



City of
Wanneroo

Annual Budget

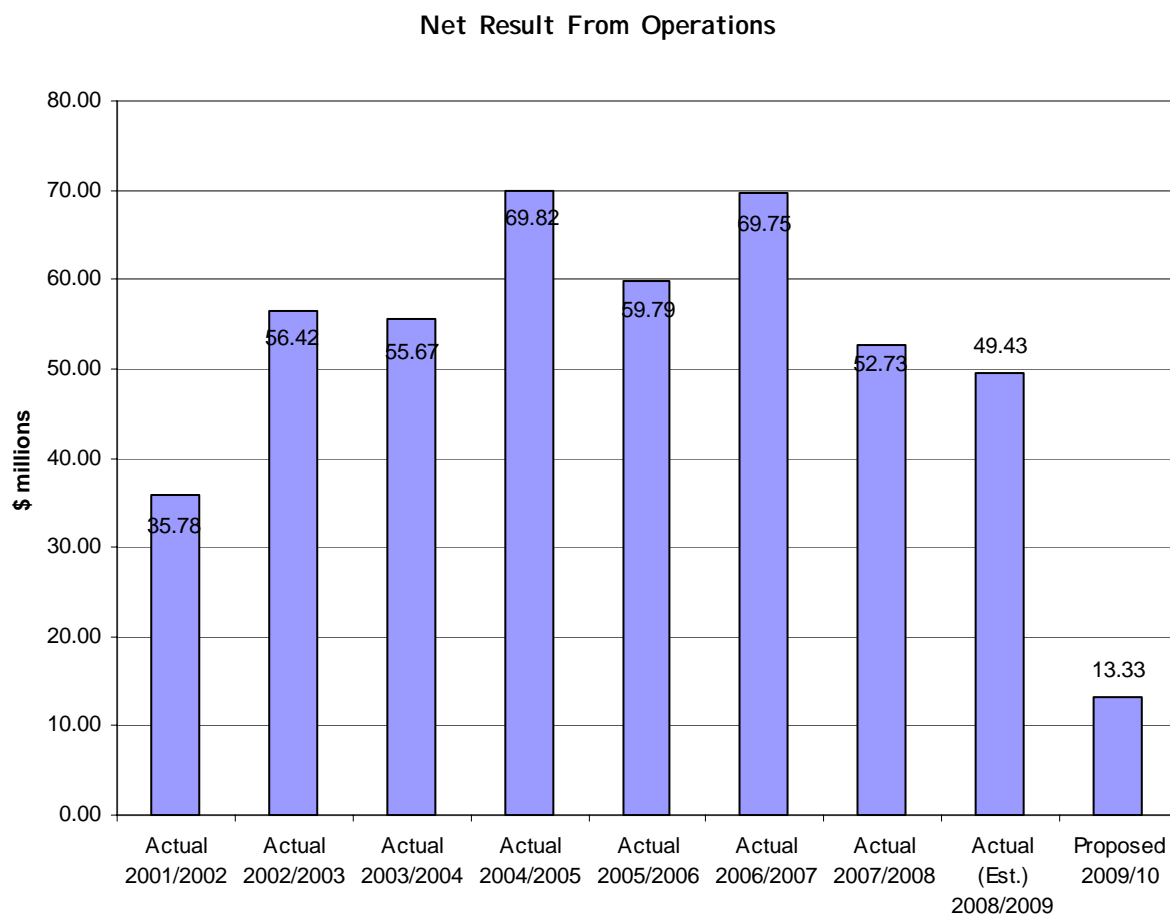
Overview

2009/2010

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 City.

1. Net Result from Operations

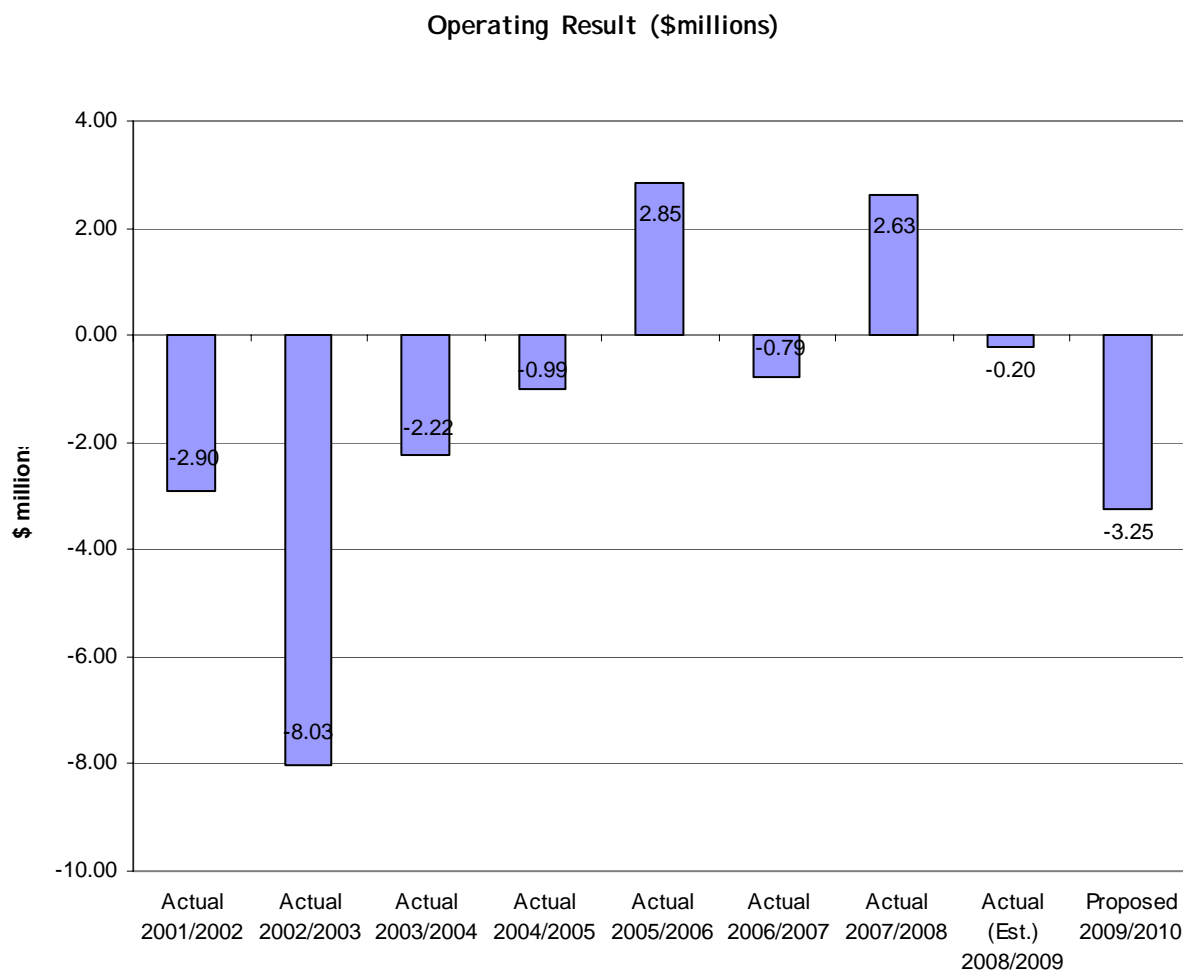


The net result from operations, which includes non-operating items such as capital grants and contributions is \$13.33 million, which is a significant decrease over 2008/2009. The primary reason for this decrease is the reduction in Town Planning Scheme contribution income, substantial increase in Scheme expenses and value of assets anticipated to be transferred to the City by Developers.

The net result 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 significantly overstates the performance, which is not supported in the underlying operating result.

2. Underlying Operating Result

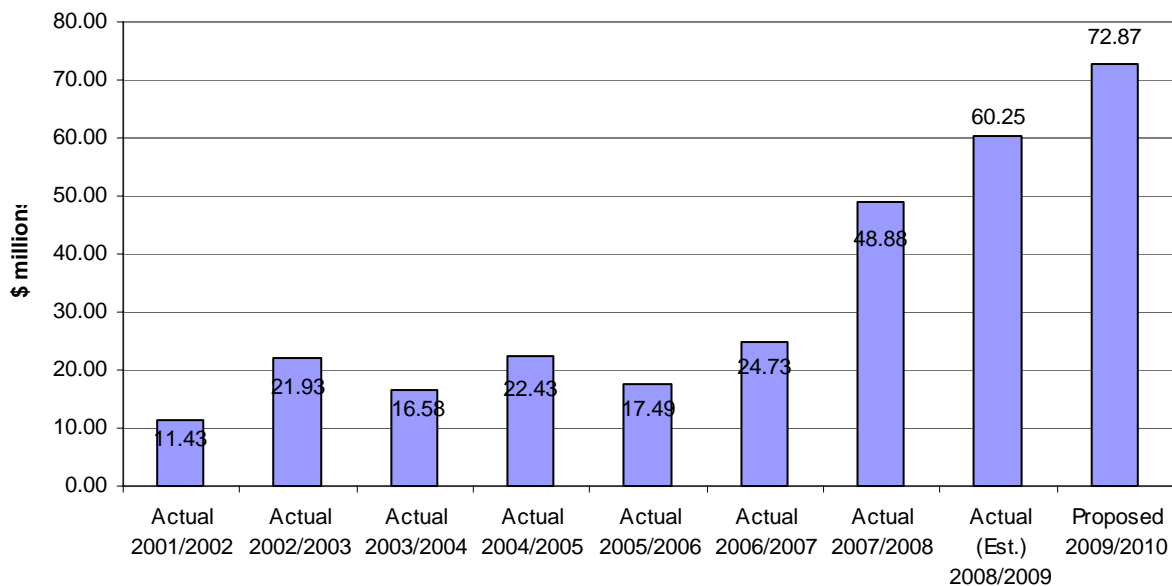


The underlying operating result for 2009/2010, which excludes non-operating items such as capital grants and contributions, but includes depreciation, is a deficit of \$3.25 million. This outcome is consistent with the budgeted position for 2008/2009, however a significant improved position is now being forecast for 2008/2009 resulting in a forecast shortfall of \$0.2 million. The operating shortfall for 2009/10 recognises the significant increase in rubbish collection costs, which is to be offset through a reserve transfer of \$1.5 million.

The decline in underlying operating result is due mainly to increases in depreciation expenses, rubbish collection costs / landfill levy, loan servicing expenses, salary and wage increments and additional contract expenditure relating to the maintenance of parks and reserves.

3. Capital works

Capital Works



The capital works programme for 2009/2010 is proposed to be \$34.01 million (excluding carry forward projects). It is anticipated that \$38.86 million of projects and plant replacements will be carried forward from 2008/2009 bringing the total capital works programme for 2009/2010 to \$72.87 million. The carried forward project component is fully funded from the 2008/2009 Budget.

Of the \$72.87 million of capital funding required, \$16.1 million will come from external grants and contributions, \$10.5 million from loan borrowings, \$32.2 million from restricted investments (Reserves) including Town Planning Schemes, with the balance of \$14.1 million Municipal funding.

The capital expenditure program has been set and prioritised based on a process of consultation that has enabled the City to assess needs for each project, balanced against financial capacity.

Annual Budget

Details

2009/2010

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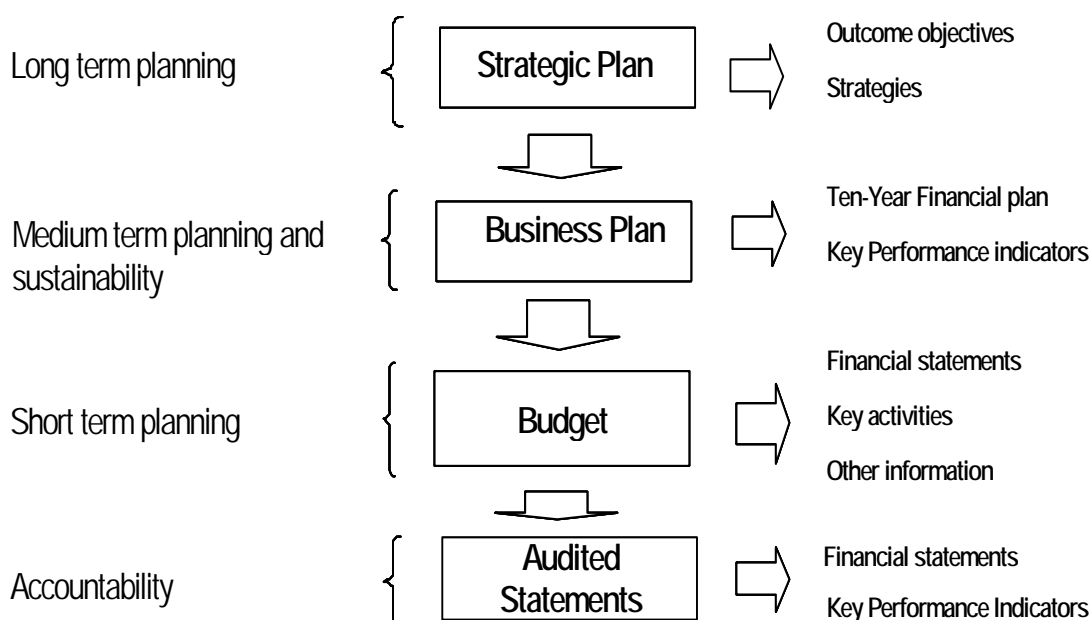
1. BUDGET PREPARATION

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

1.1 Strategic planning framework

A Five-Year Financial Plan was adopted in 2006/2007, which summarised the financial impacts of the City's outcomes, objectives and strategies and determined the sustainability of these objectives and strategies. The Financial Plan has been fully reviewed and extended out to 10 years, factoring in the latest impacts flowing on from the global financial crisis and impacting directly on Wanneroo.

The Annual Budget is framed within the Ten-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 the City.



1.2 Legislative requirements

In accordance with Section 6.2 of the Local Government Act 1995 ("the Act"), the City 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 the City 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 2009/2010 budget is for the year 1 July 2009 to 30 June 2010 and includes standard statements being a budgeted Income Statement by Nature or Type and by Program, Statement of Cash Flows, and Rate Setting Statement.

These statements have been prepared in accordance with applicable Australian Accounting Standards (as they apply to local government and not-for-profit entities) and other mandatory professional reporting requirements, the Local Government Act 1995 and accompanying regulations.

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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 the City 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 the City in considering the Budget in a proper financial management context. These include a Ten-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 City operates.

2.1 External influences

In preparing the 2009/2010 budget, a number of external influences have been taken into consideration, because they are likely to impact significantly on the cost of services delivered by the City in the budget period. These include:

- The City's Union Collective Agreement (UCA) and Enterprise Bargaining Agreements (EBA) provide for annual salary and wages movements in the order of 4.5%;
- Local Government Cost Index running approximately 2% above the Consumer Price Index (CPI) increases on goods and services of around 4.0% per annum;
- State Government agency charges for utilities etc rising well above CPI rates;
- Prevailing economic conditions that are expected to remain difficult during the budget period impacting investment interest rates; and
- Growth factor adjusted to 3% in current year.

2.2 Internal influences

As well as external influences, there were also a number of internal influences that have had a impact on the setting of the budget for 2009/2010, including, but not limited to, increases in staffing levels to meet the demand for the City's services and the full year cost of new positions created in 2008/2009 to operate the Aquamotion facility and new Wanneroo Library and Cultural Centre.

2.3 Provision of Services

In preparing the draft 2009/10 budget, many elements of service provision have been reviewed to establish their ongoing relevance and value to residents, and prioritisation as an ongoing program to be delivered by the City.

Services that have been modified as a result of these reviews include:

- Temporary hold on the Beach to Bush Festival
- Minor amendments to parks maintenance routines

3. ANALYSIS OF OPERATING BUDGET

This section of the report analyses the expected revenues and expenses of the City for the 2009/2010 year (see Operating Budget summary – Page 5).

3.1 Operating revenue

Revenue Types	Actual (Est.)	Budget	Variance
	2008/2009	2009/2010	
	\$M	\$M	\$M
Rates Income	64.93	73.45	8.52
Grants and Subsidies Income	7.10	7.66	0.56
Contributions, Reimbursements and Donations	1.00	1.27	0.27
Fees and Charges	18.94	20.78	1.84
Interest Income	6.12	4.00	-2.12
Other Income	3.69	3.18	-0.51
Total operating revenue	101.78	110.34	8.56

3.1.1 Rates Income (\$8.52 million increase)

It is proposed that general rates income be increased by 13% over 2008/2009 Actual (Estimate) to \$73.45 million, with approximately 3% attributed to growth. The balance is achieved through:

- As the domestic rubbish collection charge has been included within the rates charge, the other 10% increase constitutes a 6.2% increase in rates and \$50.00 per property provided with a domestic rubbish collection service; and
- Changes to rating categories.

3.1.2 Fees and Charges Income (\$1.84 million increase)

Fees and Charges Income include two broad categories namely Statutory Charges and User Charges. Within the statutory charge area, the key income generator is for application and license fee income. User charges relate mainly to the recovery of service delivery costs through the charging of fees to users of the City's facilities. 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 generally reflect CPI increases or market levels.

Fees and charges income are projected to increase by \$1.84 million over 2008/2009. The two most significant factors involved in the increase are:

- An allowance for the full year operation of the Aquamotion Centre during refurbishment works until end of 2008 is factored into the budget estimate.
- An increase in the Rubbish Collection fee associated with the City's commercial operation.

The Schedule of Fees and Charges for 2009/2010 is included for adoption (Attachment 4), with changes due to take effect from 6 July 2009.

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3.2 Operating expenditure

This section of the report analyses the variances comparing Actuals (Estimate) 2008/2009 and Budget 2009/2010.

Expenditure Types	Actual (Est.)	Budget	Variance
	2008/2009 \$M	2009/2010 \$M	\$M
Employee Expenses	42.07	47.78	5.71
Materials and Contracts	31.32	35.06	3.74
Utilities	3.46	4.44	0.98
Depreciation	22.20	22.70	0.50
Interest Expenses	2.09	2.66	0.57
Insurance	0.86	0.95	0.09
Total operating expenditure	102.00	113.59	11.59

3.2.1 Employee Expenses (\$5.71 million increase)

The increase of \$5.71 million to \$47.78 million in 2009/2010 is due to:

- the full year operation of the Aquamotion Centre reopened during 2008/09 and the opening of the new Wanneroo Library and Cultural Centre; and
- an average of 4.5% increase to staff covered by the various Enterprise Bargaining and Union Collective Agreements;

A structural review has been implemented that reduced approximately 57 positions from the organisation's full establishment. This has had a positive impact on the overall growth in the Employee Expenses budget.

3.2.2 Materials and Contract Expenses (\$3.74 million increase)

External materials and contract expenses are forecast to increase by \$3.74 million compared to 2008/2009. Areas contributing to this increase include the following:

- increases in external contracts for the maintenance of the City's facilities and parks; and
- increases in tipping charges associated with the introduction of the MRC Resource Recovery Facility in Neerabup and State Government's Landfill Levy.

The above increases have been offset by reductions in Consulting Fees, Plant Hire Expenses and Material expenses.

3.2.3 Depreciation (\$0.5 million increase)

Depreciation is an accounting process which values the usage (consumption) of the City's property, plant and equipment including infrastructure assets such as roads and drains. The increase of \$0.5 million for 2009/2010 is due to the growth in assets held by the City.

3.2.4 Interest Expenses (\$0.57 million increase).

The increase in the interest expenses arises directly from the increased loan interest costs following drawdown of the third instalment in November 2008 of the approved five year Western Australian Treasury Corporation \$60.778M loan to the City.

2009/10 ANNUAL BUDGET

	Budget 2008/09	Budget 2009/10
Operating Income		
Rate Income	65,317,978	73,447,031
Statutory Charge Income	4,487,065	4,464,019
User Charge Income	14,400,743	16,318,683
Operating Grants and Subsidy Income	7,166,142	7,655,408
Contribution Income	961,965	847,965
Interest Income - Municipal Cash and Investments	5,970,000	4,004,092
Reimbursement Income	375,509	422,520
Other Income	3,842,062	3,181,400
TOTAL OPERATING INCOME	<u>102,521,464</u>	<u>110,341,118</u>
Operating Expenditure		
Salary and Wage Expenses	-43,683,722	-46,581,830
Employee Related Expenses	-1,406,950	-1,205,547
Contract Expenses	-21,751,385	-26,045,469
Material Expenses	-6,521,182	-5,437,097
Fuel Expenses	-3,215,249	-3,235,249
Utility Expenses	-3,691,829	-4,437,147
Finance Fees and Interest Expenses	-2,461,448	-3,479,669
Insurance Expenses	-869,343	-952,190
Elected Member Expenses	-369,000	-354,440
Miscellaneous Expenses	-1,014,570	-1,048,472
Depreciation Expenses	-22,201,070	-22,701,070
Internal Cost Allocations	1,489,396	1,882,643
TOTAL OPERATING EXPENDITURE	<u>-105,696,352</u>	<u>-113,595,537</u>
OPERATING RESULT	<u>-3,174,888</u>	<u>-3,254,419</u>

4. ANALYSIS OF CAPITAL BUDGET

This section of the report analyses the planned capital expenditure budget for the 2009/2010 year.

4.1 Capital works

Capital Works Areas	Budget
	2009/2010
	\$M
Works carried forward from 2008/2009	38.86
New works for 2009/2010	
Investment	0.43
Corporate	5.12
Community	1.70
Recreation and Sport	3.25
Transport	20.62
Drainage	0.35
Waste Management	2.54
Total new works	34.01
Total capital works	72.87

A detailed listing of individual projects comprising the capital works program is included in Attachment 3 to the report.

4.1 Carried forward works (\$38.86 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 2008/2009 year it is forecast that \$38.86 million of capital works will be incomplete and be carried forward into the 2009/2010 year.

4.2 Investment (\$0.43 million)

\$0.3 million has been provided to commence the subdivision development of Lot 12 Fowey Loop, Mindarie and \$0.1 million to undertake a strategic land acquisition study, with the remainder to undertake minor works at the Quinns Beach Caravan Park.

4.3 Corporate (\$5.12 million)

Main areas covered include \$3.81 million for the acquisition of new, replacement and upgrade of plant and equipment, together with \$1.07 million on new, replacement and upgrade of IT systems.

4.4 Community (\$1.70million)

Significant projects include:-

- Wanneroo Cultural and Learning Centre \$0.29 million
- Warradale Community Centre \$0.48 million
- Buildings Asset Renewal Programme \$0.50 million

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4.5 Recreation and Sport (\$3.25 million)

Significant projects include:-

- | | |
|--------------------------------|----------------|
| • Walls of Honour | \$0.37 million |
| • Quinns Rocks Foreshore North | \$0.10 million |
| • Wanneroo Showgrounds Upgrade | \$0.20 million |
| • Jimbub Swamp Sports Oval | \$0.79 million |
| • Parks Asset Renewal Program | \$0.40 million |
| • Irrigation Renewal Program | \$0.22 million |

4.6 Transport (\$20.62 million)

Significant projects include:-

- | | |
|--------------------------------------|----------------|
| • Flynn Drive, Neerabup | \$3.22 million |
| • Alexander Drive, Alexander Heights | \$1.08 million |
| • Ocean Reef Road, Wangara | \$4.87 million |
| • Joondalup Drive, Banksia Grove | \$1.80 million |
| • Ocean Drive, Quinns Rocks | \$1.60 million |
| • Wesco Road, Nowergup | \$0.35 million |
| • Pinjar Road, Ashby | \$3.85 million |
| • Road Resurfacing | \$1.20 million |

4.7 Waste Management (\$2.54 million)

Significant projects include:-

- | | |
|---------------------------------------|----------------|
| • New Plant and Equipment at MRF | \$0.32 million |
| • New Domestic Waste vehicles | \$0.96 million |
| • Replacement Domestic Waste vehicles | \$1.10 million |

5. RATING STRATEGY

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

5.1 Strategy development

In developing the Ten Year Strategic Financial Management Plan, rates and charges were identified as an important source of revenue, accounting for in excess of 50% of the total operating revenue received by the City 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 7-8% annually since 2003/2004. However, in 2007/2008, real growth started slowing with the annual growth rate settling at approximately 4%. Currently the growth rate is hovering around 3% due to the general slowdown in the housing and land market. Whilst ongoing growth provides an opportunity for continuous increases in rate revenue, there is a corresponding (or greater) 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 2008/2009 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 the City's underlying operating position.

In order to achieve these objectives whilst maintaining service levels and a robust capital expenditure programme, general rates need to deliver \$73.45 million including the domestic rubbish charge component. This can be achieved through an average 6.2% increase in the rate component plus a notional \$50.00 increase to the rubbish charge component.

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.

The City 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.

Extending this principle, it is also proposed to again incorporate the rubbish collection charge into the general rate for domestic properties to maximise opportunities for participation in the State Government Pensioner Rate Rebate Scheme.

To ensure equity, the rate and minimum rate applicable to developed residential and rural properties has been increased to recover the equivalent of the \$290 rubbish charge.

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The following table summarises the rates to be made for the 2009/2010 year.

	2008/2009		2009/2010	
	Rate	Minimum	Rate	Minimum
GRV Category				
Caravan Parks Improved	7.3353	272	7.7900	289
Commercial Improved	6.4500	950	6.8500	1,009
Community Groups – Major ** Improved	N/A	N/A	6.4500	200
Community Groups – General Improved	N/A	N/A	3.2250	200
Community Groups – Surf Clubs Improved	N/A	N/A	1.6125	200
Industrial Improved	6.4500	950	6.8500	1,009
Residential Improved	7.3300	835	8.1060	940
Rural and Mining Improved	7.3300	835	8.1060	940
Commercial Vacant	6.4500	950	6.8500	1,009
Industrial Vacant	6.4500	950	6.8500	1,009
Residential Vacant	5.4000	615	5.7350	653
Rural and Mining Vacant	5.4000	615	5.7350	653
UV Category				
Commercial Improved	0.2102	950	0.2316	1,009
Community Groups – Major** Improved	N/A	N/A	0.2102	200
Community Groups – General Improved	N/A	N/A	0.1051	200
Community Groups – Surf Clubs Improved	N/A	N/A	0.0525	200
Industrial Improved	0.2102	950	0.2316	1,009
Residential Improved	0.2374	835	0.2601	940
Rural and Mining Improved	0.2374	835	0.2601	940
Commercial Vacant	0.2102	950	0.2316	1,009
Industrial Vacant	0.2102	950	0.2316	1,009
Residential Vacant	0.2373	615	0.2801	653
Rural and Mining Vacant	0.2373	615	0.2801	653

*Community Groups – Major** Improved = Sporting Clubs and Major Event Providers*

6. BORROWINGS

In developing the Five Year Financial Plan in 2006, loan borrowings was identified as a significant funding source for the capital works programme. In the past, the City has not sought to borrow, preferring to fund new works from operations. This left the City in a strong position to borrow to meet significant requirements for new and replacement infrastructure.

The City 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. A Loan Repayment Reserve is to be created to ensure a strategic repayment plan is established.

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