

Wagga Wagga City Council

RETURN ON INVESTMENT COUNCIL BUSINESSES POLICY

REFERENCE NUMBER	POL 013		
ORIGINAL APPROVAL DATE	November 2015		
RESPONSIBLE MANAGER	Manager Finance		
RESPONSIBLE DIRECTORATE	Corporate Services		
This document is to be reviewed: every four years Or in the first twelve months of the new term of Council, Whichever is the earliest. Next Review Date: September 2020			
Revision number	Issue Date	Council Resolution	Council Meeting Date
1	April 2016	Res No: 16/081	26 April 2016
2	August 2017	Res No: 17/279	28 August 2017

PART 1: INTRODUCTION

Council provides more than seventy (70) different services, and programs to the community which aligns with its charter under the Local Government Act 1993.

A Council has the following charter:

- To provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively.*

Council has specifically identified six (6) services/facilities which are either defined as a declared business activity under the National Competition Policy requirements or may not be operating with the objective of making a profit but have characteristics which are similar to those of a commercial business. These businesses derive the majority of income from a combination of user charges or specific purpose annual charges which differentiates them from most other activities performed by Council which are dependent on funding from ordinary rates or general purpose grants and contributions. The six (6) business activities will operate under three (3) separate objectives as identified below.

- **Commercial Objective:**
 - Wagga Wagga Airport
 - Livestock Marketing Centre
- **Cost Recovery Objective:**
 - Sewer Service
 - Solid Waste Service
- **Community Objective:**
 - Oasis Aquatic Centre
 - Civic Theatre

1.1 Policy Objectives

The objectives of the Policy are to establish a Return on Investment (ROI) for each of the six (6) business activities above and establish the reporting framework.

1.2 Scope of Policy

The Policy applies to the six (6) business activities identified in the Introduction.

1.3 Definitions

National Competition Policy – The framework for its application is set out in the June 1996 Government Policy statement on the “*Application of National Competition Policy to Local Government.*”

Return On Investment – The operating surplus or deficit divided by the Written Down Value (WDV) of Property, Plant & Equipment related to the Business Activity expressed as a percentage.

Surplus (deficit) from Continuing Operations before Capital Amounts Return On Investment – The financial result reported in the Income Statement of the independently audited Special Purpose Financial Reports.

1.4 Legislative Context

Section 8 of the NSW Local Government Act – The Council’s Charter

Section 496 of the Local Government Act 1993 – Making and levying

NSW Office of Water – Best Practice Management disclosure requirements

1.5 Related Documents

Special Purpose Financial Statements

1.6 Responsibilities

Manager Finance - Preparation of financial reports and reporting against ROI Policy targets.

Manager Council Businesses & Property – Monitoring and reporting against ROI Policy targets for the Airport and Livestock Marketing Centre.

Manager Waste & Stormwater Services – Monitoring and reporting against ROI Policy targets for Sewerage and Solid Waste.

Manager Environment & Recreation Services - Monitoring and reporting against ROI Policy targets for Oasis.

Manager Community Services - Monitoring and reporting against ROI Policy targets for the Civic Theatre.

Executive Team – Annual review of Policy and monitoring performance and formulating revisions to targets for consideration by the elected body.

1.7 Reporting Requirements

The Return on Investments for each Council Business will be reported quarterly to Council as part of the regular reporting of the outcomes of the Delivery Program and Operational Plan.

1.8 Review procedures

The Policy will be reviewed on an annual basis by the Executive Team and any proposed changes will be formally considered by the elected body of Council prior to placing on public exhibition and inviting public comment.

PART 2: POLICY CONTENT

2.1 Council Businesses with a Commercial Objective

Council has identified the Wagga Wagga Airport and the Livestock Marketing Centre (LMC) as businesses which operate with the financial objective of achieving a surplus result after all expenses including depreciation and corporate overheads. Both businesses aim to pay a dividend to the General Fund where a surplus result is achieved and each business maintains a separate cash reserve for distribution of surplus funds.

The cash reserve provides a funding source for future capital renewals and new capital growth.

Policy Statements:

Council will maintain a separate cash reserve for each Council business with a commercial objective to fund the future renewal of capital assets and to fund future expansions or capital improvements.

Council will derive a dividend from each of its commercial businesses each year where a surplus result from Continuing Operations before Capital Amounts has been achieved.

2.1.1 Wagga Wagga Airport

The Wagga Wagga Airport serves as the regional air passenger facility for Wagga Wagga and the surrounding region. The facility operates on Commonwealth land under a lease arrangement which expires on 30 June 2025.

The greatest contributing factor to income and overall financial performance of the Airport is passenger numbers. Passenger income represents 85% of the total operating income of the business. Passenger income is charged on a per head basis to the two (2) airlines Rex and QantasLink. Passenger charges are determined by Council on an annual basis following negotiations with both airlines.

The airport operates in a highly regulated environment which has a significant influence over facility operating costs through prescribed standards and operating practices.

Following the preparation of the Airport Master Plan in 2011, there has been a focus on capital improvements and expansion resulting in an expanded and refurbished passenger terminal, increase in car parking and paid parking spaces, installation of an Instrument Landing System (ILS) and development of an airport industrial subdivision. This expansion has been partly funded through borrowings with the debt servicing costs paid from the airport budget. This has impacted the financial performance of the business and limited the ability to pay an annual dividend. The total borrowings outstanding at 30/6/15 was \$10.495M and the interest cost \$593K for the 2014/15 year.

The Airport Master Plan envisages continued growth in aeronautical income (eg airline passenger charges, landing fees) and non-aeronautical income (eg rentals, car parking fees). The recent investment in the industrial subdivision provides the opportunity for an increase in non-passenger income from lease rentals.

Policy Statements

The Airport aims to achieve a positive Return on Investment and pay a dividend of 25% of the Surplus Result from Continuing Operations before Capital Amounts to the General Fund of Council by 2020.

2.1.2 Livestock Marketing Centre

The LMC built in 1979 is currently Australia's largest selling facility for sheep and ranks as the fifth largest cattle selling facility as measured by stock throughput.

Council derives its income by charging on a per head basis for sheep and cattle which is scaled depending on the selling price. The total income received for the year is closely connected to the overall economic conditions of the rural agricultural sector and the cyclical pricing for sheep and cattle.

Revenues have exceeded the budgeted amounts for the last two (2) financial years which reflects a sharp increase in cattle numbers and higher prices obtained at market. The current economic cycle cannot be relied upon to continue. The LMC is expected to retain its premier market status as smaller yards close and even with new yard developments within the geographic region.

A Masterplan is currently being developed for the LMC and this will recommend the future capital priorities for the facility.

Policy Statements

The LMC aims to achieve a positive Return on Investment and pay a dividend to the General Fund of Council each year.

The LMC will pay a dividend each financial year of \$100,000 plus an amount equivalent to 25% of the Surplus Result from Continuing Operations before Capital Amounts to the General Fund of Council.

2.2 Council Businesses with a Cost Recovery Objective

Council has identified the Sewer and Solid Waste activities as businesses which operate with the financial objective of recovering all direct and indirect expenses including disposal costs, corporate overheads as well as providing for the future rehabilitation of waste sites. Both business activities operate and apply annual charges and fees in accordance with the Local Government Act. The relevant sections of the Act are:

S502 – Annual Charges (Charges for actual use)

A Council may make a charge for a service referred to in section 496 or 501 according to the actual use of service.

s504 – Domestic waste management services

- (1) *A Council must not apply income from an ordinary rate towards the cost of providing domestic waste management services.*
- (3) *Income obtained from charges for domestic waste management must be calculated so as to not exceed the reasonable cost to the council of providing those services*

In addition to the levy of annual charges, Council all applies fees based on the actual use of the services for:

- Waste Disposal at Gregadoo Waste Management centre (commercial and domestic)
- Sewer – non-residential charges based on water consumption and applied in accordance with the NSW Office of Water – Best Practice Management Guidelines

Council is required to maintain separate fund accounts for its sewer and solid waste activities which are subject to independent audit.

The cash reserve provides a funding source for future capital renewals and for the remediation and rehabilitation of waste sites.

2.2.1 Sewer

Council supplies sewer services to more than 23,176 occupied residential properties and 1,807 non-residential properties.

Council has prepared a 30 year business plan, which takes into account the long term operating and capital requirements of the sewer business. The business plan is prepared in accordance with the NSW Office of Water Best Practice Guidelines and aims to ensure that user charges and fees are set to recover both operating and capital costs without the need to vary considerably from one year to the next in comparison to the annual capital works program.

Despite an overall positive cash result, the Result from Continuing Operations has been a deficit for the 2013/14 and 2014/15 years. The deficits results shown are inclusive of depreciation expense which was \$6,753,000 in 2014/15 and \$7,065,000 in 2013/14.

These results indicate that the sewer fund is not generating sufficient revenues to fully fund the future renewal of assets which may have medium to longer term implications for Council when major renewal works are required. The implications may include either delaying infrastructure renewal or an increase in borrowings which will result in higher charges and fees.

A deficit result also means that Council is unable to pay a dividend to the General Fund from its sewerage business. The NSW Office of Water Best Practice Guidelines allow Councils to pay a dividend to their General Fund of 50% of the surplus generated up to a maximum of \$30 per assessment. The maximum potential dividend for WWCC is \$724,810.

The NSW Office of Water undertake an annual benchmarking exercise which indicates that WWCC has one of the lowest operating costs per resident for sewer services and the annual residential charge of \$453.50 per annum is also low by comparison with that of other NSW Councils of similar size.

It is appropriate therefore that Council continues to progressively increases its annual charges and user fees with the objective of achieving at least a break even Return on Investment.

Policy Statements

The Sewer Business progressively increases the annual charges and the non-residential user fees at a level which will achieve at least a break-even ROI by 30 June 2020.

The Sewer Business aims to pay a dividend (calculated in accordance with the NSW Office of Water Best Practice Guidelines) to the General Fund of Council by 30 June 2020.

2.2.2 Solid Waste

The Solid Waste Business provides a waste and recycling collection and disposal service to 21,664 residential and 1,366 non-residential customers in the Local Government area.

The waste collection service is contracted to the private sector and the waste disposal site at Gregadoo is managed in-house.

Council is restricted under s504 of the Local Government Act 1993 to applying a cost based annual charge to Domestic Waste services however this restriction does not apply to the fees charged for commercial collection and disposal costs.

Council currently sets all charges for the Solid Waste Business at a level which covers all operating costs including corporate overheads and depreciation. The charges also include allowance for capital expenditure including establishing new waste cells and rehabilitating existing waste cells to their former condition. The Solid Waste business also contributes to a portion of the litter collection costs which in the main are funded through the general purpose revenues of Council.

Policy Statement

The Solid Waste Business continues to set fees at a level which will achieve at least a break-even ROI each year.

2.3 Council Businesses with a Community Objective

Council has identified the Oasis Regional Aquatic Centre (Oasis) and the Civic Theatre as businesses which operate with the objective of providing community facilities that are highly regarded and well utilised by the community. The feedback received from community consultation indicates a high level of support and expectation that the Council will provide these facilities for access and enjoyment for all sections of the community.

These facilities currently provide a low ROI when only operational costs and revenues are assessed. The inclusion of community benefits, however, gives a more holistic

account of the value that the community holds for these services. These benefits are significant and provide justification for the continued provision of community facilities by Local Government that may not be adequately provided adequately by the private sector.

The Community benefits include:

- An increase in physical activity. The provision of adequate community sporting and recreation facilities is important in encouraging **healthy lifestyles and providing safe environments that facilitate physical activity**. Numerous studies have highlighted the social, health and economic costs of inactivity.
- Providing physical places in which people can meet such as performance spaces or aquatic centres is a key strategy in supporting **community connectedness**.
- Social inclusion is a determinant of **mental health and well-being**. The arts play a vital role in reaching and engaging people. They provide social opportunities and entertainment alongside other activities such as sports.
- A healthier community results in a **reduced strain on the health system**, thus allowing better use of resources available to the government.

There are a number of structural barriers which currently exist which limit the capacity for revenue growth and an improved ROI. These include:

- Size and capacity including the seating capacity of the Civic Theatre
- Commitment to free civic events
- Scheduling of National and State Touring Shows
- Contractual commitments including the Basement Theatre and the Gymnasium at Oasis

Policy Statement

It is Council's objective to strive towards achieving a positive ROI for the Oasis and the Civic Theatre.

Council will continue to review the current barriers which prevent the Oasis and Civic Theatre from achieving a positive ROI with a view to implementing changes which result in an improved ROI.

The Oasis and Civic Theatre will operate on an efficient and best-practice basis and provide 'value for money'.

2.3.1 Oasis Regional Aquatic Centre

The Oasis is the largest aquatic centre in the Riverina. It was constructed in 2002-03 and opened to the public in July 2003, providing the community with a premium aquatic sports and recreation centre.

The facility is operational for up to 16 hours a day, 363 days a year, with most of the pool hydraulics/plant equipment running 24 hours a day, 365 days a year. The centre receives consistent patronage from both regular and general users with an average of 295,000 visits per annum achieved over the last three financial years.

The Oasis provides significant social and economic benefits to the community. Councils throughout Australia support recreation pools in recognition of the health and well-being it provides to the community. This reflects the relevance of "public good" within Local Government where such facilities are run by Councils rather than the private sector because they are inherently unprofitable but achieve community well-being outcomes.

The economic benefits include:

- the direct contribution to the local community by way of employment, income and expenditure
- attracting visitors to the City
- marketing of the city as part of a package of recreational and cultural facilities that encourages investment and population growth

Given the broader community benefits associated with Oasis, Council's Return on Investment cannot be measured in financial terms only. The Policy statement below reflects the emphasis on community participation as being the most appropriate measure for Oasis. The target is an increase on the average over the last 5 years and it is also likely that placing an emphasis on improved participation levels will result in a reduction in the subsidy per visit.

Policy Statement

The Oasis achieves high levels of community participation as measured by the total number of visits reaching the target of 300,000 per year.

2.3.2 Civic Theatre

As is the case for the Oasis, the ROI for the Civic Theatre cannot be measured in financial terms alone. Council provides a subsidy to operate the Theatre with the knowledge that the facility is highly regarded and very well utilised through both audience and performer participation.

The Civic Theatre impacts the community in a number of ways including:

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- Delivers exciting, inspiring and challenging artistic performances to Wagga audiences
 - Provides quality arts education for primary and high school students, professional performing artists and the greater community
 - Makes Wagga Wagga and the surrounding region a more attractive place to live
 - Provides a place for holding important public events including celebration concerts and Mayoral Receptions
 - Impacts the local economy through tourism and its flow on effects, and the employment of technical, production and front of house staff

Policy Statement

The Civic Theatre achieves high levels of community participation as measured by the total number of Ticket Sales reaching the target of 50,000 per year.