

7.1 FUNDING - ELLENBROOK COMMUNITY

(Ellenbrook) (Chief Executive Office)

KEY ISSUES

- At the Ordinary Meeting of Council on 13 April 2005, Council resolved:
 1. That Council seek a report and subsequent briefing on the allocation of funds to be considered as part of the draft 2005/06 budget in order to review, update and expand the Ellenbrook Economic Impact Study originally prepared by Helen Westcott in the early 1990's (hereinafter the "Original Report") in order to have a study (hereinafter the "New Report") that:
 - i) Compares actual historical data to the Original Report's projected or assumed lot production, council rate income, council costs and infrastructure provision over the life of the Ellenbrook Development to date;
 - ii) Revises the projections in the Original Report, including projected lot production, council rate income, council costs and infrastructure provision for entire Ellenbrook Place, (for the avoidance of doubt this means including the Vines development and the Vale development in the study in addition to the Ellenbrook development) for the next 30 years;
 - iii) Provides Council with more detail, and additional options if relevant, in relation to any borrowing behaviour and assumptions contained in the Original Report;
 - iv) Aligns and links the information within the New Report with existing information and understandings of the Urban Growth Strategy in order to be a significant tool for the City of Swan's strategic financial management;
 - v) Ensures the New Report contains sufficient information and is suitable to act as a template for further Economic Impact Studies for other "places" within the City's Place Planning Strategy should Council wish to carry out further studies;
 - vi) Ensures the New Report contains sufficient breadth and quality of information to be suitable to use in lobbying State and Federal Governments for funding assistance; and
 - vii) Ensures the New report, or a summary of the report, can be used as part of the Place Planning process to lead and inform the Community and Community discussion in relation to the timing of the provision of infrastructure in the Ellenbrook place.

This report addresses points (i), (ii) and part of point (iii) of the Council's resolution.

BACKGROUND

The establishment in 1991 of a Joint Venture between Sanwa Vines Pty Ltd and the State Housing Commission (now Department of Housing and Works) marked the beginning of the Ellenbrook project. Together the Joint Venture aimed to develop and market its combined land holdings of 1275 hectares in the Ellenbrook area.

Ellenbrook has been designed as a modern community to provide a wide choice of accommodation and lifestyles with associated education, recreation, retail and community facilities. It is envisaged the project will provide 12,000 homes for up to 35,000 residents over a 15-20 year period. Note: this does not include The Vale (Egerton Development).

The Ellenbrook project is the largest urban development currently planned for the Perth metropolitan area and one of the largest urban developments in Australia.

Objectives of the Economic Impact Assessment

The economic impact of such a large urban development upon the then Shire of Swan was recognised as potentially significant in terms of its impact in financial, social and infrastructure terms.

To examine the development's effect on Council's financial resources an economic impact assessment was undertaken. The cost of this study was borne equally between the Shire of Swan and Ellenbrook Management Pty Ltd in 1993.

It was anticipated that the assessment's findings would provide a financial framework to assist the Shire of Swan and Ellenbrook Management Pty Ltd in the planning and delivery of services and facilities over the life of the project.

Methodology

In preparing forecast revenue cash flows spreadsheets examining possible revenue sources and expenditure requirements for the Shire of Swan were prepared.

In establishing forecast revenue cash flows three options for the Shire of Swan were considered. The option accepted examined the effect on the Shire's resources when it makes a one-third contribution to all major community facilities within the Ellenbrook development, except with respect to roadworks.

Council's expenditure on selected roadworks within the Ellenbrook's development, as in all modern land developments, was and still is governed by statutory regulation.

Adopted Option

The option accepted in 1993 by the Shire of Swan and Ellenbrook broadly meet the expectations of both parties at that time.

Firstly, despite the need for loan borrowings in the development's early stages, projected income for the Shire of Swan over the thirty (30) year period was calculated

to be \$18.44m (1994 dollars). The assessment indicates that whilst the establishment of infrastructure would be less than income from the project initially, Council rate income from the development would be considerable in the longer term.

For Ellenbrook Management Pty Ltd, the assessment provided a tool for illustrating to Council the significant financial gains the project will generate, despite its need to fund the infrastructure provision during the early stages of development.

Assumptions underpinning the Economic Modelling

All income and expenditure data is in 1993 dollars.

The model commences at 1993/94 and continues out to 2022/23.

Residential Rate Revenue

Traditional housing rates and rates on cluster developments/units, etc. were based on similar properties within the City's Ballajura development.

Compact housing rates for both 300-350m² and 400-450m² developments, were based on similar developments in the Stratton subdivision.

Other Commercial Rate Revenue

Rates for commercial properties within the Ellenbrook development were calculated on the basis of similar commercial enterprises throughout the whole of the Shire.

Capital/Recurrent Expenditure for Major Community Facilities

Construction of District Community Centres

Capital and maintenance expenditure and recurrent expenditure data for district community centres was provided by the then Shire of Swan and based on comparable facilities within the Ballajura development.

Construction of Small Local Community Centres

Recurrent expenditure data for district community centres was provided by the Shire of Swan and based on Maguire Pavilion within the Beechboro development.

Public Libraries

Capital and recurrent expenditure data for libraries was provided by the Shire of Swan and based on comparable facilities within the municipality which included the Ballajura Library.

Combined Indoor Recreation and Aquatic Centre

The Shire of Swan provided expenditure data for these facilities as a single function, on the basis that the indoor recreation and aquatic centre for Ellenbrook would be similar to the one constructed by Council in Midland.

Bowling and Croquet Clubs

Size was based on the Midland Bowling and Tennis Clubs.

The approach, at that time, was that the Shire of Swan in providing this facility would only make a contribution towards total construction cost. This was in line with Council policy on funding for similar sporting facilities. Council would expect the sporting clubs to contribute towards construction costs and incur all recurrent expenditure associated with the operation of the facility.

Construction of Multi-marked Courts

Capital and recurrent expenditure for multi-marked courts was provided by the Shire of Swan. The expenditure data was based on the construction and maintenance costs of two (2) courts at Pickett Park in Bullsbrook.

Construction of Other Sporting Facilities

Capital and recurrent expenditure data for these various facilities was provided by the Shire of Swan, based on similar facilities established throughout the municipality.

Active Open Space

This type of open space included neighbourhood parks, etc. Maintenance costs data was provided by the Shire of Swan. The developer was to be responsible for the establishment/construction costs of these areas.

The average costs per hectare is based on the maintenance of Lemongrass Park in Ballajura, a Council maintained park. With an area of 0.86 hectares, the park costs \$7500 per hectare per annum to maintain (1994 dollars).

The park was irrigated and has play equipment and park furniture.

Linear Open Space (Passive/Linear Parkways)

In these areas natural vegetation dominates and recurrent expenditure shown was provided by the Shire of Swan.

Park Operating Costs

Park operating costs were calculated on the basis of the then Shire of Swan practice. For example, it was assumed that street trees within Ellenbrook would only be maintained to the standard currently applied within the Shire (protection of power lines, road encroachment, general shaping, etc.).

Verge maintenance costs were based on 6.00 metre wide verges on each side of the road, at a maintenance cost of \$1.20 per square metre (1994 dollars).

It was assumed that Council's expenditure in this area would not begin until 1996, with the developers having responsibility for the capital and recurrent expenditure prior to that date.

Trust Fund Contribution

The trust fund was established to fund minor facilities such as playgrounds and provide initial assistance to community/sporting clubs, etc. The fund would be funded 50/50 by the Shire of Swan and Ellenbrook Management and be equivalent to \$300 per allotment each (in 1994). The Shire's contribution is included in the calculations.

The construction of all local community centres within the Ellenbrook development was to be funded through the Trust Fund, with the Shire having responsibility only for recurrent expenditure.

Civil Construction Costs

Data for this area of expenditure was provided by Ellenbrook Management Pty Ltd.

The expenditure shown represent only the Shire of Swan's contribution. The basis for determining Council's contribution was in accordance with advice received from Ellenbrook's engineers (Cossillo and Webley), with roads determined to be "blue roads" available for a contribution from the Shire as required by the then Department of Planning and Urban Development.

Under this policy Ellenbrook was required to cede the land for road reserves for district distributors, free of costs to the Crown and contribute to the construction costs of these roads.

The economic impact statement shows a proposed contribution by the Shire of Swan for the construction of the Lord Street extension. It should be noted that this was not the final estimate of Council's contribution to construction costs, as the matter was still under negotiation with Ellenbrook Management Pty Ltd at that time.

Civil Operational Costs

Data for this area of expenditure was provided by the Shire of Swan. Each area of expenditure has been calculated on the basis of current Council practice.

Construction and maintenance costs for the Ellenbrook works depot were included within this heading.

General Administration

Data for this area of expenditure was provided by the Shire of Swan and all salaries expenditure was based on the expenditure incurred during the 1992/93 financial year.

Salaries and other associated expenditure data related only to administration expenditure associated with the Ellenbrook project.

An annual fixed component of \$50,000 (1994 dollars) was also included in the calculation of administration costs specifically related to the Ellenbrook project.

Law, Order and Public Safety

Data for this area of expenditure was provided by the Shire of Swan and all salaries expenditure was based on the expenditure incurred during the 1992/93 financial year.

Salaries and other expenditure shown in the spreadsheet for law, order and public safety expenditure related specifically to the Ellenbrook project.

An annual fixed component of \$15,000 was also included in calculating law, order and public safety expenditure for the Ellenbrook project.

Following negotiations with the Western Australian Fire Brigade Board (WAFBB), it has been agreed that the WAFBB will have responsibility for fire prevention services within

Ellenbrook from the year 2000. As a consequence a levy was to be imposed by the Board. This was reflected in the impact statement.

Until the year 2000, it was assumed a voluntary brigade would operate, with Council providing the necessary capital and recurrent funding for its operations. The economic impact statement reflects this funding requirement.

Health

Data for this area of expenditure was provided by the Shire of Swan and all salaries expenditure was based on the expenditure incurred during the 1992/93 financial year.

Salaries and other expenditure shown for law, order and public safety expenditure related specifically to the Ellenbrook project.

An annual fixed component of \$15,000 was also included.

Welfare

Data for this area of expenditure was provided by the Shire of Swan and all salaries expenditure was based on the expenditure incurred during the 1992/93 financial year.

Salaries and other expenditure shown in the spreadsheet for law, order and public safety expenditure relate specifically to the Ellenbrook project.

An annual fixed component of \$15,000 was also included.

Community Amenities

Data for this area of expenditure was provided by the Shire of Swan and all salaries expenditure is based on the expenditure incurred during the 1992/93 financial year.

Salaries and other expenditure for law, order and public safety expenditure relate specifically to the Ellenbrook project.

An annual fixed component of \$40,000 was included. This expenditure related largely to the planning costs that were considered to be directly associated with the Ellenbrook development.

Costs associated with waste management have not been included in this schedule but included with civil operating costs (refer to "Civil Operational Costs").

Loan Servicing

Loan servicing data were provided by the Shire of Swan, with loan repayments calculated on the basis that all loans would be for a nine (9) year term at an interest rate of eight (8) percent. It was assumed that loans will be funded at 31 December each year, with half-yearly payments due at 30 June and 31 December of each year.

Depreciation Costs

Depreciation costs data were provided by the Shire of Swan.

REPORT

Overview

The model assumed a certain growth rate of housing and commercial development over a 30-year period from a zero base population to a final projected population of 34,360. Significant and rapid population growth was assumed based on north-east corridor growth projections at that time (1993). For instance, the model projected 8,200 dwellings would be constructed by 2005, when the actual lot production is in the order of 4,680 properties, approximately 47% the number projected, with the total projected dwellings of 12,000 being completed by 2010. The model also projected that the City's revenue compared to expenditure would be "revenue positive" by 2007.

Another relevant factor is that the household size was based on approximately 4.5 people per household, however, due to declining household occupancy rates, the average household size at Ellenbrook today (2005) is approximately 2.9 persons per dwelling. Regardless of the detailed "costs" assumed in 1993/94, these variances would be significant even if other economic assumptions were correct over the life of the model eg. instead of a population of 23,600 existing by 2005 in Ellenbrook, the current population is estimated at only 53% of the projection, ie. 12,500 people.

These variances are significant not only from an income perspective, but also in the timing of meeting the need for community centres, libraries, etc. as the traditional planning of these facilities has been based on "population catchments" of a certain number of people. Hence, if the household occupancy rate declines, the population catchment necessary to "justify" the facilities widens and the timing of meeting the need can be over a longer term, particularly when the overall demand for "capital works" are substantial on the City's rate base. Similar comments are appropriate for road contributions and other contributions which may be sought to provide other community facilities and/or the absorption of service delivery operating costs.

The other primary variable, which has already been identified by Council, is the standard of landscaping and its maintenance costs, as notwithstanding the models, costs were based on the relative new community of Ballajura at the time of the model's development, the design, type and standard of landscaping in Ellenbrook is significantly greater than what was initially assumed.

This increase in standard is due to a number of factors. These are:

- a) Due to the change in successive State Government Planning Policies (Residential Planning Codes, Liveable Neighbourhoods, housing design/affordability, etc.), lot sizes have decreased resulting in a significant movement from landscaping being provided in the "private domain" (household lawns and gardens) to the "public domain" (road reserves, public spaces, entry statements, etc.);
- b) Due to the built environment increasing in density and scale, the need to "soften" the built environment, has become, from an urban design perspective, more of an imperative, to promote a "liveable, attractive, residential amenity";
- c) The other "driver" from both an urban design and landscaping perspective, is the need for the larger developers to promote a "point of difference" in marketing their "residential housing product." Such initiatives have also been driven by government (especially environmental) policies. For instance, the need to avoid "piping" creeks, installing siltration treatments, reduce drainage rapidity, etc. the development industry has turned "drainage reserves: etc. into retention

ponds/lakes/fountains and other attractive water bodies, contained within the public open space network, often involving a high maintenance regime when transferred to the Local Government, normally after an initial two-year maintenance period.

- d) Other trends such as "water wise" treatments, have also promoted a trend to establish "native vegetation", which depending on the variety and location, may require increased maintenance/replacement programmes to be established by the respective Local Government, as landscaping is often the most "critical design element" of the estate from a community perspective.
- e) Finally, all these aspects, including the early provision of schools, community buildings and attractive landscaping/cultural design elements, have increasingly raised community expectations of the standards to be provided by developers and maintained by both "State and Local Governments" without any understanding of the true longer term operational/maintenance costs.

These "outcomes" which now impact on the community and Government today, are not the specific "fault" of any individual body, private or public, as these are all outcomes of individual departmental/public responses, often undertaken in response to community demands eg. environmental awareness, neighbourhood design, etc. However, it is clear the overall "whole of community/government" costs are now becoming apparent, often due to Local Governments becoming increasingly aware of the on-going budget impacts. Furthermore, whereas in the past, developing communities could "leverage off" the facilities being provided in adjacent communities (eg. schools, community facilities) for a period of time, this approach is more difficult in isolated and/or rapidly growing communities and there is no immediate "quick fix" solution to these issues, until community expectations become more realistic.

Financial Analysis

Appendix One contains an analysis providing a summary of the income and expenditure (including capital items) relating to the original Economic Impact Study (EIS) for Ellenbrook compared to the actual income and expenditure incurred by the City of Swan.

The income and expenditure in the spreadsheet is in 1993/94 dollars. The purpose of this exercise is to compare like with like for when the original EIS was submitted to Council. Determination of all past costs (direct and indirect) was not possible, even though significant staff effort has been expended in extracting and analysing data.

In summary the twelve year period shows a deficit of \$4.14m of expenditure over income when compared with a projected EIS surplus for the same period of \$690k. All figures presented exclude borrowings and repayment of borrowings as no borrowings have been directly attributed to the Ellenbrook development.

Table 1 – Comparison between the City and Ellenbrook EIS of Income and Expenditure in 1993/94 dollars

Period	Actual Council Income and Expenditure				Ellenbrook EIS - Summary Excl Loans			

	Total income	Total Spend	Net Position per annum	Net Position Cumul.	Gross Rev Excl Loan	Gross Costs	Net Position Per annum	Net Position Cumul.
2005-2006	\$3,460,070	\$5,147,305	-\$1,687,235	-\$4,144,661	\$4,906,407	\$4,745,312	\$161,095	\$691,263
2004-2005	\$2,544,973	\$3,047,680	-\$502,707	-\$2,457,427	\$5,244,920	\$3,479,535	\$1,765,385	\$530,168
2003-2004	\$2,216,400	\$3,082,002	-\$865,602	-\$1,954,720	\$3,762,525	\$3,180,387	\$582,138	-\$1,235,217
2002-2003	\$1,806,441	\$2,799,308	-\$992,867	-\$1,089,118	\$3,393,798	\$2,677,602	\$716,195	-\$1,817,355
2001-2002	\$1,699,007	\$2,791,283	-\$1,092,276	-\$96,251	\$2,864,530	\$2,734,102	\$130,428	-\$2,533,551
2000-2001	\$1,702,762	\$1,993,816	-\$291,054	\$996,025	\$2,487,296	\$3,270,907	-\$783,611	-\$2,663,979
1999-2000	\$1,539,407	\$1,711,761	-\$172,355	\$1,287,080	\$1,893,674	\$2,821,530	-\$927,856	-\$1,880,368
1998-1999	\$1,327,144	\$1,197,737	\$129,407	\$1,459,434	\$1,527,673	\$1,407,519	\$120,154	-\$952,512
1997-1998	\$1,052,298	\$559,002	\$493,295	\$1,330,028	\$1,156,720	\$1,316,712	-\$159,992	-\$1,072,666
1996-1997	\$755,962	\$363,958	\$392,004	\$836,732	\$688,787	\$1,568,343	-\$879,556	-\$912,674
1995-1996	\$522,167	\$232,857	\$289,311	\$444,728	\$405,364	\$532,738	-\$127,374	-\$33,118
1994-1995	\$295,009	\$139,591	\$155,417	\$155,417	\$257,965	\$236,710	\$21,256	\$94,256
1993-1994	\$0				\$528,000	\$455,000	\$73,000	\$73,000
	\$18,921,639	\$23,066,300	-\$4,144,661		\$29,117,659	\$28,426,396	\$691,263	

The reason for the deficit has been primarily the shortfall in estimated lot sales. As at 2005/06 actual lot sales were 4,680 compared with a projected 10,030 lots. This figure is inclusive of traditional, cluster and compact lots.

Table Two demonstrates the actual lot sales and compares them with the projected lot sales inclusive of the four type of lots being sold and expectations of those lots being sold. This then can be extrapolated and will support the shortfall of revenue projections incurred at Ellenbrook.

Table 2 – Ellenbrook Lot Development - Actual vs Projected

Period	Actual Sales Cumulative	Projected Sales Cumulative	Cumulative Shortfall
2005-2006	4680	10030	-5350
2004-2005	4576	9050	-4474

2003-2004	4126	8070	-3944
2002-2003	3336	7090	-3754
2001-2002	2930	6110	-3180
2000-2001	2518	5130	-2612
1999-2000	2177	4150	-1973
1998-1999	1836	3170	-1334
1997-1998	1400	2380	-980
1996-1997	948	1590	-642
1995-1996	555	800	-245
1994-1995	155	300	-145
1993-1994	0	0	0

If lot sales had met the developers expectations contained within the original EIS, that is the additional sale of lots, the City may have expected to achieve an additional \$16.8m over the project life to date leading to a cumulative surplus of \$12.7m as against a deficit of \$4.14m. This is arrived at by extrapolating the average rates yield per lot by the increased development. Again all numbers are 1993/94 dollars. This is confirmed when considering the population of the Ellenbrook. The projected population in 2005/06 should be 26,490 whereas the current population (via the model) is approximately 12,500.

Whilst the expenditure is being incurred in accordance with the EIS projection, the rates income has not met the same expectations. In short, the expenditure is at 2007/08 project levels but income is at 2002/03 levels with lot development at 1999/00. It is assumed the increase is due to higher GRVs from the development.

As noted the expenditure has been running in line with the EIS in anticipation of the growth of both the housing and population. This however has not occurred. The City took over the actual expenditure incurred for parks and buildings maintenance from the developer in 1998/99 and now incurs an increasing cost for this maintenance because of the intensive nature of the streetscapes:

Table 3 – Parks and Building Maintenance (current dollars)

Period	Parks and Building Maintenance - Ellenbrook
2004-2005	\$1,053,364
2003-2004	\$1,395,682
2002-2003	\$1,336,424

2001-2002	\$1,039,532
2000-2001	\$1,009,309
1999-2000	\$670,145

Engineering costs have been incurred at Ellenbrook since 2001/02. Costs cannot be accurately identified costs prior to this period, however, the costs for this expenditure are quite minimal in overall terms.

Capital works costs are incurred by the City of Swan at Ellenbrook. These costs have been put into the table at gross value and not at a depreciated value as the EIS allows for capital works by Council.

In 2005/06, Council is planning to spend funds on the following capital works (in 2005/06 dollars) but in Table 1 above the value has been discounted to 1993/94 dollars purely for comparative purposes:

*Charlottes Vineyard Community Centre	\$50,000
Ellenbrook Library	\$1,950,000
*Bus Shelter	\$15,000
*Charlottes Vineyard early years child care	\$150,000
Ellenbrook Second Access Road	\$750,000
The Promenade	\$114,000
Coolamon Oval Restoration	\$130,000
*Ellenbrook Skate Facility	\$70,000
Charlottes Vineyard Play Fields	\$180,000
*Ellenbrook Playgrounds	\$45,000
*Ellenbrook Dog Exercise	\$20,000
Total Capital Expenditure	\$3,474,000

* These items are funded through the Ellenbrook Community Fund.

Contributed assets provided by the developers total \$6.7m and have been depreciated at rates as per the Council's depreciation policy.

Conclusion

Examination of the model indicates that whilst the approach to the model was sound, there are a number of variables, which have occurred overtime, which indicates that comprehensive residential development projects require municipal expenditure which will exceed rate income in the short to medium term.

Further impacts may also occur due to State and Local Government decisions and or policies which change the actual outcomes initially envisaged depending on the final urban design, land use elements and the phasing of construction to meet community demand. Hence, construction and operational costs should be measured and monitored over time and forward projections for at least a five to ten year period is critical.

To-date, the requirement for Councils to plan 'long term' financially has not been actively recognised in Western Australian and only more recently, in the Eastern States. Hence, it is critical, having regard to the future urban growth and redevelopment envisaged for the City of Swan, that the utmost directed effort be focussed on the production of a 10-year Long Term Community Plan, which includes vigorous on-going financial and asset management approaches for all localities within the City.

ATTACHMENTS

Nil

STRATEGIC IMPLICATIONS

Significant - the report emphasises the need for an Urban Growth Strategy to be completed as soon as possible as an essential input to the City's financial management strategies and its Long Term Community Plan.

STATUTORY ENVIRONMENT

Nil

FINANCIAL IMPLICATIONS

Significant - Council will be required to refine its current financial approach and operational strategies and policies to develop a financial, socially and environmentally sustainable municipality.

RECOMMENDATION

That the Council note the conclusion and:

- 1) Council consider the following approaches within a Strategic Financial Planning and Budget context: -
 - a) Development trends (lot and housing rates) for each newly developing area should be monitored and reviewed bi-annually and the results/implications

be conveyed to all Councillors and included in any review of Corporate capital works and operational priorities;

- b) The results of (a) be considered as essential data in the development and review of the Strategic Financial and Annual Business Plans;
- c) All new loan borrowing strategies be specifically linked to new capital works and the locality and the subject of the capital work and associated loan be also registered;
- d) Where there is a "lag" in the return of rate revenue from a large developing urban area, to ensure appropriate funds are available for specific capital works in the locality, Council give consideration to differential rating/rate levy for the period of time the "lag" in revenue funding occurs. NOTE: This proposed approach especially be considered where the overall Corporate impact of the proposed capital works will have a significant impact on other essential priorities determined by Council;
- e) Council's Strategic Community Planning unit review the assumptions relating to "population catchment" of community facilities and advise Council what it considers are appropriate catchments for facilities (household and population) currently planned in the Ellenbrook and Vale developments and these outcomes be an input to Council's Urban Growth Strategy;
- f) There is an urgent need, via the Corporate Services Division, to develop financial options, to facilitate the phased sustainable development and renewal of community infrastructure having regard to both loan and rating capacity, prior to formal adoption of the 2006/07 Budget.
- g) Council use the results contained in this report to argue for the immediate introduction of developer contributions based on a "catchment model" for all essential community infrastructure, as previously proposed to Government.
- h) The Operations Division facilitate as soon as possible, a strategic approach to landscaping maintenance/replacement programmes to reflect the Government's desire to reduce water consumption and other associated costs to the Community, without reducing the important design outcomes associated with the built environment.
- i) Council endorse its current approach to the Community Development Fund ie. the fund not to be used for key infrastructure works, but the scale and scope of works be reviewed.

