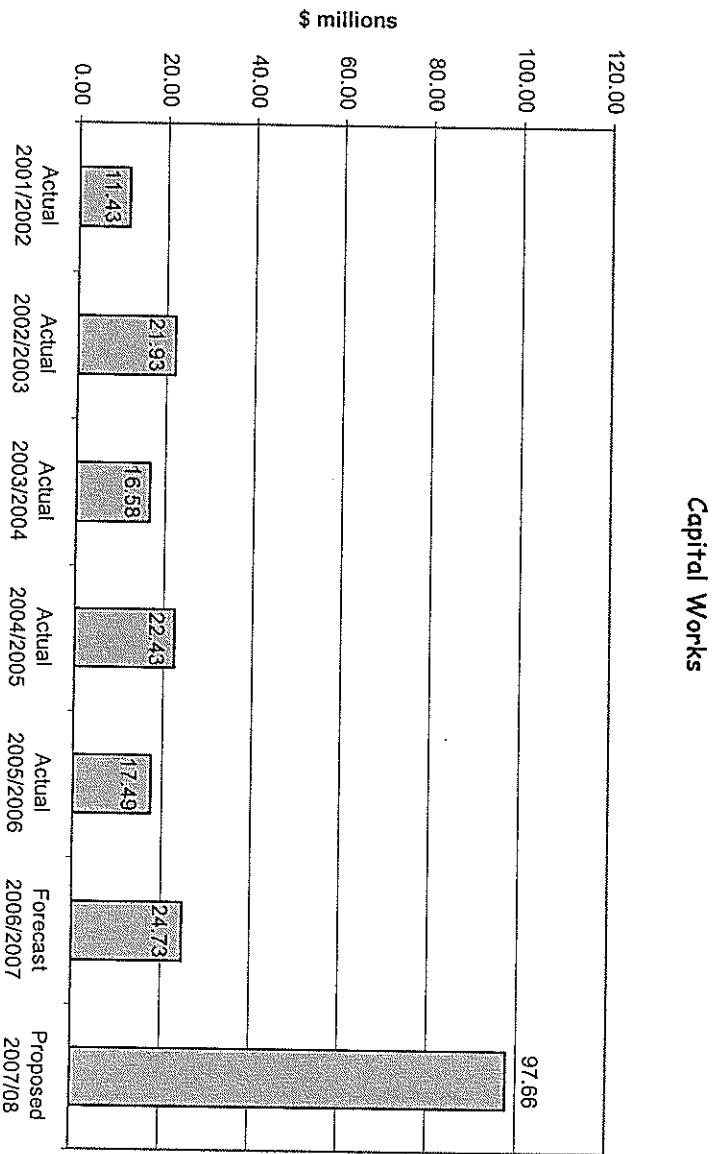


It is proposed that general rates increase by 6.9% for 2007/08, raising total rates of \$47.3 million, including \$1.5 million generated from interim rates.

The increase has been allocated toward additional operating expenditures such as increased fuel costs, staff required to support the City's high growth rate and additional funds for the maintenance of parks and other infrastructure contributed to the City by developers. In addition, it has been allocated toward maintaining service levels and meeting the cost of a number of external influences affecting the operating budget including a \$0.41 million reduction in rates resulting from a State Administration Tribunal's (SAT) decision on the non-rateability of retirement villages.

# City of Wanneroo – Annual Budget 2007/2008

## 4. Capital works



The capital works programme for 2007/2008 is proposed to be \$73.08 million (excluding carry forward projects). It is anticipated that \$24.58 million of projects and plant replacements will be carried forward from 2006/2007 bringing the total capital works programme for 2007/2008 to \$97.66 million. The carried forward project component is fully funded from the 2006/2007 budget.

Of the \$97.66 million of capital funding required, \$25.21 million will come from external grants and contributions, \$27.67 million from loan borrowings, \$28.76 million from restricted investments (Reserves) including Town Planning Schemes.

The capital expenditure program has been set and prioritised based on a process of consultation that has enabled Council to assess needs for each project. This year's program includes the following major building projects:

- Upgrade of the Material Recycling Facility
- Upgrade of Kingsway Sporting Complex
- Construction of Wanneroo Cultural and Learning Centre
- Upgrade of Aquamotion
- Redevelopment of Koondoola Plaza
- Construct Community Centre – Butler
- Subdivision development of Neerabup Industrial Area
- Subdivision of Pt Lot 257 Motivation Drive Wangara
- Introduction of cart recycling system
- Construction of Ocean Drive
- Pinjar Road realignment

Each of these major projects, which in total represent approximately 60% of the overall capital works program and are either due for commencement or in the final stages of planning. Dedicated resources are being allocated to ensure tight control is maintained over the capital works to ensure the challenging program can be achieved efficiently.

## City of Wanneroo – Annual Budget 2007/2008

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### 5. Interest Bearing Liabilities

In 2006/07 the City entered into an agreement with the Western Australian Treasury Corporation for a five year loan draw down totalling \$60.78 million. The agreement is for interest only repayments over a fixed period, with the capital due to be repaid in December 2026. It is proposed that the capital will be repaid through the proceeds from future sale of investment property. The capital works program proposes borrowings be applied to the following projects over the five year period commencing 2006/07:

Project Description	Proposed Loan Borrowing
Develop Industrial Estate - Neerabup	\$5,200,000
Subdivision of part Lot 257 Motivation Drive, Wangara	\$2,270,000
Construct Regional Museum and Library - Wanneroo	\$13,100,000
Construct Community Centre - Butler	\$278,000
Construct Community Centre – Hocking Pearsall	\$1,480,000
Redevelop Wanneroo Townsite	\$5,164,000
Redevelop Koondoola Precinct	\$3,586,150
Develop Accessible and Inclusive Playground	\$222,000
Upgrade Kingsway Regional Sporting Complex	\$23,913,038
Upgrade Aquamotion Centre	\$5,625,000
Construct dual carriageway on Ocean Reef Road	\$1,000,000
Realignment of Pinjar Road	\$850,000
	Total
Agreed Treasury Loan	\$62,688,188
Balance	\$60,778,188
	\$1,910,000

Given that the total exceeds the agreed Treasury loan draw down, subject to cash flow requirements, it is proposed to borrow against the Town Planning Schemes, on a short term basis. This loan will be repaid with interest with the proceeds from the sale of Lots arising from the subdivision of Lot 257 Motivation Drive, Wangara.

## City of Wanneroo – Annual Budget 2007/2008

### 6. Human Resources (To be Updated)

The City has been operating with an average of 45 staff vacancies during 2006/2007. It is likely that this situation will continue through 2007/08 and an appropriate vacancy adjustment has been allowed in the forecast salaries and wages for the current year. It should be noted that to some degree the vacancies will be offset by increased contract labour expenses.

#### Human Resource Summary

Actual and proposed staffing levels for 2007/2008 by directorate are outlined in the following table:-

Directorate	Staff Establishment		Proposed New Positions	
	2006/2007	FTE's	2007/2008	FTE's
Office of Chief Executive	5	3.76	-	-
Governance and Strategy	73	58.24	3	3
Corporate Services	62	54.08	2	2
Planning and Development	73	67.90	2	2
Infrastructure	312	299.36	8	8
Community Development	404	191.81	6	6
<b>Total</b>	<b>929</b>	<b>675.14</b>	<b>21</b>	<b>21</b>
Permanent	723			
Temporary	92			
Relief	114			
	<b>929</b>			

# Annual Budget

## Details

2007/2008

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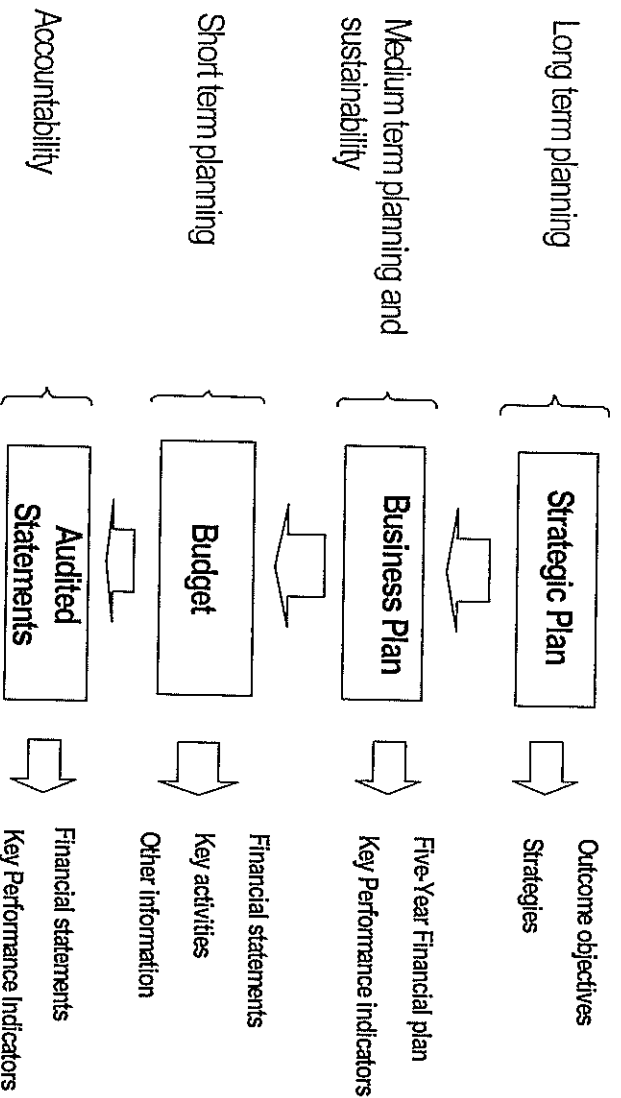
## 1. BUDGET PREPARATION

The Annual Budget has been developed within an overall planning framework, which guides the Council in identifying community needs and aspirations over the long term (Strategic Plan) and short term (Annual Budget) and then holding itself accountable (Audited Statements).

### 1.1 Strategic planning framework

The Five-Year Financial Plan was adopted in 2006/07 and summarised the financial impacts of Council's outcomes, objectives and strategies and determined the sustainability of these objectives and strategies. A review of the Financial Plan is proposed to be undertaken during 2007/08, which will provide further clarity and guidance for future annual budgets.

The Annual Budget is framed within the Five-Year Financial Plan, taking into account activities and initiatives included in the Annual Budget which contribute to achieving the outcome objectives specified in the Strategic Plan. The diagram below depicts the strategic planning framework of Council.



### 1.2 Legislative requirements

In accordance with Section 6.2 of the Local Government Act 1995 ("the Act"), Council is required to prepare and adopt an annual budget for each financial year. The budget is required to include certain information about the rates and charges that Council intends to levy as well as a range of other information required by the Local Government (Finance Management) Regulations 1996 ("the Regulations") which support the Act.

The 2007/2008 budget is for the year 1 July 2007 to 30 June 2008 and is prepared in accordance with the Act and Regulations. The budget includes standard statements being a budgeted Income Statement by Nature or Type and by Program, Statement of Cash Flows, and Statement of Financial Position (Balance Sheet).

These statements have been prepared for the year ended 30 June 2008 in accordance with Australian Accounting Standards and other mandatory professional reporting requirements and in accordance with the Act and Regulations.

## City of Wanneroo – Annual Budget 2007/2008

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It also includes detailed information about the rates and charges to be levied, the capital works programme to be undertaken and other financial information, which Council requires in order to make an informed decision about the adoption of the budget.

The budget includes consideration of a number of long-term strategies to assist Council in considering the Budget in a proper financial management context. These include a Five-Year Capital Works Program, Rating Strategy and Other Long-Term Strategies including borrowings and service delivery.

## 2. BUDGET INFLUENCES

In preparing the Budget it has been necessary to make a number of assumptions about the internal and external environment within which the Council operates.

### 2.1 External influences

In preparing the 2007/2008 budget, a number of external influences have been taken into consideration, because they are likely to impact significantly on the services delivered by Council in the budget period. These include:

- The City's Enterprise Bargaining Agreement (EBA). Salary and Wages growth is projected to be 5% per annum;
- Consumer Price Index (CPI) increases on goods and services of around 3.0% per annum;
- Continued cost escalations within the construction area;
- The \$0.41 million adverse impact of the State Administrative Tribunal's (SAT) decision that granted a rate exemption for retirement villages; and
- Prevailing economic conditions that are expected to remain difficult during the budget period impacting investment interest rates.

### 2.2 Internal influences

As well as external influences, there were also a number of internal influences arising from the 2006/2007 year that have had a significant impact on the setting of the budget for 2007/2008, including increases in staffing levels to meet the demand for Council's services and the full year cost of new positions created in the 2006/2007 Budget.

### 2.3 Budget principles

In response to these influences, guidelines were prepared and distributed to all Council officers with budget responsibilities. The guidelines set out the key budget principles upon which the officers were to prepare their budgets. The principles included:

- Existing fees and charges to be increased in line with CPI where possible;
- Grants to be based on confirmed funding levels;
- New revenue sources to be identified where possible;
- Service levels to be maintained at 2006/2007 levels with the exception of known increases to meet demand from ratepayers and other customers of the City;
- Contract labour and contracts to compensate for staff vacancies where service standards would otherwise be adversely impacted.

## City of Wanneroo – Annual Budget 2007/2008

### 3. ANALYSIS OF OPERATING BUDGET

This section of the report analyses the expected revenues and expenses of the Council for the 2007/2008 year.

#### 3.1 Operating revenue

Revenue Types	Forecast		
	Actual 2006/07 \$M	Budget 2007/08 \$M	Variance \$M
Rates Income	41.61	47.35	5.73
Statutory Charge Income	5.44	5.34	-0.10
User Charge Income	15.39	16.41	1.02
Operating Grants and Subsidy Income	6.39	6.44	0.05
Contributions	0.75	0.96	0.21
Interest Income	2.35	2.43	0.08
Reimbursement Income	0.84	0.54	-0.30
Other Council Income	5.23	4.74	-0.49
Other Income	2.18	2.72	0.54
<b>Total operating revenue</b>	<b>80.18</b>	<b>86.93</b>	<b>6.75</b>

#### 3.1.1 Rates and charges (\$3.87million increase)

It is proposed that general rate income be increased by 6.9% or \$5.74 million over 2006/2007 Forecast Actual to \$47.35 million, including supplementary rates. Please refer to "Rating Strategy" for a more detailed analysis of the rates to be levied for 2007/2008.

#### 3.1.2 User Charge Income (\$1.17 million increase)

User charges relate mainly to the recovery of service delivery costs through the charging of fees to users of Council's services. These include, users of golf courses, leisure and other community facilities and the provision of human services such as family day care and home help services. In setting the budget, the key principle for determining the level of user charges has been to ensure that increases do not exceed CPI increases or market levels.

User charges are projected to increase by \$1.02 million over 2006/2007, despite an allowance for the temporary closure of the Aquamotion Centre during refurbishment works. Some increases in user charges are in line with expected inflationary trends over the budget period to maintain parity of user charges with the costs of service delivery.

The main increase is in the Household Refuse Removal, which is budgeted to increase by \$1.03 million to \$11.58 million in 2007/2008. This increase is due in part to an increase in the number of households serviced. In addition, in adopting the 2005/2006 Budget in July 2005, Council agreed to increase this charge to cover the expected increase in domestic refuse rates at the proposed Resource Recovery Facility at Neerabup, to be operated by the Mandarie Regional Council. The cost per service in 2007/2008 is \$210 compared to \$180 in 2006/2007.

Council adopted amendments to the Schedule of Fees and Charges for 2007/2008 at their meeting of 5 June 2007. Further changes have been provided for as part of the budget adoption and included in the attached combined Schedule of Fees and Charges (Attachment 5).

## City of Wanneroo – Annual Budget 2007/2008

### 3.2 Operating expenditure

Expenditure Types	Forecast		
	Actual 2006/07 \$M	Budget 2007/08 \$M	Variance \$M
Salary and Wage Expenses	32.82	35.97	3.15
Employee Related Expenses	1.34	1.64	0.30
Contract Expenses	18.59	22.16	3.57
Material Expenses	4.70	5.38	0.68
Fuel Expenses	1.88	2.05	0.17
Utility Expenses	2.86	3.47	0.61
Finance and Interest Expenses	0.53	1.62	1.09
Insurance Expenses	0.68	0.74	0.06
Elected Member Expenses	0.21	0.33	0.12
Miscellaneous Expenses	0.74	0.99	0.15
Depreciation Expenses	18.82	20.40	1.58
Internal Cost Allocations	-0.80	-1.57	0.77
<b>Total operating expenditure</b>	<b>82.39</b>	<b>93.19</b>	<b>10.80</b>

#### 3.2.1 Salary and Wage Expenses (\$3.15 million increase)

The increase of \$3.15 million to \$35.97 million in 2007/2008 is due to:

- an increase in staffing levels by 21 FTEs over 2006/2007;
- plus the full year cost on new positions created in 2006/2007;
- increase in hours of part time positions;
- increases associated with work place agreements;

#### 3.2.2 Employee Related Expenses (\$0.30 million increase)

Employee related expenses include conference expenses, staff training and employee support services. This increase is in the areas of Uniforms (\$78,000) Conference Expenses (\$76,000) and Staff Training (\$147,000) and recognises the City's commitment to the Employer of Choice Programme and to further the professional development of staff.

#### 3.2.3 Contract and Material Expenses (\$4.25 million increase)

External contracts are forecast to increase by \$3.57 million compared to 2006/2007. Areas contributing to this increase include increases in external contracts for the maintenance of the City's facilities and parks, additional costs for HAAC Home Support and CACP Programmes as well as expenses associated with the three yearly GRV rate revaluation and elections. Materials includes the purchases of consumables. Materials Expenses are forecast to increase by \$0.68 million over the 2006/2007 Actual.

#### 3.2.4 Fuel Expenses(\$0.17 million increase)

Fuel expenses are budgeted to increase by 9% to \$2.05 million in 2007/2008, reflecting increases to the fleet size and fuel pricing.

#### 3.2.5 Depreciation (\$1.58 million increase)

Depreciation is an accounting process which attempts to measure the usage of Council's property, plant and equipment including infrastructure assets such as roads and drains. The increase of \$1.58 million for 2007/2008 is due mainly to the impact of assets contributed by developers and the full year impact of the 2006/2007 Capital Works Programme.

## 4. ANALYSIS OF CAPITAL BUDGET

This section of the report analyses the planned capital expenditure budget for the 2007/2008 year.

### 4.1 Capital works

Capital Works Areas	Budget 2007/08 \$M
Works carried forward from 2006/07	24.58
<b>New works for 2006/07</b>	
Investment	13.08
Corporate	4.37
Community	12.66
Recreation and Sport	14.92
Transport	20.26
Drainage	0.09
Coast and Waterway	0.47
Waste Management	7.23
<b>Total new works</b>	<b>73.03</b>
<b>Total capital works</b>	<b>97.66</b>

A detailed listing of individual projects comprising the capital works program is included in the Appendices of this report.

### 4.1 Carried forward works (\$24.58 million)

At the end of each financial year there are projects and plant replacements, which are either incomplete or not commenced due to planning issues and approvals, contractual delays, extended consultation period etc. For the 2006/2007 year it is forecast that \$24.58 million of capital works will be incomplete and be carried forward into the 2007/2008 year.

### 4.2 Investment (\$0.7 million)

\$9.0 million has been provided for the development of the Neerabup Industrial Estate and a further \$2.27 million for the subdivision of a portion of Lot 257 Motivation Drive, Wangara. Both of these projects will result in future proceeds from the sale of subdivided Lots. \$1.3 million has also been provided for the redevelopment of Koondooda Plaza and a further \$0.39 million on a joint venture for the construction of an Environmentally Sustainable Demonstration Housing project.

### 4.3 Corporate (\$4.37 million)

\$0.93 million has been provided for the acquisition of new and replacement IT equipment/software, \$3.0 million for new and replacement vehicles and \$0.3 on minor building improvements and a further \$0.12 on minor plant and equipment.

### 4.4 Community (\$12.66 million)

Significant projects include

- Wanneroo Cultural and Learning Centre \$11.5 million
- Mary Lindsay Homestead conservation works \$0.15 million
- Girrawheen Community Centre enhancements \$0.24 million
- Quins Fire Station \$0.29 million

## City of Wanneroo – Annual Budget 2007/2008

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### 4.5 Recreation and Sport (\$14.92 million)

Significant projects include

- Development of Gumblossom Reserve \$1.11 million
- Accessible and Inclusive Playground \$1.20 million
- Develop passive parks \$0.54 million
- Kingsbridge Park changerooms and floodlighting \$0.81 million
- Kingsway Upgrade \$1.00 million
- Upgrade Aquamotion \$8.00 million

### 4.6 Transport (\$20.26 million)

Significant projects include

- Pinjar Road realignment \$6.33 million
- Marmion Avenue construction (contribution) \$1.61 million
- Hartman Drive \$1.73 million
- Ocean Reef Road \$2.00 million
- Ocean Drive Quinns \$1.00 million
- Hepburn Avenue \$1.14 million
- Road Resurfacing \$1.12 million
- Various Traffic Management Works \$2.25 million

### 4.7 Waste Management (\$7.23 million)

Significant projects include

- New Recycling vehicles and carts \$3.55 million
- New Domestic Waste vehicles \$0.32 million
- Replacement Commercial and Domestic Waste vehicles \$3.36 million

## **5. RATING STRATEGY**

This section of the report considers the Council's rating strategy including strategy development, assumptions underlying the current year rate increase and rating structure.

### **5.1 Strategy development**

In developing the Five Year Financial Plan, rates and charges were identified as an important source of revenue, accounting for 54% of the total operating revenue received by Council annually. Planning for future rate increases is therefore an important component of the Financial Planning process.

### **5.2 Rateable Assessments**

Rateable assessments have been growing in the order of 7% annually since 2003/2004. In 2006/07, real growth of approximately 8% was achieved. Whilst this provides an opportunity for continuous increases in rate revenue, there is a corresponding increase in expenditure due to the amount of public open space and other Infrastructure being transferred to the City by the respective developers.

### **5.3 Current year rate increase**

The 2007/2008 operating position will be significantly impacted by a general increase in demand for services provided by the City. It will therefore be necessary to achieve future revenue growth whilst containing costs in order to reduce the forecast decline in Council's underlying operating position.

In order to achieve these objectives whilst maintaining service levels and a robust capital expenditure programme, general rates will increase by 6.9% in 2007/2008 raising a total rate of \$47.35 million, including \$1.50 million generated from supplementary rates. To maintain parity, future years rates are forecast to increase by at least 2.0% over and above the predicted CPI for Perth.

For 2007/2008, Council has reduced the rate in the dollar for land rated according to the Unimproved Valuation in view of the recent significant increases in valuations for some properties in the City. A similar reduction is applied every three years when the City receives a triennial revaluation from the Office of the Valuer General.

### **5.4 Rating structure**

Section 6.33 of the Local Government Act 1995 (the Act) allows for the imposition of differential rates according to the predominant use for which the land is held or used. Section 6.35 of the Act allows a minimum rate to be applied separately to each differential rating category where a differential general rate is imposed.

Council has adopted the principals of equity and fairness in imposing differential rates and considers that commercial and industrial properties require a higher base standard of infrastructure than other categories of ratepayers due to the potential of greater volumes of people and vehicular traffic. Whereas, a lower minimum payment is imposed on Caravan Parks that recognises the comparative lower levels of service consumption by Caravan Park residents as opposed to other categories of ratepayers.

Striking a proper balance between these elements provides equity in the distribution of the rate burden across residents.

The following table summarises the rates to be made for the 2007/2008 year. A more detailed analysis of the rates to be raised is contained in Appendix B "Statutory Disclosures". As mentioned above, for 2007/2008, Council has reduced the rate in the dollar for land rated according to the Unimproved Valuation in view of the recent significant increases in valuations for some properties in the City.

## City of Wanneroo – Annual Budget 2006/2007

Rate type	2006/07	2006/07	2007/08	2007/08
	Rate	Minimum	Rate	Minimum
<b>Gross Rental Value (GRV)</b>				
Residential and rural	7.4035	\$526	7.9143	\$526
Commercial Industrial	7.4036	\$947	7.9144	\$847
Caravan Parks	7.4034	\$247	7.9142	\$247
<b>Unimproved Value (UV)</b>				
Residential and rural	0.4042	\$526	0.2968	\$526
Commercial Industrial	0.4043	\$947	0.2969	\$847
Mining	0.4042	\$526	0.2968	\$526

## 6. BORROWINGS

In developing the Five Year Financial Plan, loan borrowings was identified as a significant funding source for the capital works programme. In the past, Council has not sought to borrow, preferring to fund new works from operations. This has left the Council in a strong position to borrow to meet significant requirements for new and replacement infrastructure.

Council has agreed to borrow \$60.78 million over five years and secured a loan facility in 2006/2007 from the Western Australian Treasury Corporation. The term of the loan is 20 years interest only with residential land sales from Tamala Park and the industrial land sales from Neerabup being used to repay debt progressively over the next twenty years.

Year	Borrowings \$M	Balance 30 June \$M
2006/2007	8.55	8.55
2007/2008	18.45	27.00
2008/2009	12.85	39.85
2009/2010	6.86	46.71
2010/2011	14.06	60.78