

## 2019-20 Budget Summary

The 2019-20 balanced budget includes two significant and transformational community projects at opposite ends of the construction timeframe. The completion of the Margaret River HEART (Hub for Entertainment, Art, Recreation and Tourism) complex is scheduled for the first quarter of the financial year and the commencement of the Margaret River main street upgrade project is expected to commence during the second quarter of the financial year.

When completed the HEART will provide a multi-purpose venue and activity space with a main theatre catering for 450 people and a second theatre for 200 people. With ample space for exhibitions and performances, including an outdoor soundshell, the facility will truly become a hub for entertainment and the arts. Funds have been allocated for the operation of this facility and to maximise revenue opportunities to offset these costs as well as for the opening in October.

The recent awarding of the construction contract to Georgiou Group Pty Ltd allows the main street upgrade project to proceed in three stages. The first stage that has been budgeted includes:

- Wallcliffe Road /Forrest Road/Bussell Highway roundabout;
- Tunbridge Street/Churchill Avenue/ Bussell Highway roundabout;
- New stormwater services for the Festival and River precincts (area from Willmott Avenue to the Shell service station);
- New footpaths, pedestrian crossings and parking bays for the Festival precinct (area from Willmott Avenue to Tunbridge Street); and
- New landscaping and electrical works for the Festival precinct, including Fearn Avenue.

These works are funded by the balance of a Royalties for Region's grant of \$5.290 million and Shire funds and reserves of \$3.367 million.

The Shire's annual budget reflects the wide range of services and facilities benefitting the Shire's community and its many visitors. In addition to the two major projects other highlights of the 2019-20 Budget include:

- contributions to community groups of \$0.154 million as well as contributions to assist lessees of Shire property such as the Regional Environment Centre, Community Centre and Men's Shed to maintain or develop buildings/facilities;
- community development expenditure of \$0.317 million for youth, capacity building, community resilience, access and inclusion, arts and culture, age friendly and community grants programs;
- \$0.135 million towards major (iconic) events and \$0.079 million for local events;
- continued financial support for the Shire's 10 volunteer bushfire brigades and the SES unit;
- community and recreation services including outside school hours care, libraries, recreation and fitness centres, the aquatic centre, sporting fields, playgrounds, etc;
- the introduction of the 3 bin waste collection system at a reduced total waste collection and disposal charge;

- continued investment in sustainability initiatives and commitment to a climate action summit focussing on adaptation;
- specific environmental related project expenditure of \$0.444 million as well as \$0.090 million in contributions to environmental groups;
- over \$2 million to renew and upgrade community buildings including the construction of a new toilet at Cowaramup Pioneer Park;
- purchase of land to support the alignment for the Cape to Cape winter diversion trail;
- expenditure of \$0.100 million to complete the lower western oval playing field with an official opening planned for September;
- roads, paths and drainage upgrade works of \$1.545 million (excluding the main street project) and renewal works of \$5.458 million; and
- \$0.963 million to replace heavy plant and light vehicles.

A summary of the Annual Budget 2019-20 compared to the Forecast Actual result and Annual Budget for 2018-19 is provided below for reference purposes:

<b>Description</b>	<b>2019-20 Budget \$'000s</b>	<b>2018-19 Forecast \$'000s</b>	<b>2018-19 Budget \$'000s</b>
Rates	<b>22,124</b>	21,430	21,401
Operating Revenue	<b>12,129</b>	13,490	12,080
Operating Expenditure	<b>(38,145)</b>	(36,026)	(36,083)
Net Operating Result	<b>(3,792)</b>	(1,105)	(2,602)
Capital Grants	<b>5,707</b>	6,355	7,665
Profit/(Loss) on Asset Disposals	<b>(23)</b>	29	(147)
Net Result	<b>1,893</b>	5,667	4,916
Asset Purchases	<b>(23,474)</b>	(18,866)	(26,628)
Asset Sale Proceeds	<b>435</b>	1,437	1,457
Borrowings Repaid	<b>(925)</b>	(854)	(854)
New Borrowings	<b>0</b>	500	500
Transfers To Reserve	<b>(1,113)</b>	(4,089)	(3,045)
Transfers From Reserve	<b>10,195</b>	5,600	9,245
Brought Forward Surplus	<b>3,587</b>	5,254	5,104
Closing Budget Position	<b>0</b>	3,587	0

It is expected the Shire will commence the budget year with a surplus of \$3,587,167 from 2018-19. This is an increase on the budgeted result expected for the year and is the result of a number of factors including:

- Carrying forward various operating expenditure projects totalling \$856,347;
- Carrying forward various capital projects totalling \$1,710,069 including an unspent loan balance of \$272,069 for asbestos removal and reinstatement projects;
- Carrying forward the advance payment for 2019-20 of Financial Assistance Grants of \$745,739 received in June 2019; and
- Various under and over expenditures and revenues for the year.

Expectations are that 2019-20 will end up with a balanced result.

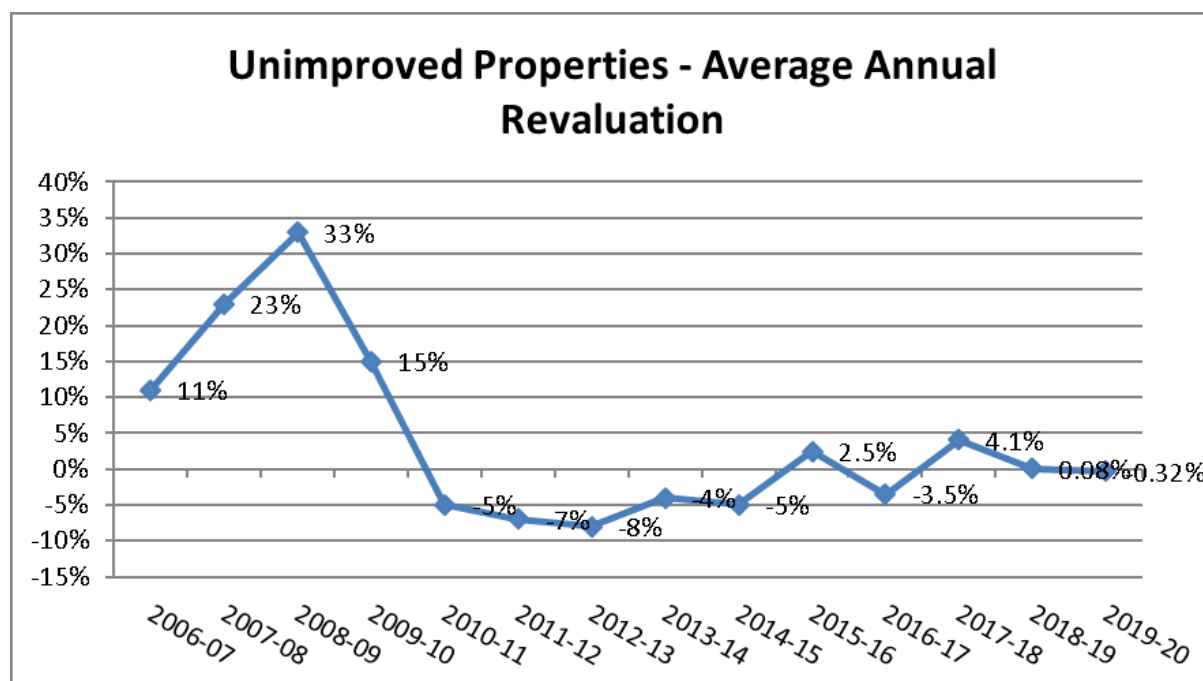
## Rates

Updated property values for rating purposes were received from Landgate for all rural properties in the Shire and are effective from 1 July 2019. Rural or Unimproved Value (UV)

properties are revalued on an annual cycle and town site or Gross Rental Value (GRV) properties are revalued on a 3 year cycle. The next revaluation for GRV properties will be effective from 1 July 2021.

Compared to the previous year's valuations rural property values only decreased by an average of 0.32% and compares to last year's average increase of 0.08%. Variations in property values ranged from a decrease of 37% to an increase of 29%. 291 properties recorded a decrease, 392 recorded an increase and 520 recorded no change. Property owners who recorded a valuation change greater than or lower than 2.5% will receive a property rate change that will vary to the 2.5% intended. Unfortunately, this cannot be avoided as the calculation of property rates is dependent upon the valuation of the property.

The following chart shows the average annual change in unimproved property valuations since 2006-07.



The change in property valuations is one of the variables considered when determining the rating approach for the budget year and overall it was concluded the impact of the change in valuations was on average of low significance and did not justify altering the proposed rates in the dollar and minimum payments.

Other considerations to determine the rate yield for the budget include:

- expenditure and revenue forecast in the Shire's Long Term Financial Plan;
- the perceived affordability within the community of rate increases;
- increases in State Government charges;
- the demand for services and whether the level of these services has changed;
- changes in the cost incurred by the Shire for expenditures including labour, materials, utilities, contractors and insurance;
- various indices and forecasts used to measure changes in costs;
- legislative compliance requirements; and
- the shortfall in funding required to ensure a budget deficit is not recorded.

Having considered these factors Council agreed to increase rates by 2.5% which was similar to the increase proposed in the Shire's Long Term Financial Plan and lower than the increase that has been applied for the past three years. As a result of this decision all minimum payments and rates in the dollar were increased by 2.5%.

The following table compares the rates in the dollar and minimum payments for the current and previous financial years.

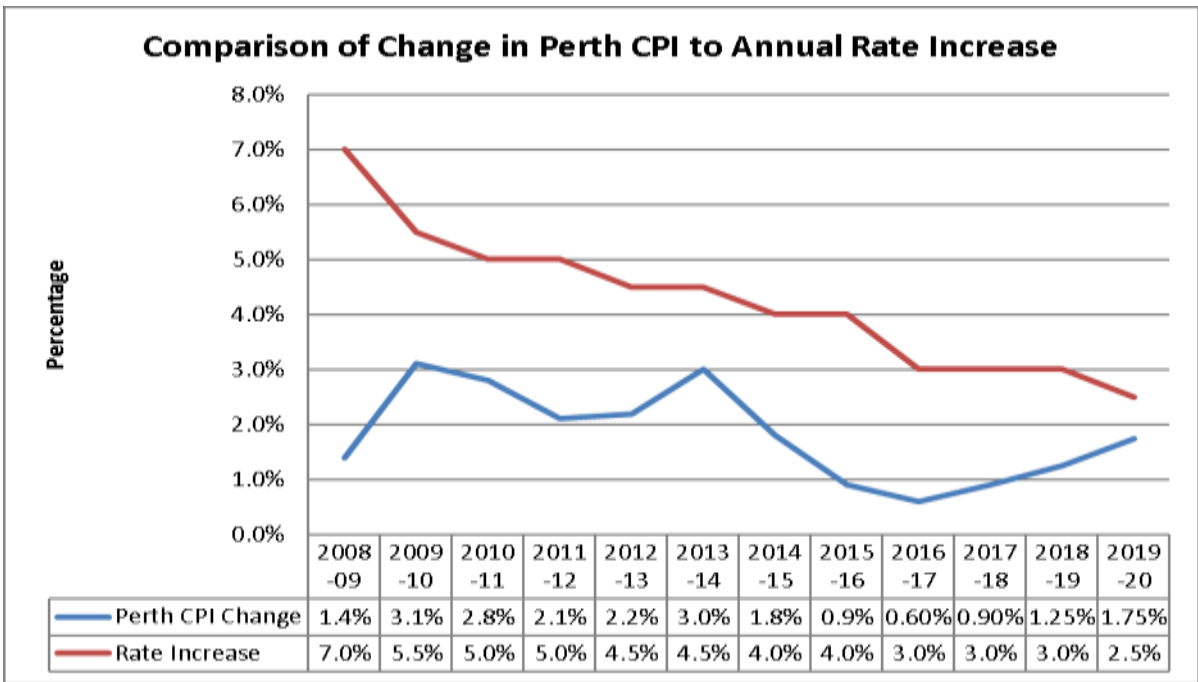
<b>Rate Category</b>	<b>Rate in \$ 2019-20</b>	Rate in \$ 2018-19	<b>Minimum 2019-20</b>	Minimum 2018-19
Residential	<b>10.7581</b>	10.4957	<b>\$1,335</b>	\$1,302
Residential Vacant	<b>20.6089</b>	20.1062	<b>\$1,335</b>	\$1,302
Rural Residential	<b>10.3055</b>	10.0541	<b>\$1,625</b>	\$1,585
Rural Residential Vacant	<b>20.0600</b>	19.5707	<b>\$1,625</b>	\$1,585
Commercial, Industrial, Tourism	<b>12.7427</b>	12.4319	<b>\$1,434</b>	\$1,399
UV Rural	<b>0.4705</b>	0.4590	<b>\$1,498</b>	\$1,461
UV1 One non-rural use	<b>0.5880</b>	0.5737	<b>\$1,498</b>	\$1,461
UV2 Two non-rural uses	<b>0.7057</b>	0.6885	<b>\$1,498</b>	\$1,461
UV3 Over two non-rural uses	<b>0.8233</b>	0.8032	<b>\$1,498</b>	\$1,461
Strata titled vineyard	<b>0.4705</b>	0.4590	<b>\$1,498</b>	\$1,461
UV Conservation	<b>0.4598</b>	0.4486	<b>\$1,441</b>	\$1,406

The table shows the minimum payment has increased by \$33 for residential property owners (\$38 last year), \$35 for commercial property owners (\$41 last year) and \$37 for rural property owners (\$43 last year). This increase equates to about 70 cents per week and 16% of total ratepayers would receive an increase of this magnitude.

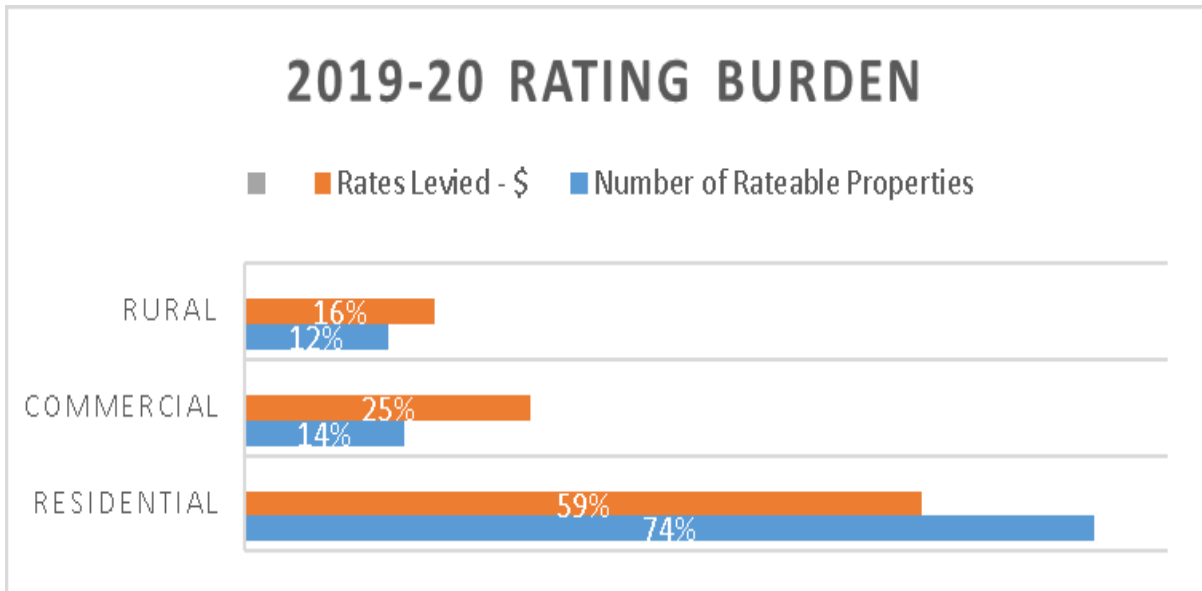
For ratepayers not charged the minimum payment, the change in rates payable compared to last year is dependent on the change in the valuation of the property and the change in the rate in the dollar. For GRV rated properties the change will be an increase of 2.5% as property values have not been revalued. For UV rated properties the change will vary in accordance with the change in property valuation.

The following chart compares annual rate increases to the change in the Perth Consumer Price Index<sup>1</sup> and shows the gap is clearly decreasing. Whilst this demonstrates rate increases are becoming more affordable compared to the past, the decline also means that it is becoming increasingly difficult to fund expenditure demands that often increase by greater than CPI.

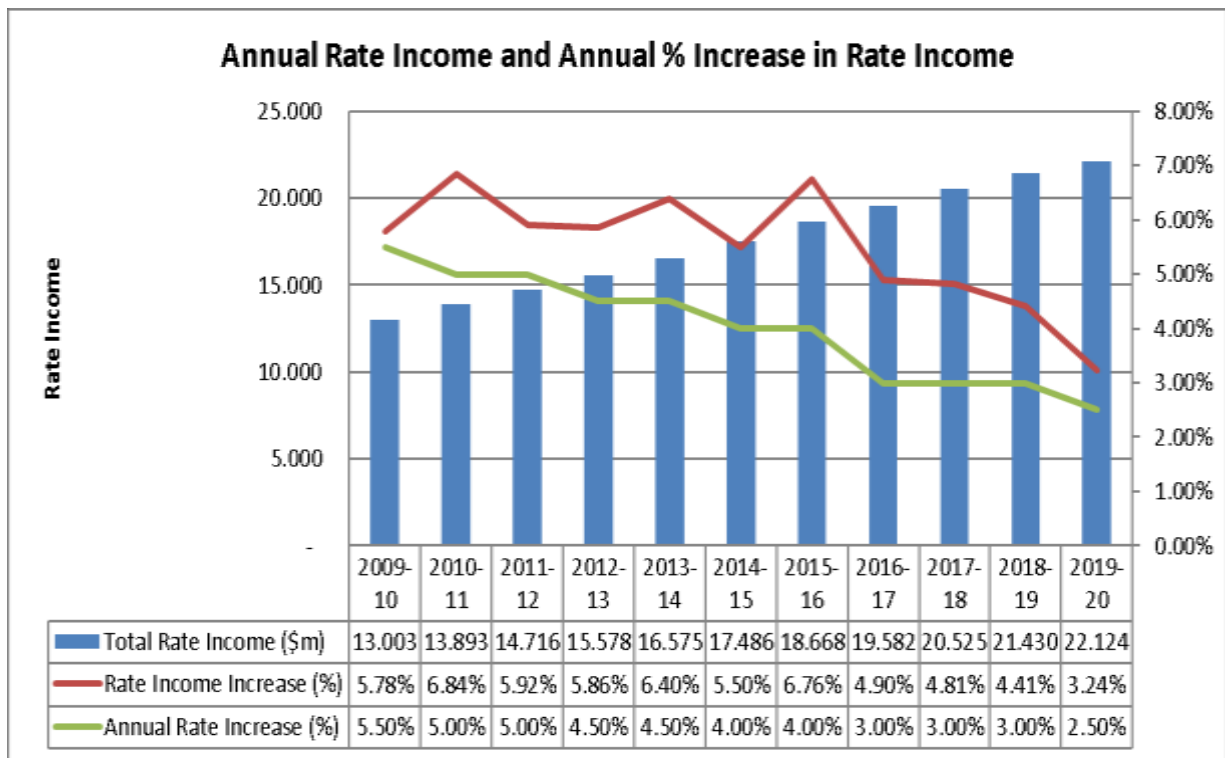
<sup>1</sup> Source of Perth CPI is the Australian Bureau of Statistics up to 2017-18 and WA Treasury forecasts for 2018-19 and 2019-20 included in the WA State Budget 2019-20, Budget Paper No. 3.



The overall objective for rating is to achieve equity and consistency between rate categories for similar land uses. This rate burden is represented in the following chart and shows that when rates levied are compared with the number of rateable assessments, residential ratepayers are subsidised by rural and commercial ratepayers. In total 88% of rateable assessments are rated on the basis of their GRV and contribute 84% of total rate income and 12% of properties are rated as UV and contribute 16% of total rate income. These ratios are a slight increase on last year's results.

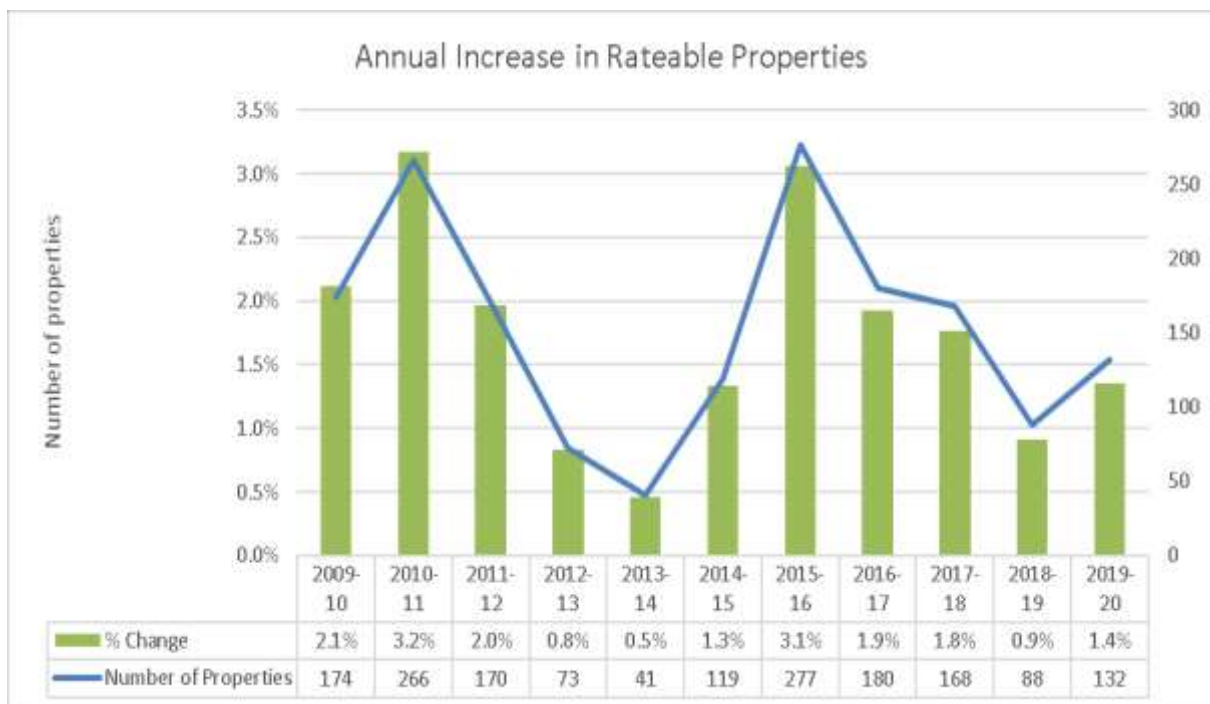


For 2019-20 a total of \$22,123,740 is budgeted to be obtained from property rates (including interim and back rates of \$145,000) and represents an increase of 3.24% on total rate revenue for 2018-19. The following chart compares actual rate revenue by year, with the annual increase in rate revenue and the annual agreed rate increase.



Interim rates raised after residential and commercial properties are developed and for new land lots released contributed to the higher annual percentage increases in rate income compared to the agreed annual rate increase.

Growth in the number of properties for 2018-19 was lower than previous years with the property database used to calculate rates for the budget having a total of 9,768 properties compared to 9,680 properties billed property rates in 2017-18. The increase of 88 properties for 2018-19 represents a growth rate of 0.9%. Should the number of properties increase to 9,900 in 2019-20 the growth rate would be 1.4%.



## Fees and Charges

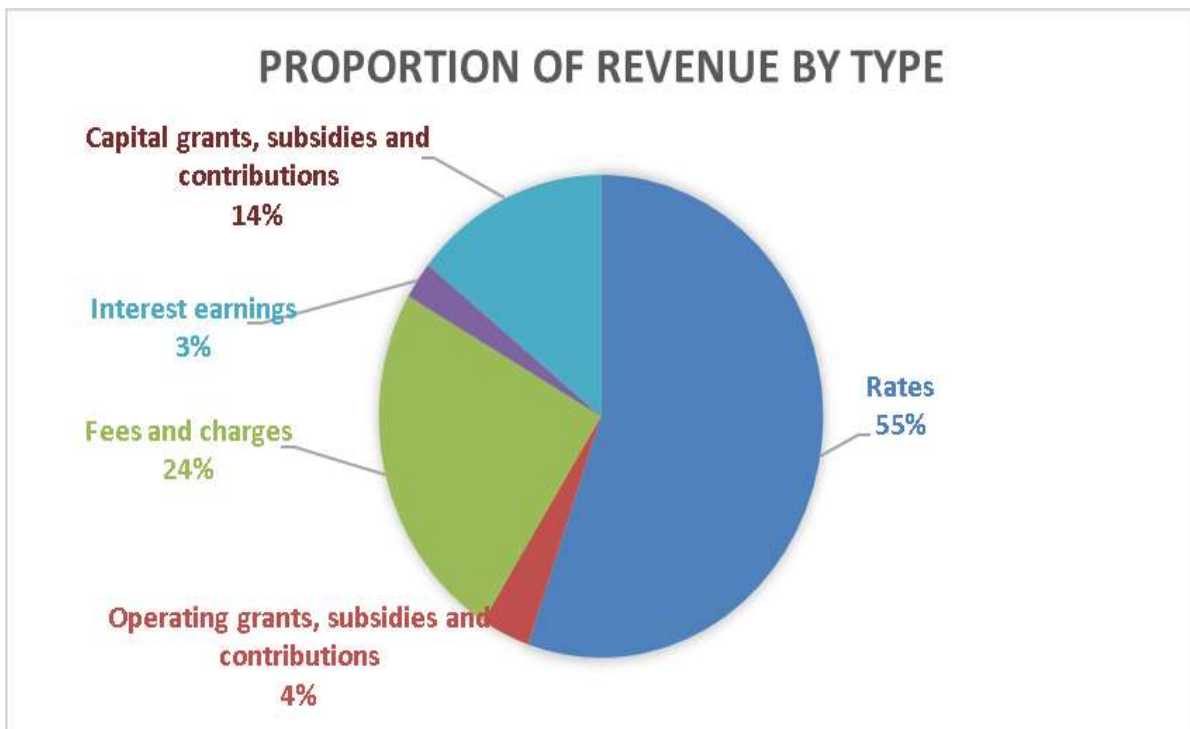
Fees and charges were reviewed to ensure improved cost recovery and in many cases have been increased by up to 2%. Although the growth in the Perth CPI for the period March 2018 to March 2019 was 1.1% a greater escalation rate was used to be consistent with the assumptions of the Long Term Financial Plan and WA Treasury's forecast of a 1.75% increase in the Perth CPI for 2019-20. Statutory changes to fees and charges for items such as planning fees have also been included.

Council approved the fees and charges for advertising at their meeting on 22 May 2019 and following the statutory public notice period the new fees and charges were implemented on 1 July 2019.

Total fees and charges are budgeted to be \$9.757 million compared to the 2018-19 budget of \$9.823 million and forecast actual for 2018-19 of \$9.778 million. Some conservative budget assumptions and consideration of the actual revenue obtained last year for areas including town planning, the indoor recreation centre and caravan parks, resulted in a slight reduction in the total fees and charges budget for the year. Total fees and charges are expected to decrease by 0.7% on a budget to budget basis. Forecast actual fees and charges for 2018-19 are expected to almost achieve budget.

The major contributors to fees and charges are waste collection and disposal charges, caravan park fees and recreation fees. The total amount of waste charges (rubbish collection and waste facilities maintenance rate) billed for individual properties will decrease from \$507 to \$498 despite the introduction of the 3 bin system, and has contributed to the reduction in fees and charges budgeted.

Fees and charges constitute 24% of total budgeted revenue and income from property rates constitutes 55%. As these are the Shire's main sources of revenue it is important to ensure the proportion raised does not decrease in order to ensure the Shire is controlling its own sources of revenue. The following chart shows the proportion of revenue for all sources of revenue and clearly shows how important fees and charges and property rates are to the Shire's financial position and ongoing financial sustainability.



The own source revenue coverage ratio compares own source operating revenue to operating expenses and measures the ability to cover operating expenses from own source revenue. Historically the ratio result has been in the range of 88% to 91% and is very close to the advanced standard benchmark set by the Department of Local Government, Sport and Cultural Industries of 90%. However, the ratio has declined in recent years due to annual rate increases reducing and for the 2019-20 Budget the ratio is calculated to be 86%.

### Grants

A total of \$7.137 million of operating and capital grants and contributions are included in the budget. This amount is lower than originally anticipated as the Federal Government provided an advance payment of part of the 2019-20 allocation of the Financial Assistance Grants (FAGs) distributed by the WA Local Government Grants Commission. This advance payment of \$0.746 million was received in late June 2019 and is included in the brought forward amount for the 2019-20 Budget. The advance payment distorts comparison of financial results and ratios between years as it inflates operating grants for 2018-19 and understates operating grants for 2019-20.

Operating grants of \$1.430 million include:

- Emergency Services Levy (ESL) grants of \$0.271 million for the voluntary SES and Bushfire Brigade services;
- contributions of \$0.060 million for the Community Emergency Services Manager;
- Community Planning and Development grants of \$0.026 million;
- a Regional Airports Development Scheme grant of \$0.041 million will be transferred to St Johns Ambulance Augusta; and
- various other grants and contributions for specific projects and activities for business units.

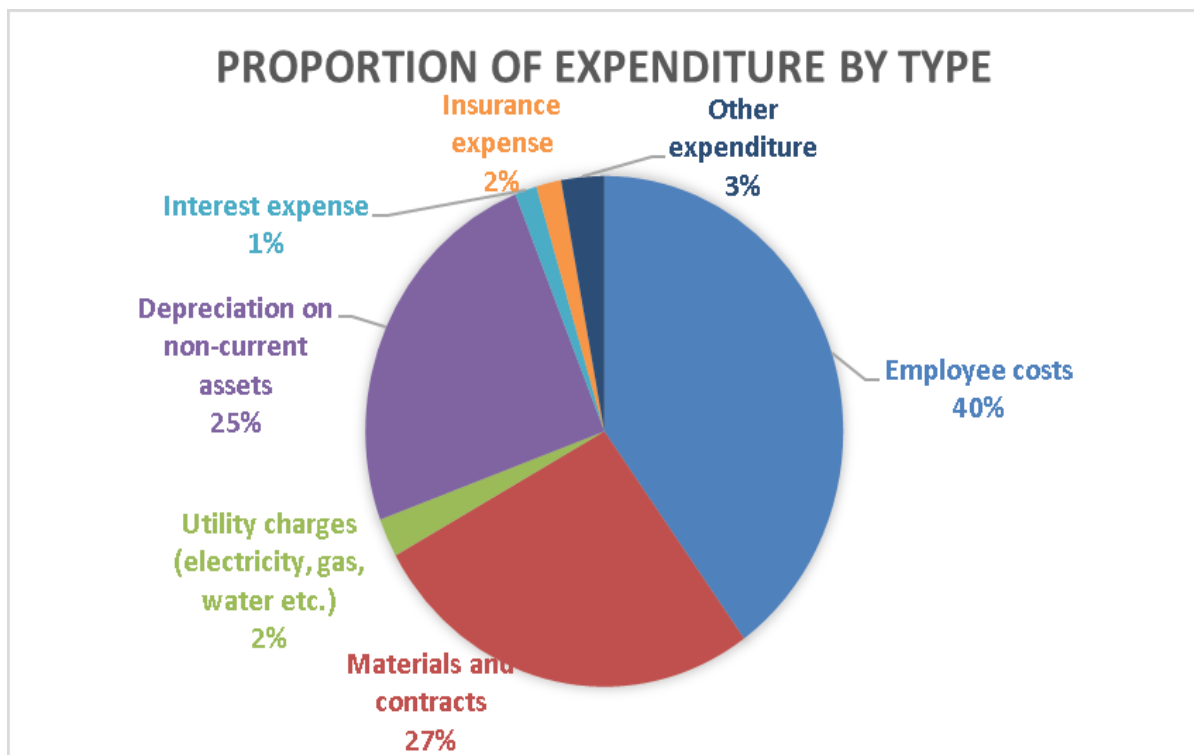
\$5.707 million of capital grants and contributions are provided for specific purposes and include:



- the final instalment of \$0.720 million from the National Stronger Regions Fund for the HEART project;
- an expected rebate of \$0.030 million for the installation of solar cells as part of the HEART project;
- \$1.275 million for replacement of bushfire brigade vehicles including appliances for the Rosa Brook, Wallcliffe and Witchcliffe brigades, as well as grants and contributions for building works for the Alexandra Bridge and Karridale brigades;
- \$2.080 million from Main Roads WA through the Regional Roads Group for road works for Leeuwin Road, Warner Glen Road, Wallcliffe Road, Rosa Brook Road, Rosa Glen Road and Boodjidup Road;
- Roads to Recovery grants of \$0.519 million for rural road reseals and asphalt overlays;
- \$0.116 million from the South West Development Commission for the Cape to Cape winter diversion trail;
- \$0.405 million from Lotterywest for Cowaramup Hall building works; and
- \$0.204 million in developer contributions are to be transferred to Developer Contributions reserve to fund future works.

### Operating Expenditure

Total operating expenditure of \$38.145 million is budgeted for 2019-20 and compares to the budget and forecast actual for 2018-19 of \$36.083 million and \$36.026 million respectively with the increases being 5.7% and 5.9% year on year. The carryover of operating expenditure from 2018-19 contributes to the larger percentage change being recorded when the budget to forecast actual are compared.



The previous chart provides a breakdown of operating expenditure and shows that employee costs continue to be the Shire's largest expenditure item with materials and contracts and depreciation being the next largest. Compared to the 2018-19 budget, depreciation as a

proportion of expenditure has remained steady at 25%, employee costs have reduced to 40% from 41% and materials and contracts has increased from 26% to 27%.

The fair value revaluation of the Shire's plant and equipment at 30 June 2019 is likely to result in asset values increasing and the impact upon depreciation has not been taken into consideration in this budget as these calculations will be undertaken in 2019-20. The completion of the HEART facility will also result in increased depreciation being calculated.

Prior to the mandatory revaluation of fixed assets coming into effect from 1 July 2012 the written down value of the Shire's fixed assets was \$189.754 million. At 30 June 2018 their value had increased to \$444.062 million or an increase of 134%. With the addition of capital expenditure for 2018-19 this balance will further increase. Over the same timeframe depreciation has increased from \$5.587 million or 20% of operating expenditure in 2011-12 to the proposed \$9.361 million or 25% of operating expenditure in 2019-20.

The accuracy of the calculation and allocation of depreciation should improve as understanding of the Shire's asset base through condition reports, useful life assessments, asset componentisation and determination of non-depreciable amounts improves.

### **Employee Costs**

The Shire has budgeted for a workforce of 175.1 full time equivalent (FTE) staff in 2019-20 compared to 170.9 FTE budgeted last year. The increase of 4.2 FTEs is due to a number of new positions required for the HEART and to respond to community requests for increased service levels for areas such as landcare and emergency services, address pressures on meeting statutory compliance requirements and provide for increased resourcing for service areas such as human resources. There has also been some restructure of positions within the organisation such as moving positions from the CEO's business unit to other areas.

The main changes include:

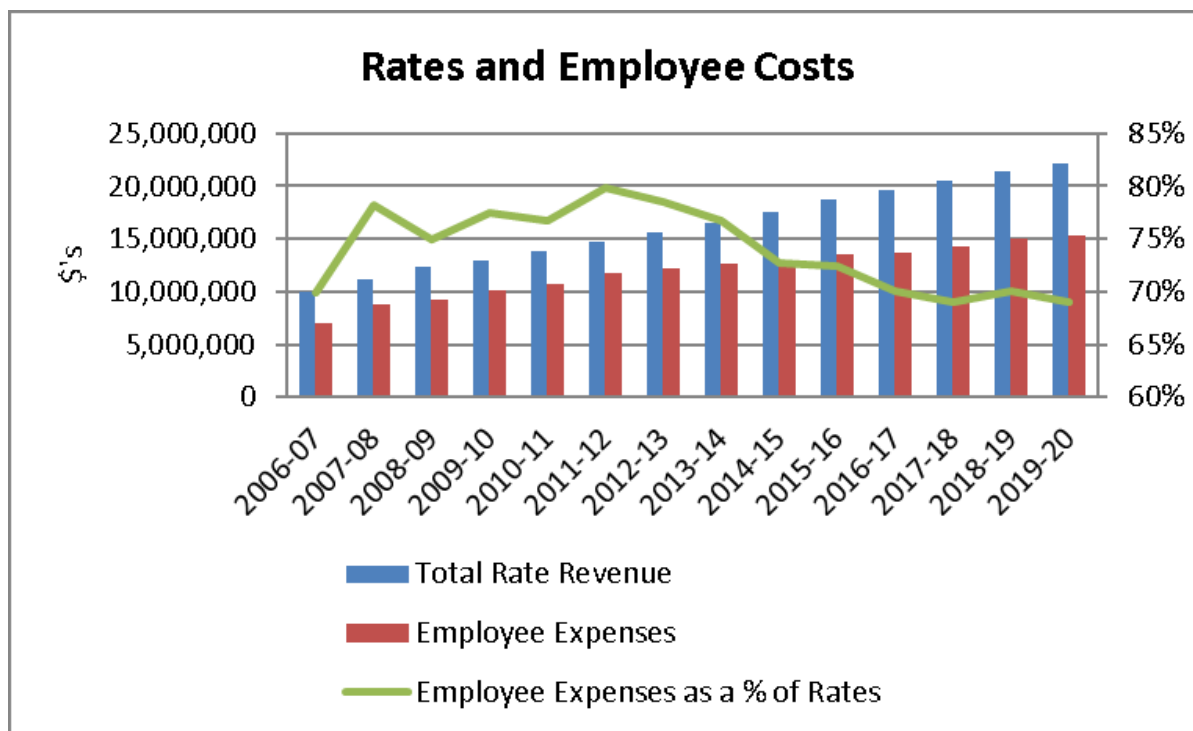
- Community Emergency Services (0.4 FTE) added to provide relief and increased support for mitigation activities;
- Outside School Hours Care (0.25 FTE) included for administrative support;
- Landcare 0.4 FTE increase in hours for current staff member and 0.6 FTE increase for an additional staff member in order to deliver programs;
- Marketing resource (1 FTE) and a cleaner (1 FTE) for the HEART are partly offset by the reallocation of 0.4 FTE digital officer position that was not filled last year.

Labour cost increases have been restricted to the across the board wage increase of 2% contained in the Shire's recently negotiated 2019 Enterprise Agreement and performance based increases of 2% for eligible employees. The Shire has also budgeted for a full workforce complement and has not included a vacancy rate as it is not possible to forecast expected vacancies and their duration. Furthermore, to minimise the financial impact of the new positions the budget has assumed only half of their labour cost for the year on the basis that recruitment is required.

On a budget to budget basis total employee costs included in operating expenditure are expected to increase from \$14.686 million to \$15.280 million or by 4.0%. This percentage increase allows for the wage increase, performance based increases for eligible employees and growth in the workforce and confirms that employee costs are being restrained.

Total employee expenses for 2018-19 are expected to exceed budget. Staff vacancies taking longer to fill than expected, extended leave, under budget training and uniforms/protective clothing all contributed to under budget employee expenses but were offset by the calculation of accrued leave provisions being higher than expected as well as higher than budget recruitment expenses.

The following chart compares operating employee costs and rates and shows that for 2019-20 budgeted operating employee costs constitute approximately 69% of budgeted rates and is lower than last year's ratio of 70% but the same as 2017-18.



### Capital Works Programme

\$23.474 million has been allocated towards capital works and the following table provides a breakdown of the type of expenditure and the source of funding.

<b>Capital Expenditure and Funding Source</b>	<b>\$</b>	<b>%</b>
Asset Renewal Expenditure	9,528,962	40.6%
New Assets	1,368,500	5.8%
Asset Upgrades	12,571,500	53.6%
<b>Total Capital Expenditure</b>	<b>23,473,962</b>	
Funded by:		
General Revenue	6,209,138	26.5%
Reserves	9,966,500	42.5%
Grants and Contributions	5,433,255	23.1%
Asset Sale Proceeds	155,000	0.7%
Previous Period Funding (carry overs)	1,710,069	7.3%

The table shows the majority of expenditure is used to upgrade capital assets as opposed to renewing assets or acquiring new assets. This is not a preferred situation and is due to the expenditure for the main street upgrade project. However, the proposed asset renewal expenditure exceeds the 100% target for the Asset Sustainability Ratio which compares

asset renewal expenditure against depreciation. This result is influenced by how proposed capital expenditure is categorised and is a developing asset management process.

New asset expenditure proposed for the year includes:

- \$0.280 million is budgeted for a new toilet/amenities facility at Cowaramup Pioneer Park;
- Installation of a fire detection system for the Margaret River Recreation Centre is budgeted to cost \$0.100 million;
- An allocation of \$0.100 million to construct paths and the carpark for the new lower western playing fields;
- purchase of land for the Cape to Cape winter diversion trail along the Margaret River of \$0.158 million has been carried over from last year; and
- construction of chalets at Turner Caravan Park (\$0.500 million) is funded from reserves.

\$1.078 million has been allocated for the completion of the HEART project and is funded by the \$0.720 million final instalment of the National Stronger Regions Fund grant, \$0.328 million of unspent reserve transfers from 2018-19 and a \$0.030 million rebate for the installation of solar cells. This project included asset renewal and upgrade components with the majority of expenditure incurred in 2018-19.

The Cowaramup Hall project also involves renewal and upgrade works and commenced in 2018-19. Budgeted expenditure of \$0.493 million for 2019-20 is funded by a \$0.405 million Lotterywest grant and the Developer Contributions Plan reserve.

Other asset upgrade/expansion projects include:

- landfill site fencing, leachate pond upgrade and construction of a waste cell at the Davis Road landfill site;
- various upgrades to caravan park infrastructure;
- path projects including the Flinders Bay to Cape Leeuwin Lighthouse path and the Wadandi track;
- carpark works for the Margaret River Youth Precinct/Gloucester Park; and
- improvements to the Flinders Bay boatramp area.

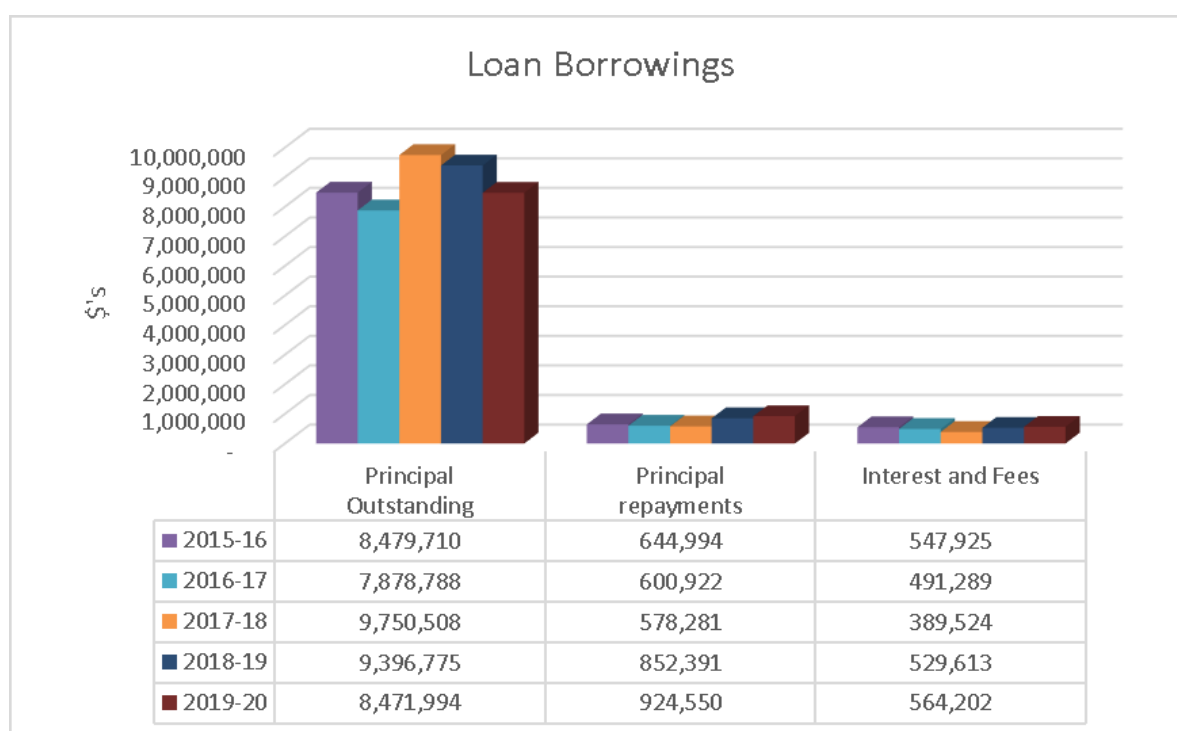
The redevelopment of the Margaret River main street is also a major asset upgrade project with \$8.657 million allocated in the budget funded from various reserves (\$8.257 million) and Council funds (\$0.400 million). Civil works are expected to commence in September/October 2019.

The majority of road and related infrastructure projects have been categorised as asset renewal expenditure as the scheduled works have the objective of restoring service levels. \$5.458 million is allocated to road and infrastructure preservation works with the majority of road works funded by the State Government's Regional Road Group grants administered through Main Roads WA. 2019-20 is the first year of the new five year Roads to Recovery grant allocation from the Federal Government and \$0.519 million has been allocated towards funding various preservation works including asphalt overlays and rural reseals.

Details of each capital project and their proposed funding source are included in the Capital Works Expenditure and Funding Schedule included within the supplementary information to the budget.

### Loan Borrowings

The following chart compares loan principal outstanding, principal and interest repayments since 2015-16. Principal and interest repayments have increased in recent years as a result of new borrowings in the past 2 years for the HEART project, asbestos removal and reinstatement projects and the Margaret River Youth Precinct. Loan principal outstanding is expected to decrease to \$8.472 million from the peak of \$9.751 million at 30 June 2018. Principal repayments budgeted for 2019-20 total \$0.925 million and interest repayments, including the Government Guarantee Fee, total \$0.564 million.



### Reserves

The forecast balance of reserves at 30 June 2019 of \$26.519 million exceeded budget expectations primarily due to funds transferred to the Waste Management reserve and the delayed commencement of the Margaret River main street project not requiring the transfer of funds from the Margaret River CBD Redevelopment reserve.

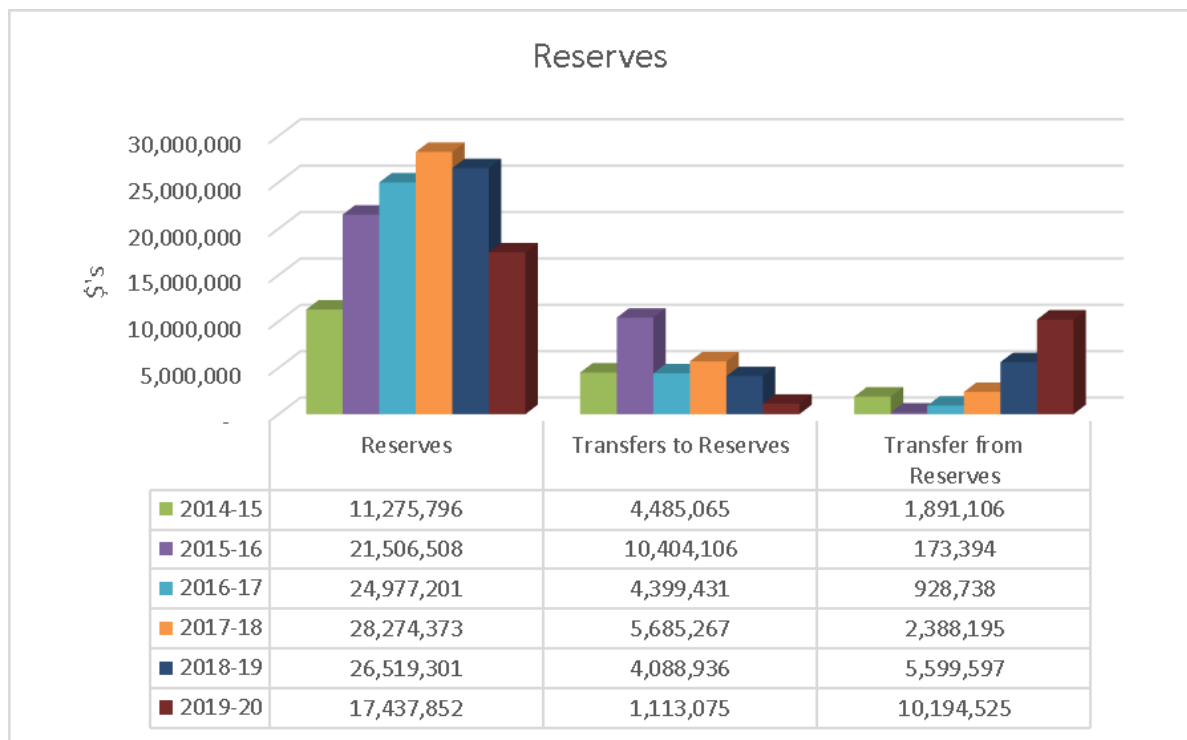
For 2019-20 transfers from reserves of \$10.195 million are expected for various projects including:

- Turner Caravan Park chalets (\$0.500 million);
- replacement of mobile plant and equipment (\$0.225 million);
- Margaret River main street upgrade (\$8.257 million);
- the Flinders Bay to Cape Leeuwin Path (\$0.100 million);
- the HEART project (\$0.328 million);
- Cowaramup Hall project (\$0.089 million);
- Witchcliffe Hall project (\$0.070 million);

- Extension of Heppingstone Avenue, Augusta to Allnutt Terrace (\$0.180 million); and
- Ashton Street drainage project (\$0.168 million).

Additionally, funds from the Developer Contributions reserve are used for principal and interest repayments for loans totalling \$1.450 million drawn down for the Cultural Centre and Margaret River Youth Precinct projects.

Transfers to reserves are expected to total \$1.113 million of which \$0.560 million is interest earned, \$0.204 million are developer contributions to be received and \$0.280 million are property sale proceeds.



As transfers from reserves exceed transfers to reserves the forecast balance of reserves is expected to reduce to \$17.438 million. Should all budgeted reserve transfers occur the Shire's most significant reserves would be:

- Waste Management reserve with \$10.763 million;
- Developer Contributions reserve with \$1.241 million;
- Plant Replacement reserve with \$0.793 million; and
- Infrastructure Contributions reserve with \$0.721 million.

The use of the Community Facilities reserve to fund some large projects in the last year reduced the projected balance of this reserve to \$0.281 million and if possible it would be prudent to transfer funds to this reserve to assist funding of future capital projects.