Western Metropolitan Regional Council

Long Term Financial Plan 2011/12 to 2020/21

Date adopted by Council: 5 April 2012

TOWN OF CLAREMONT Est 1898 TOWN OF COTTESLOE TOWN OF MOSMAN PARK SHIRE OF PEPPERMINT GROVE CITY OF SUBIACO

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1. Introduction

1.1. WMRC

The Western Metropolitan Regional Council (WMRC) was established in 1989 by five member Councils:

- Town of Claremont
- Town of Cottesloe
- Town of Mosman Park
- Shire of Peppermint Grove
- City of Subiaco

For most of our history we were managed under contract to one of the member Councils and our sole focus was to operate the Waste Transfer Station in Shenton Park.

In mid-2010 the management of the WMRC significantly changed with the appointment of an independent Chief Executive Officer and associated administration. This new structure has enabled a greater focus on strategic project delivery, improved ways of thinking and delivering greater regional services to our member Councils.

The WMRC exists to deal with waste from Perth's Western Suburbs and immediate surrounds in an efficient and environmentally sound manner, and to provide guidance to its stakeholders in improved waste management practices. Our current operations and services include:

- Waste Transfer Station
- Earth Carers Programme
- Administration & Governance

The WMRC also provides services to the City of Nedlands, reinforcing the significance of the WMRC as a waste service provider to the western suburbs

1.2. Purpose of this Plan

The Western Metropolitan Regional Council's (WMRC) Long Term Financial Plan (LTFP) details what the Council proposed to do over the next ten years as a means of ensuring the WMRC's financial sustainability.

The LTFP is aligned to other core planning documents including:

- WMRC Strategic Plan 2011-2016
- WMRC Asset Management Plan 2011/12 to 2016/17
- WMRC Workforce Plan 2011/21 to 2016/17

The LTFP will be the basis for preparation of the WMRC's Annual Budgets.

The LTFP is a dynamic tool which analyses financial trends over a ten year period on a range of assumptions and provides the WMRC with information to assess resourcing requirements to achieve its strategic objectives and to ensure its future financial sustainability.

The LTFP covers the period 2011/12 to 2020/21. There is a high level of accuracy and detail in the first three years of the LTFP but this is underpinned by a number of assumptions. The remaining seven years of the LFTP are only considered reasonable estimates.

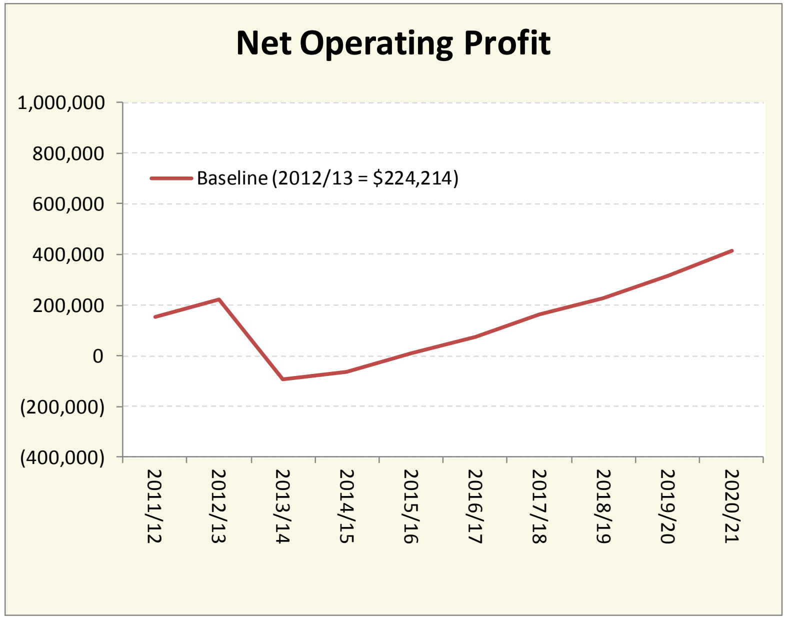
The WMRC undertakes a full review of its Strategic Plan every two years. This LTFP will be reviewed in conjunction with the Strategic Plan reviews. There will be some variations between the LTFP projections and Annual Budgets.

2. Features of the Plan

2.1. Forecast Operating Profit and Loss

	Year 1 (2011/12) $	Year 2 (2012/13) $	Year 3 (2013/14) $	Year 4 (2014/15) $	Year 5 (2015/16) $	Year 6 (2016/17) $	Year 7 (2017/18) $	Year 8 (2018/19) $	Year 9 (2019/20) $	Year 10 (2020/21) $
Revenue	6,282,462	10,800,178	11,668,121	12,046,242	12,541,933	13,038,282	13,582,452	14,138,100	14,723,928	15,348,708
Expenditure	(6,128,816)	(10,575,964)	(11,761,071)	(12,109,388)	(12,530,922)	(12,963,624)	(13,418,025)	(13,909,780)	(14,406,653)	(14,933,036)
Profit/(Loss)	**153,646**	**224,214**	**(92,951)**	**(63,145)**	**11,011**	**74,659**	**164,428**	**228,320**	**317,275**	**415,672**

The graph below demonstrates the strengthening financial position of the WMRC over the ten year LTFP period.



Commentary

Small operating losses are forecast in 2013/14 and 2014/15. This is the result of significant capital expenditure in 2012/13 that increases annual depreciation. In all cases the forecast loss is at least $200,000 less than depreciation.

Budgets through year 3 to 5 will provide challenges in meeting operating demands. At the time of budget setting for these years Council may opt to slightly increase the member fee or fund the expected loss through Reserves.

The higher operating costs from 2012/13 arise from the commencement of the DiCOM waste processing system. In addition to the WMRC's waste disposal fee being higher, the WMRC will also be responsible for the disposal of DiCOM residual waste. This is reimbursed back to the WMRC.

The forecast operating profit and loss are underpinned by a number of conservative key assumptions. Highly sensitive external factors have the potential to significantly increase the WMRC's surplus.

2.2. Highly Sensitive Key Assumptions

The operating profit and loss is sensitive to a number of key assumptions. As such the WMRC has adopted conservative assumptions.

Assumption	Potential change	Financial Result
Commercial waste price growth of 4%	+/- 1%	An increase/decrease by 1% to the commercial waste price growth assumption flows onto a $340,000 change to the 2020/21 financial result. The commercial waste price growth is driven by competitor site gate fees.
DiCOM commissioning date is September 2012	3-6 month delay	A six month delay to the DiCOM commissioning date will increase the 2012/13 surplus by around $350,000.
Council waste receivals do not increase over the life of the LTFP	+/- 1%	For every 1% tonnage growth to Council waste the 2020/21 surplus increases approximately $220,000.
The landfill levy annual increase does not change over the life of the LTFP	Increase $1 to $20 per tonne	For every $1/tonne/annum increase to the landfill levy the 2020/21 surplus increases by around $165,000.
3,200 tonnes of state government waste will be received at the member gate fee	Received at commercial fee	If this waste is received at the commercial gate fee the 2012/13 surplus decreases by approximately $130,000.
DiCOM gate fee will be at the higher end of current negotiations	Decrease $1 to $10 per tonne	For every $1/tonne decrease to the 2012/13 DiCOM fee, the 2020/21 surplus increases by around $60,000.

Commentary

Adopting an optimistic approach to highly sensitive assumptions achieves a $1.5m+ surplus in 2020/21; clearly highlighting the sensitivity of the LTFP to external factors. The decision to include conservative assumptions in the LTFP reduces the potential for significant losses in any financial year. Should any of the above assumptions significantly change the expected operating profit/loss for WMRC the member Council putrescible fee will be adjusted accordingly and additional income placed into Reserves to fund an improved capital works program.

2.3. Forecast Capital Expenditure

	Year 1 (2011/12) $	Year 2 (2012/13) $	Year 3 (2013/14) $	Year 4 (2014/15) $	Year 5 (2015/16) $	Year 6 (2016/17) $	Year 7 (2017/18) $	Year 8 (2018/19) $	Year 9 (2019/20) $	Year 10 (2020/21) $
Expenditure	**(1,543,357)**	**(2,061,000)**	**(586,500)**	**(22,500)**	**(415,500)**	**(107,000)**	**(490,800)**	**(513,300)**	**(417,800)**	**(555,400)**

Commentary

The capital works program is detailed in the WMRC Asset Management Plan 2011/12 to 2016/17. Significant capital expenditure is allocated to the first two years of the LTFP to:

- Undertake a minimal refurbishment of the transfer station to accommodate DiCOM. This includes raising the building roof, reversing the flow of traffic around the site and installing a compactor to haul residual waste.
- Purchase a loader and site truck.
- Install sprinklers in the transfer station building to reduce the current fire risk.
- Construct internal roads to a high quality.
- Replace the silo haulage system with a tipping pit and compactor to increase unloading efficiency, replace aged silo system and improve load density.
- Purchase a standby generator to minimise the impacts of a power shortage on the transfer station’s ability to load the compactor.
- Change internal roads to allow trucks to enter the weighbridge effectively (currently driver on wrong side of weighbridge office) and allow DiCOM residual to be weighed.
- Upgrade the site weighbridge software.

2.4. Forecast Equity

	Year 1 (2011/12) $	Year 2 (2012/13) $	Year 3 (2013/14) $	Year 4 (2014/15) $	Year 5 (2015/16) $	Year 6 (2016/17) $	Year 7 (2017/18) $	Year 8 (2018/19) $	Year 9 (2019/20) $	Year 10 (2020/21) $
Accumulated Surplus	3,580,209	5,423,146	5,505,978	5,098,616	5,156,878	4,992,575	5,283,833	5,660,265	6,042,531	6,651,860
Reserves	3,117,717	1,498,995	1,347,661	1,745,004	1,784,348	2,148,725	2,192,094	2,265,608	2,481,055	2,634,854
Total Equity	**6,697,926**	**6,922,141**	**6,853,638**	**6,843,620**	**6,941,226**	**7,141,300**	**7,475,927**	**7,925,873**	**8,523,587**	**9,286,714**

Commentary

Over the 10-year LTFP period the WMRC's overall financial position is improved.

2.5. Measuring Sustainability

	Year 1 (2011/12)	Year 2 (2012/13)	Year 3 (2013/14)	Year 4 (2014/15)	Year 5 (2015/16)	Year 6 (2016/17)	Year 7 (2017/18)	Year 8 (2018/19)	Year 9 (2019/20)	Year 10 (2020/21)
Current ratio	1.19	1.37	1.27	1.27	1.28	1.39	1.57	1.83	2.17	2.58
Current operating ratio	2.45%	2.08%	-0.59%	-0.08%	0.77%	1.52%	2.43%	3.13%	3.98%	4.86%
Rates coverage ratio	96.37%	98.45%	99.29%	99.47%	99.40%	99.44%	99.31%	99.28%	99.20%	99.04%
Asset sustainability ratio	116.9%	722.6%	745.3%	166.0%	6.3%	109.1%	26.8%	111.1%	105.8%	81.0%

Commentary

The current ratio is greater than 1 in every year, indicating the WMRC is able to meet its short-term obligations out of unrestricted assets. The current operating ratio drops below 1 as the result of a small forecast loss. This will be funded through reserves.

3. Financial Strategies and Principals

3.1. Budget Surplus

Council believes in adopting a balanced budget and strives to achieve a 1-5% budget surplus. Additionally Council recovers the full cost of annual depreciation to place into Reserves.

3.2. Pricing Strategy

Waste Tipping Fee – Commercial Customers: Commercial waste tipping fees are set to attract sufficient quantities of waste such that the Transfer Station operates at/near capacity. This allows overheads to be dispersed over more tonnes, attracts lower disposal fees at landfill and ensures sufficient quantities of waste for DiCOM. The fee is currently set to recover costs to haul and dispose commercial waste to landfill.

Target annual increases:

- *4% per annum +*
- *+ 100% of the landfill levy +*
- *100% of the carbon tax payable by WMRC at landfill*

Waste Tipping Fee - Councils: Council waste fees are calculated after all income from commercial fees is taken into account, with provisions for capital works and annual depreciation put into reserves. General waste tipping fees are currently structured as a single charge for putrescible (sent to DiCOM) and bulk waste (sent to landfill).

Target annual increases:

- *3% per annum (putrescible waste)*
- *4% per annum (bulk and other waste)*

Greenwaste Tipping Fee: The greenwaste tipping fee is set to recover the costs of grinding and hauling greenwaste to a composting facility with provisions for capital works and annual depreciation put into Reserves.

Target annual increases:

- *3% per annum*

Earth Carers Surcharge: The estimated annual expenditure to achieve the deliverables set by Council is proportioned among the budgeted participating Council tonnes.

Target annual increases:

- *4.5-5% per annum*

3.3. Cash Reserves

Three cash reserves are maintained by WMRC to fund future commitments:

- **Future Development Reserve:** to fund the purchase of land, secondary waste treatment, business development, and research and development projects.
- **Plant and Infrastructure Reserve:** to fund the purchase and replacement of plant and infrastructure.
- **Sustainability Reserve:** to fund investigations into waste treatment or systems for more sustainable waste management practices.

A partial refurbishment of the Transfer Station will be funded through the Future Development Reserve ($1.65m) with a further $1.5m used from the Future Development Reserve in 2012/13.

Other Cash Reserves are maintained for employee accrued leave costs.

4. Key Assumptions Underpinning the Plan

The estimates in the LTFP are based on a number of assumptions and Council strategies. The base point for the modelling is the actual 2010/11 financial statements.

4.1. Revenue Projections

Key elements of the WMRC's revenue are:

Waste Tipping Fees	96.7%
Earth Carers Surcharge	2.4%
Interest Earnings	0.7%
Grants & Subsidies	0.1%
Other Income	0.1%

Waste Tipping Fees

- Full cost recovery of DiCOM gate fee and overheads from Councils.
- Full cost recovery of increases to the landfill levy.
- Full cost recovery of carbon tax passed through landfill gate fee.
- Full cost recovery of landfill disposal fees and overheads from commercial customers.
- 8,000 tonnes of commercial waste will be sent to DiCOM at a gate fee lower than expenditure, with the loss decreasing annually.
- 4,000 tonnes new business in 2012/13 increasing 3% per annum.
- 3,200 tonnes of State Government waste subsidised by Waste Authority to recovery full DiCOM gate fee and overheads.
- Load conversion rate: 0.3 tonnes per cubic metre
- City of Stirling overhead recovery fee is approximately 22% of DiCOM fee.
- Council putrescible waste fee grows by 3% per annum plus up to 35% of landfill levy and carbon tax increases.
- Council non-putrescible waste fee grows by 1% per annum plus 100% of the landfill levy and carbon tax increases.
- Commercial waste fee grows by 4% per annum plus 100% of the landfill levy and carbon tax increases.

Earth Carers Surcharge

- No substantial change to the project scope.
- Applied to all waste tonnes delivered by member Councils and the City of Nedlands.
- Annual fee increase calculated from estimated expenditure divided by budgeted tonnes received from participating Councils.

Interest Earnings

- Assumed interest – investment account: 5.2% per annum.
- Assumed interest – operating account: 2.5% per annum.
- Portion of revenue on account: 98%.
- Average debtor days: 27.

Grants & Subsidies

- From 2014/15 all e-waste recycling fees will be funded under the National Computer and Television Product Stewardship Scheme.
- In 2012/13 WMRC will receive $200,000 funding from the State Government under the Regional Investment Programme.

Other Income

- Penalty interest received: $125 per annum.

4.2. Expenditure Projections

Key elements of the WMRC's expenditure are:

Materials and Contracts	88.9%
Employee Costs	8.2%
Depreciation	1.7%
Insurance	0.7%
Utilities	0.1%
Other Expenditure	0.4%
Interest Expense	0%

Materials and contracts

- DiCOM will commence operations in September 2012 and take 12 weeks to 'ramp-up' to full scale operations.
- DiCOM gate fee will be 110% of current Transfer Station 'per tonne' operating costs.
- DiCOM will produce 35% residual waste requiring disposal to landfill.
- DiCOM will have capacity to receive 33,000 tonnes per annum of waste from the WMRC.
- No increase to landfill levy expected over life of LTFP.
- 35% of the carbon tax price will be charged at landfill.
- The carbon tax will increase by 5% per annum.
- Annual expense growth of 3% applied to all materials and contracts.
- Haulage costs assume 21 tonnes of waste per load.
- Administration office rent increase: 4% per annum.
- 100% of WMRC waste to landfill will be disposed at the Millar Road Landfill (City of Rockingham).

Employee Costs

- One new FTE at the Transfer Station in 2012/13.
- Workers compensation calculated as a 3.9% of salaries.
- Superannuation calculated as 9% of salaries, increasing to 12% by 2020 in line with Government Superannuation Guarantee.
- Salaries annual growth of 5%.

Depreciation

- Buildings: 2%
- Infrastructure: 5%
- Office furniture and equipment: 20%
- Existing plant and equipment: 14%
- New fixed plant and equipment: 6.7%
- New mobile plant and equipment: 14.3%

Insurance

- Annual expense growth of 3%.

Utilities

- Annual expense growth of 3%.

Other expenditure

- No annual increase to members sitting fee.
- Annual expense growth of 3%.

Interest Expense

- WMRC has no loans and does not propose borrowings in the LTFP.

4.3.Asset Management

Key Document: Asset Management Plan 2011/12 to 2016/17

The WMRC has developed a strategic approach to asset management and developed an Asset Management Plan based on the total lifecycle of assets. The Asset Management Plan will assist Council:

- Predict infrastructure consumption and asset renewal needs
- Identify the cost required to renew or preserve assets (renewal gap)

Funding for the renewal of assets has been increased to ensure sustainability in the longer term. The continued allocation of funding towards the renewal of assets and funding for maintenance and upgrades will result in a positive investment for the WMRC and member Councils.

Asset acquisitions and capital works projects will be funded from reserves or the sale of existing assets. The LTFP does not propose external borrowings.

Risk Assessment

The Asset Management Plan identifies assets that are critical to the WMRC's operations and outlines risk management strategies for these. Capital works identified in the Asset Management Plan are focused on reducing hazards that have a high inherent risk. Asset based controls to mitigate the risks are also proposed.

Asset Information

To provide the WMRC with more detailed asset management knowledge, asset information needs to be upgraded. The Asset Management Plan identifies the information needed and the timeframe on which it will be obtained.

Major planned expenditure and capital works:

Works	Cost	Year
Minimal transfer station refurbishment	$948,777	2011/12
Purchase loader and site truck	$337,200	2011/12
Sprinklers in transfer station building	$200,000	2012/13
Construct roads to high quality	$200,000	2012/13
Replace silo system with tipping pit and compactor	$1,500,000	2012/13
Stand-by generator	$200,000	2013/14
More robust weighbridge software	$200,000	2013/14
Change roads to allow trucks onto weighbridge	$200,000	2015/16
Install 15 metre long weighbridge	$200,000	2015/16

4.4. Workforce Planning

Key Document: Workforce Plan 2011/12 to 2016/17

The Workforce Plan proposes that the WMRC consider increasing net staffing levels by one new FTE in 2012/13 to maintain service provision levels as the Transfer Station operation grows.

New staff will be employed as new regional project occur; however these potential new projects and staffing requirements have not been identified in the LTFP. The Workforce Plan identifies the need for a FTE Accountant in the event that any new regional project commences.

5. Scenario Modelling and Sensitivity Analysis

5.1. Scenario Modelling

Transfer Station Refurbishment

A number of scenarios were developed to determine the optimum capital investment into the Transfer Station to achieve the desired service and safety levels, achieve a positive internal rate of return and the best Net Present Value (NPV) using a 12% discount rate. The options considered were:

Full Refurbishment of Transfer Station: This scenario looked at replacing the silo haulage system with walking floors and a compaction unit, constructing a new weighbridge for trucks, rearranging the residential tipping area, and creating a new greenwaste receival area. The expected cost of $7.2m was more than the WMRC Reserves and had a NPV of -$2,760,344.

Partial Refurbishment of Transfer Station: The partial refurbishment looked at extending the building footprint, installing a walking floor and compaction unit. Estimated capital was $4.1m and had a NPV of $126,673.

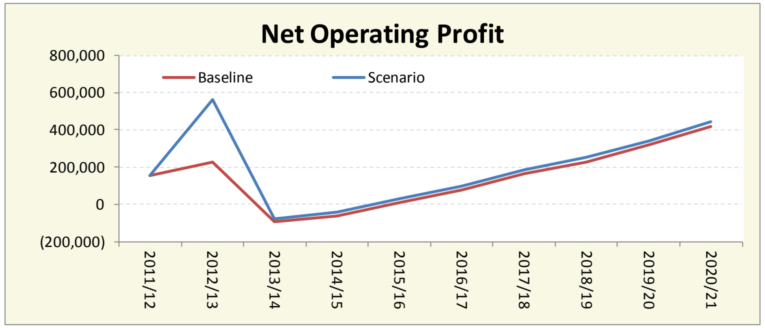
Minimal Refurbishment of Transfer Station: The minimal refurbishment option achieves the minimal works required to make the Transfer Station operational with the commencement of DiCOM. This option involved capital expenditure of around $2.15m and had a NPV of $337,634. This is scenario adopted by Council and the assumptions on which the LTFP is built upon.

5.2. Sensitivity Analysis

The LFTP is extremely sensitive to some key assumptions. Small changes to these variables have a significant impact on the WMRC's assumed profit/loss. The LTFP has adopted <u>extremely conservative assumptions</u>.

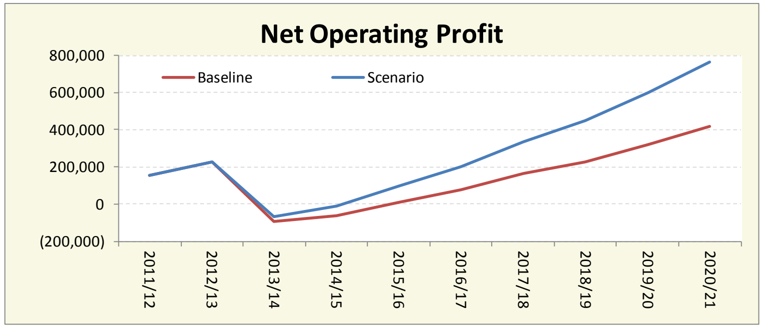
DiCOM Commissioning Date

The LTFP assumes DiCOM commissioning commences in September 2012 and has a six week ramp-up period to reach full operating capacity. If DiCOM commissioning is delayed six months the WMRC surplus in 2012/13 will increase by around $350,000, with a limited flow on effect into future years.



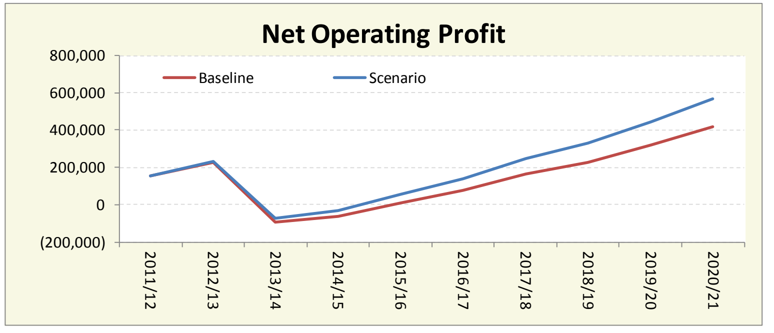
Commercial Waste Price Growth

The commercial waste fee is set to attract waste from other sites. The LTFP assumes a 3% per annum increase to the commercial waste fee (excluding landfill levy and carbon tax increases). The annual increase is guided by competing sites. A price growth of 5% per annum creates an additional $340,000 to the WMRC's 2020/21 surplus.



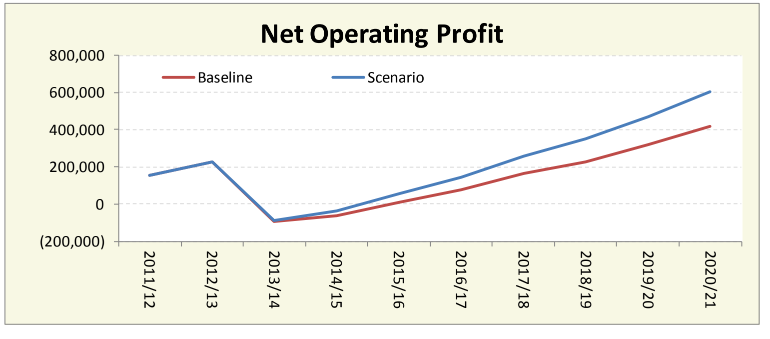
Waste Receivals - Councils

The LTFP assumes Council waste tonnes do not change from 2011/12 for the life of the plan. For every 1% tonne growth to Council putrescible waste, the WMRC surplus in 2020/21 increases by approximately $150,000.



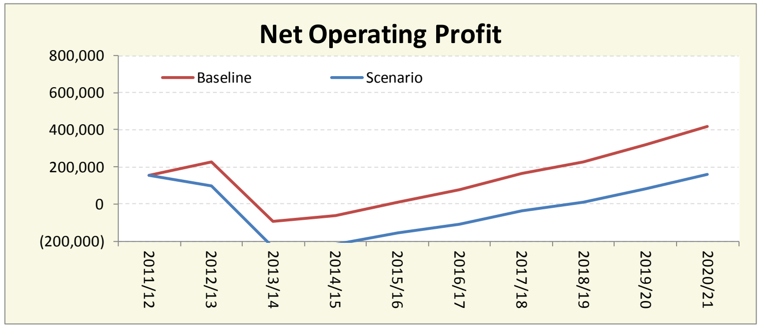
Landfill Levy Annual Increase

Although increases to the landfill levy are anticipated in future years, predictions on the increase and when the increases will occur is extremely difficult. Therefore the LTFP assumes no increase to the landfill levy for the life of the plan. For every $1/tonne/annum increase to the landfill levy the WMRC surplus increased by approximately $180,000 in $2020/21.



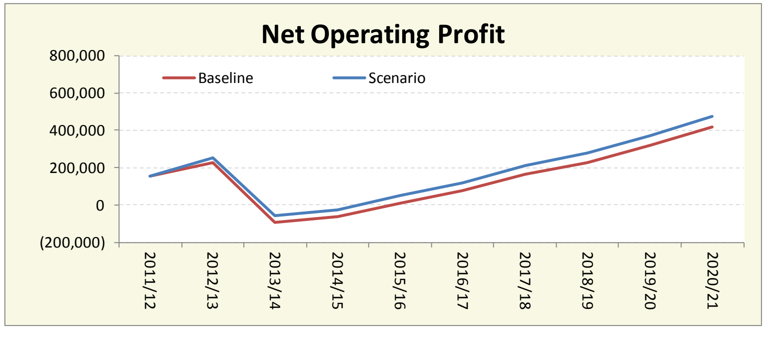
State Government Waste

The LTFP assumes 3,200 tonnes of State Government waste will be received at the member Council gate fee. This is based on ongoing discussions with the State Government. If this waste is instead received at the commercial gate fee the WMRC surplus in 2012/13 reduces by around $130,000.



DiCOM Gate Fee 2012/13

The DiCOM gate fee is calculated when construction is completed and is based on the WMRC's actual operating costs at the time. The LTFP assumes the higher end of the likely DiCOM gate fee. For every $1/tonne decrease to the 2012/13 DiCOM fee, the 2020/21 surplus increases by around $60,000. The DiCOM fee may be up to $10/tonne less than the LTFP assumes.



6. Key Performance Indicators

6.1. Statutory KPIs

Several statutory KPIs have been prescribed in the *Local Government (Financial Management) Regulations 1995* to measure the financial sustainability of local governments. The LTFP has been assessed against KPIS and will be compared to KPIs measured from the Annual Budget and Annual Financial Statements to provide clear targets for the WMRC to report its progress each year.

	Year 1 (2011/12)	Year 2 (2012/13)	Year 3 (2013/14)	Year 4 (2014/15)	Year 5 (2015/16)	Year 6 (2016/17)	Year 7 (2017/18)	Year 8 (2018/19)	Year 9 (2019/20)	Year 10 (2020/21)
Current ratio	1.19	1.37	1.27	1.27	1.28	1.39	1.57	1.83	2.17	2.58
*This is a measure of liquidity and ability to meet short term financial obligations out of unrestricted current assets. **Target: >1***										
Current operating ratio	2.45%	2.08%	-0.59%	-0.08%	0.77%	1.52%	2.43%	3.13%	3.98%	4.86%
*This is an indicator of the extent to which revenue raised covers operational expenses only or are available for capital funding purposes. **Target: 0%-15%***										
Rates coverage ratio	96.37%	98.45%	99.29%	99.47%	99.40%	99.44%	99.31%	99.28%	99.20%	99.04%
*This is an indicator of a local government's ability to cover its costs through its own tax revenue efforts. The WMRC assumes 'rates' to be income received through fees and charges. **Target: >40%***										
Debt service cover ratio	N/A - the WMRC does not carry any debt and the LFTP does not propose any borrowings.									
Asset sustainability ratio	116.9%	722.6%	745.4%	166.0%	6.3%	109.1%	26.8%	111.1%	105.8%	81.0%
*This is an indicator of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. **Target: 90%-100%***										
Asset consumption ratio	47%	No future replacement costs determined								
*This ratio highlights the aged condition of a local government's physical assets. **Target: 50%-75%***										
Asset renewal funding ratio	N/A - future values are not available to calculate the net present value asset management plan projections.									

6.2. Non-Statutory KPIs

	Year 1 (2011/12)	Year 2 (2012/13)	Year 3 (2013/14)	Year 4 (2014/15)	Year 5 (2015/16)	Year 6 (2016/17)	Year 7 (2017/18)	Year 8 (2018/19)	Year 9 (2019/20)	Year 10 (2020/21)
Tonnes of waste received*	45,293	53,254	53,549	53,968	54,395	54,829	55,272	55,722	56,181	56,648
Average revenue per tonne	$133	$154	$153	$158	$163	$169	$175	$181	$187	$194
Cost per tonne (members)	$145	$175	$181	$188	$194	$201	$208	$215	$223	$231
Reserves available	3,117,717	1,498,995	1,347,661	1,745,004	1,784,348	2,148,725	2,192,094	2,265,608	2,481,055	2,634,854

**excluding City of Stirling waste to DiCOM*

7. Financial Statements

7.1. Financial Projections

The financial projections in this LTFP have been developed in a format that conforms to the *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

8.Conclusion

8.1. Implementation of the LTFP

Council will consider the content of the LTFP when preparing the Annual Budget for 2012/13 and subsequent years. It is expected that the adopted budgets will be closely aligned with the proposals in the LTFP and underpinning assumptions.

8.2.Review of the LTFP

Some minor review of the LTFP will occur each year as budgets are prepared to account for performance information and changing circumstances. A full review of the LTFP is planned for 2013/14 in conjunction with adoption of the Strategic Community Plan.

Council is confident the LTFP will allow the WMRC to set priorities within its resourcing capabilities to sustainably deliver its strategic objectives.