

Shire of Cuballing

Draft Strategic Resource Plan

2017 - 2032

(Incorporating Asset Management Planning and
Long Term Financial Planning)



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1.0 FOREWORD

We are pleased to present to the community the Shire of Cuballing Draft Strategic Resource Plan for 2017 - 2032.

This Plan is part of the Shire's ongoing commitment to an integrated approach to planning for the district's future. It provides the Council and the community with a picture of the Shire's long term financial and asset management circumstances and assists us to meet our strategic outcomes and objectives.

The Shire will encounter many challenges and opportunities over the next 15 years. Changes in population levels and demographics bring with them changing community needs and expectations. The Council will require a clear understanding of its capacity to meet these service expectations as it maintains a strong focus on sound financial management.

Council welcomes community participation in the planning process as we develop the strategic direction for a promising future for our district. We invite members of the community to contact a Councillor or Senior Council staff if they have any questions.

The Shire of Cuballing's Draft Strategic Resource Plan is an important planning tool as we strive to achieve the strategies set out in the Council's Strategic Community Plan.

This Plan will be used with the Corporate Business Plan and Workforce Plan to achieve our goals and drive the Shire in achieving its vision of "A progressive, diverse and caring community, with access to modern services and infrastructure, in a unique part of the world."

The Shire has recently devoted significant resources to improving its strategic planning. This work continues as we constantly seek to improve our systems and service delivery.

Mark Conley
Shire President

Gary Sherry
Chief Executive Officer

2.0 PLANNING OVERVIEW

2.1 PLANNING FOR THE FUTURE

The Shire of Cuballing is planning for a positive and stable future. The Shire seeks to maintain, and where possible, improve service levels into the future while ensuring a healthy financial position.

2.2 PLANNING PROCESS

Based on the audited 2016 Annual Financial Report and 2016-17 Annual Budget, a financial baseline was determined for operating revenue and expenditure. Modifications to this baseline were made over the 15 year term to predict forecast changes in operating revenue and expenditure.

When planning for the future renewal of Shire assets, a condition based estimation of remaining useful life was applied (where possible) as it was viewed as the most appropriate methodology. Where condition information was unavailable, an age based estimation of remaining useful life was applied.

By adjusting the estimated useful life of assets, financial modelling was undertaken to ensure adequate long term funding for asset maintenance and renewal.

Detailed long term planning is required for the renewal of building assets (particularly those identified by the Shire as critical) due to the scale of expenditure in relation to these assets and the likelihood of usage/design upgrades when renewal occurs. Unfortunately, planning for the renewal of long lived assets carries with it a high level of uncertainty. This is due to the vagary associated with the allocation of future external contributions and the potential for a sudden and unexpected change in the grant funding. It is important to note, capital works identified in this Plan undertaken utilising external contributions may be postponed or reduced in scale should external funding not eventuate. Postponing asset renewal past forecast estimated useful life and an optimum intervention point increases the risk associated with sudden asset failure bringing with it the potential for a loss of service.

A combination of financing techniques involving the use of cash backed reserves (as savings) and long term borrowings have been utilised in the Plan to provide for asset expenditure requirements.

2.3 CRITICAL ASSETS

Selected assets have been classified in the Plan as 'critical' to the Shire's capacity to meet community service expectations, achieve the community vision and complying with statutory obligations. Ensuring adequate future funding for the appropriate maintenance and renewal of critical assets is a key asset management challenge facing the Shire and was a significant planning consideration in the development of this Plan.

As part of the planning process, the following assets were identified as critical:

- Depot;
- Shire Administration Building;
- Sport and Recreation Facility; and
- Regional Distributor Roads.

Where resources are limited, critical assets have been prioritised in the planning process to help minimise the risk of sudden unexpected failure of these assets.

3.0 STRATEGIC OVERVIEW

3.1 FORECAST SIGNIFICANT EVENTS

Road maintenance and road renewal remains a high priority for the Shire due to the strategic economic benefit the road network provides to the district. Road renewals are prioritised based on a road hierarchy with bus routes, regional and local distributor roads taking priority over local access roads. Although of high importance, adequate maintenance, renewal and upgrading of the road network remains highly dependent on the receipt of external grants and contributions. Realignment and widening of the Bunmulling Bridge is the largest and most significant single capital project during the term of the Plan.

Buildings classified as critical in the Plan will be prioritised for maintenance expenditure.

3.2 ASSET MANAGEMENT STRATEGY

Recognising a large proportion of assets have been constructed with the assistance of external financial contributions, the Shire seeks to, within its financial capacity, maintain these assets into the future. A strategy of alignment of estimated asset useful lives with the forecast financial capacity has helped ensure the long term affordability of Shire assets. By focussing resources and efforts on a small number of key critical assets, the Shire has achieved targeted asset management outcomes integrated with financial planning within its forecast financial capacity.

3.3 FINANCIAL MANAGEMENT STRATEGY

Structuring operational revenues and expenditure to ensure adequate provision for asset renewal into the future is a cornerstone of the Shire's overall financial strategy. To achieve this strategy, rate increases marginally higher than the consumer price index (CPI) are forecast to occur combined with the maintenance of operating expenditure in line with the CPI forecast.

Forecast planned asset renewals for the term of the Plan are provided in the table below along with the forecast required asset renewals to maintain services in future. Forecast asset renewals requirements are arrived at based on current estimates of replacement cost and remaining useful life of each asset, assessed from the asset's condition or age. These are provided in the table below with the asset renewal surplus/(deficit) column representing the difference between the planned and required asset renewals. A number of assumptions and estimates have been utilised in arriving at these values and actual events may vary significantly from those provided.

| Year | Planned Asset Renewal \$ | Required Asset Renewal \$ | Asset Renewal Surplus/(Deficit) \$ |
|--------------|--------------------------------|---------------------------------|--|
| 2017-18 | 1,042,896 | 364,140 | 678,756 |
| 2018-19 | 2,579,090 | 136,684 | 2,442,406 |
| 2019-20 | 1,853,259 | 1,278,281 | 574,978 |
| 2020-21 | 4,716,691 | 39,747 | 4,676,944 |
| 2021-22 | 1,346,238 | 1,650,938 | (304,700) |
| 2022-23 | 1,759,796 | 624,883 | 1,134,913 |
| 2023-24 | 1,103,501 | 518,108 | 585,393 |
| 2024-25 | 2,037,108 | 5,115,909 | (3,078,801) |
| 2025-26 | 948,956 | 87,768 | 861,188 |
| 2026-27 | 1,686,329 | 1,482,696 | 203,633 |
| 2027-28 | 1,496,633 | 2,086,414 | (589,781) |
| 2028-29 | 973,749 | 972,190 | 1,559 |
| 2029-30 | 2,373,141 | 2,831,328 | (458,187) |
| 2030-31 | 1,634,249 | 205,648 | 1,428,601 |
| 2031-32 | 1,844,136 | 464,550 | 1,379,586 |
| Total | 27,395,772 | 17,859,284 | 9,536,488 |

3.0 STRATEGIC OVERVIEW (Continued)

3.4 FINANCIAL MANAGEMENT STRATEGY (CONTINUED)

A new borrowing of \$800,000 has been modelled to be taken up in 2020-21 for the Bunmulling Bridge realignment and road widening. No other new borrowings have been included throughout the Plan and this permits the Shire to respond to sudden or unexpected expenditure requirements or the loss of planned external grant contributions. This strategy also provides scope to leverage off future grant funding opportunities when, and if, they become available. The strategy also includes the use of cash backed reserves to save for significant future asset renewal spikes.

3.5 KEY ASSUMPTIONS

The Plan has been prepared based on the following broad assumptions:

- The Shire population is forecast to remain stable;
- The Shire will maintain its current service levels and, where financially prudent, increase services;
- The level of grants and contributions for capital projects and operations will remain relatively stable over the term of the Plan;
- The region and State economy will remain stable for the long term; and
- Assets are expected to be adequately maintained and continue to provide existing levels of service.

For a detailed analysis of all assumptions and their associated risks please refer to section 13.0.

4.0 COMMUNITY PROFILE, VISION AND OBJECTIVES

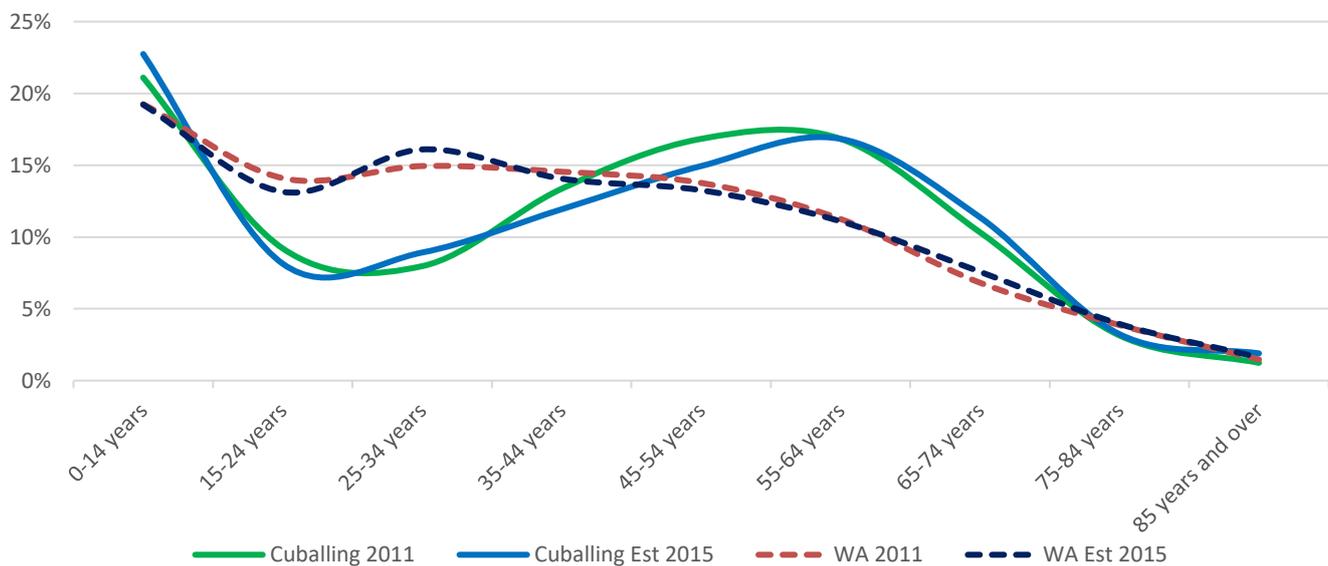
4.1 COMMUNITY

Cuballing is situated 192km south-east of Perth. The district covers 1,250 square kilometres in the Central Wheatbelt area, with a population of approximately 890.

Embracing the townships of Cuballing, Popanyinning and Yornaning, the Cuballing district, known as "Dryandra Country", has within its boundary 17,500 hectares of Dryandra State Forest.

In 2015, the Shire of Cuballing estimated resident population was 897¹, with no significant variation forecast. The chart below reflects the percentage of the estimated resident population within each age grouping for the Shire of Cuballing (represented by the green (2011) and blue (2015) lines) and Western Australia (represented by the orange (2011) and dark blue (2015) dotted lines).

4.2 SHIRE OF CUBALLING RESIDENT POPULATION BY AGE GROUP



When comparing the Shire's demographic to Western Australia, the Shire has a lower proportion of residents in the 15-44 year old age bracket, with many in this group leaving for schooling and early career opportunities. The percentage of the resident population from 55 to 84 years is noticeably higher than the State average. This may be due to the combination of long term residents remaining in the Shire and people of this age group choosing to settle in the area for the lifestyle.

4.3 VISION

The Shire's strategic vision is:

"A progressive, diverse and caring community, with access to modern services and infrastructure, in a unique part of the world."

4.4 STRATEGIC OBJECTIVES

The Shire has not defined its key strategic objectives within a publicly available Strategic Community Plan and Corporate Business Plan.

¹ Australian Bureau of Statistics 2011, Cuballing (S) (LGA 52310), Population and People Profile

5.0 KEY CURRENT INFORMATION

5.1 KEY STATISTICS: SHIRE OF CUBALLING 2016

| | |
|---------------------------------------|-------|
| Number of Elected Members | 6 |
| Number of Staff ³ | 14 |
| Number of Electors ² | 624 |
| Number of Dwellings ² | 368 |
| Distance from Perth (km) ² | 192 |
| Area (sq km) ² | 1,250 |
| Population (Est. 2015) ¹ | 897 |

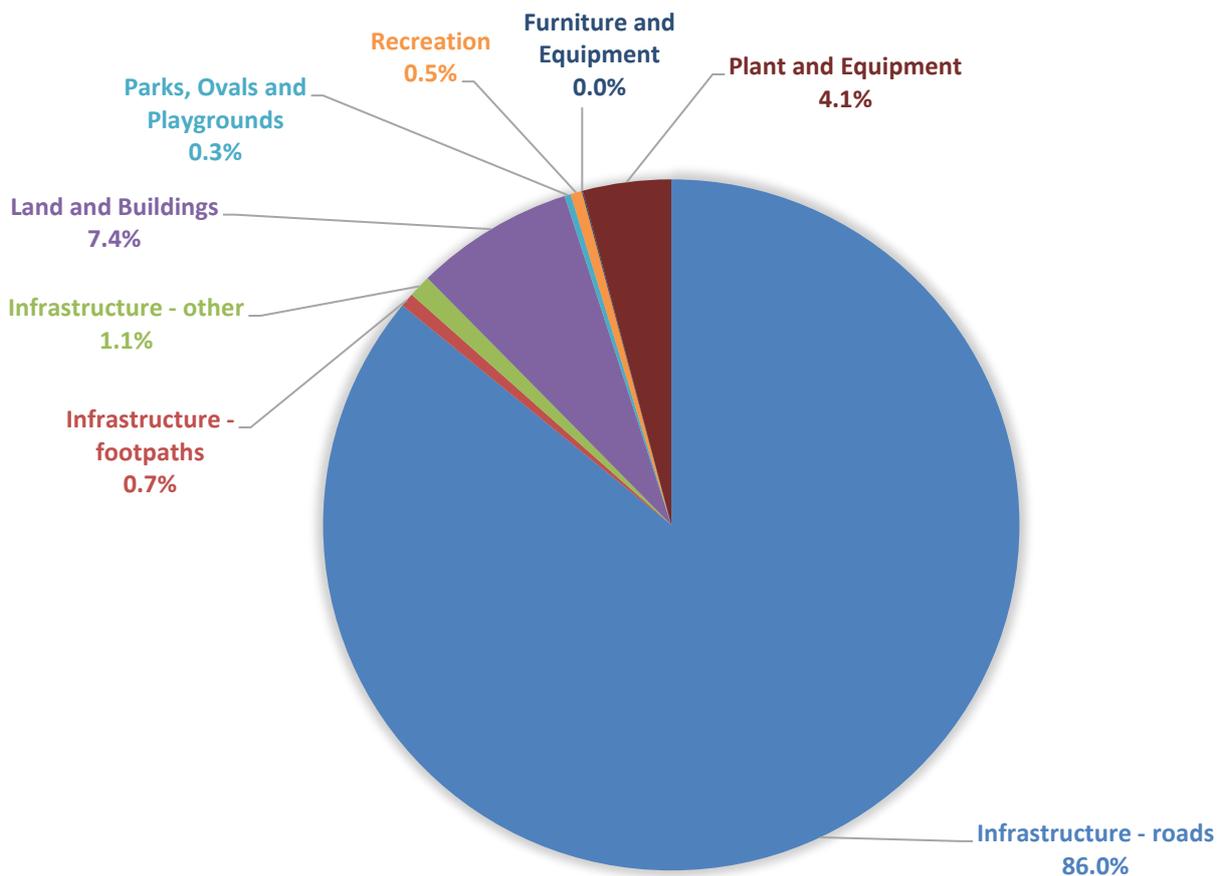
5.2 KEY FINANCIAL INFORMATION³

| | |
|-----------------------|--------------|
| Rates Revenue | \$993,139 |
| Fees and Charges | \$404,402 |
| Operating Revenue | \$1,982,621 |
| Operating Expenditure | \$3,354,244 |
| Net Assets | \$49,826,552 |
| Cash Backed Reserves | \$1,303,639 |
| Long Term Borrowings | \$289,158 |

5.3 KEY ASSET INFORMATION

The Shire controls an asset network with a written down value of over \$49m, of which Roads and Buildings constitute the largest component values as reflected in the chart below.

5.4 ASSET VALUE BY CLASS: SHIRE OF CUBALLING 2016³



² WALGA Online Local Government Directory 2016/2017, Shire of Cuballing

³ Shire of Cuballing, Audited 2016 Annual Financial Report

6.0 STRATEGIC PLANNING AND POLICIES

6.1 LINKAGE WITH OTHER PLANS

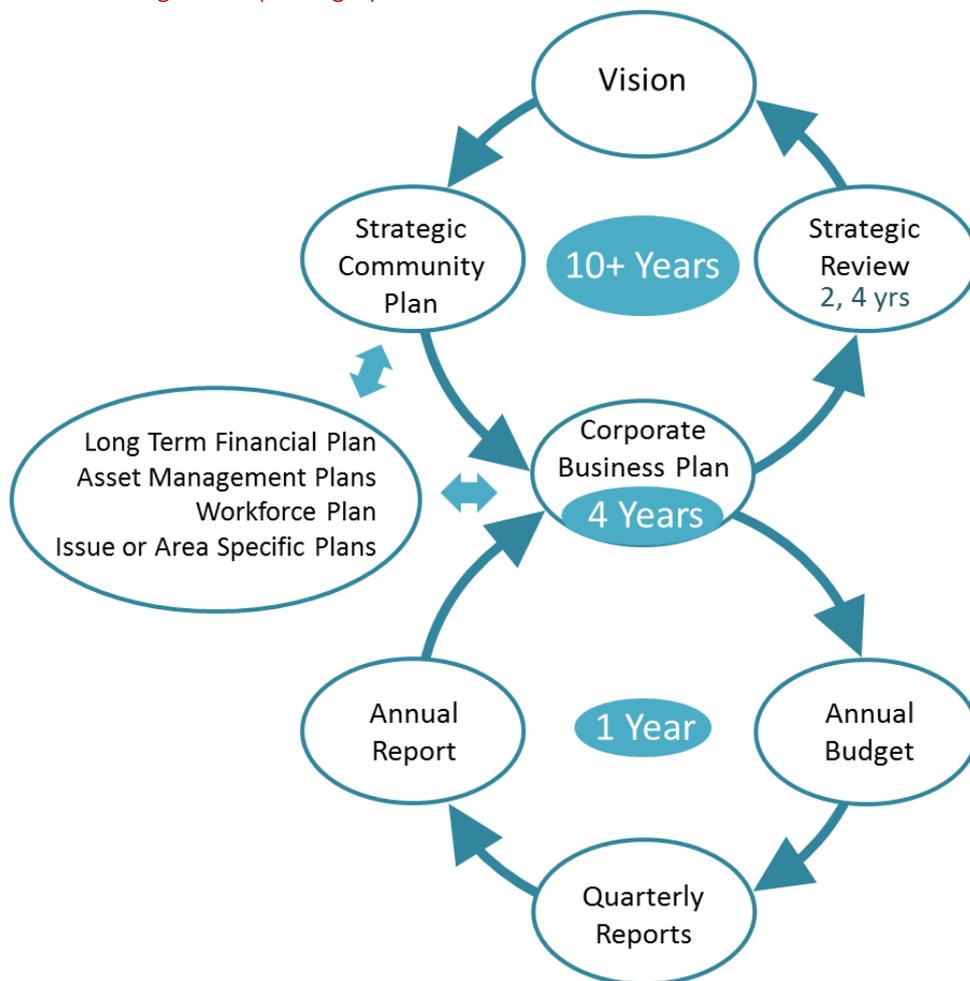
The Strategic Resource Plan is one component of a number of integrated strategic planning practices the Shire has developed. Combining asset management planning and long term financial planning into one document, the Strategic Resource Plan considers, and influences, workforce planning along with other key strategic plans. This Strategic Resource Plan has been prepared to achieve compliance with the *Local Government (Administration) Regulations 1996*.

Development of the Plan has also been influenced by the Department of Local Government and Communities (the Department) Integrated Planning Framework and Guidelines.

This Plan includes, and influences, other strategic planning activities as a mechanism to action the strategies contained in the Shire’s Strategic Community Plan, as illustrated in the diagram below.

6.2 STRATEGIC DOCUMENTS LINKAGE

Diagram: Integrated Planning and Reporting Cycle⁴



⁴ Department of Local Government and Communities, Integrated Planning and Reporting: Framework and Guidelines, September 2016

6.0 STRATEGIC PLANNING AND POLICIES (Continued)

6.3 STRATEGIC COMMUNITY PLAN

The Strategic Community Plan is prepared to cover a minimum period of 10 years and set out the community's vision, aspirations and objectives for the district. To achieve the vision, a series of outcomes and strategies are developed. Many strategies may be required to achieve a single outcome and many outcomes needed to achieve a single objective.

Individual strategies all require actions involving extra human, physical and financial resources. In addition, achieving these strategies may require a series of actions over time as they may not be able to be achieved concurrently taking into account limited resources.

Achieving the Shire's strategic outcomes requires careful operational planning and prioritisation. This planning process is formalised as a Corporate Business Plan which operates on a rolling four-year basis.

6.4 CORPORATE BUSINESS PLAN

The Corporate Business Plan contains details of the actions and resources (human, asset and financial) to achieve each strategy and acts as an organisational guide for the Council and management.

The financial capacity and asset management practices to support the Corporate Business Plan are set out in the Strategic Resource Plan for the period. This long term financial planning provides an assurance the actions contained in the Corporate Business Plan can be adequately resourced over the next four years and highlights the long term consequences of the application of resources to undertake various projects.

6.5 WORKFORCE AND OTHER STRATEGIC PLANS

The Workforce Plan and other strategic plans integrate with the Strategic Resource Plan through their requirement for assets and financial resources. As far as possible, these requirements are met in the Plan, but where resources are not included, the Plan identifies when the required resources may be available to inform future review activities in relation to these plans.

6.6 ASSET MANAGEMENT POLICY

An asset management policy should:

- Provide a framework for the sustainable management of the Shire's asset portfolio;
- Ensure an organisation wide and inclusive approach is taken to asset management; and
- Ensure adequate provision is made for the maintenance and replacement of assets in accordance with the assessed levels of service.

An asset management policy is intended to provide clear direction in relation to the Council's expectations for the sustainable management of its assets and applies to Elected Members, employees and contractors/consultants engaged by the Shire.

6.7 ASSET MANAGEMENT STRATEGY

An asset management strategy is a planned process of continuous improvement across all its components. Key improvements for each class of asset are discussed at the end of each section in Appendix A.

6.8 BORROWING POLICY

As part of its financial strategy, the Council intends to minimise the level of borrowings to provide the capacity to borrow in the event of an emergency. No formal borrowing policy or strategy has been adopted by Council.

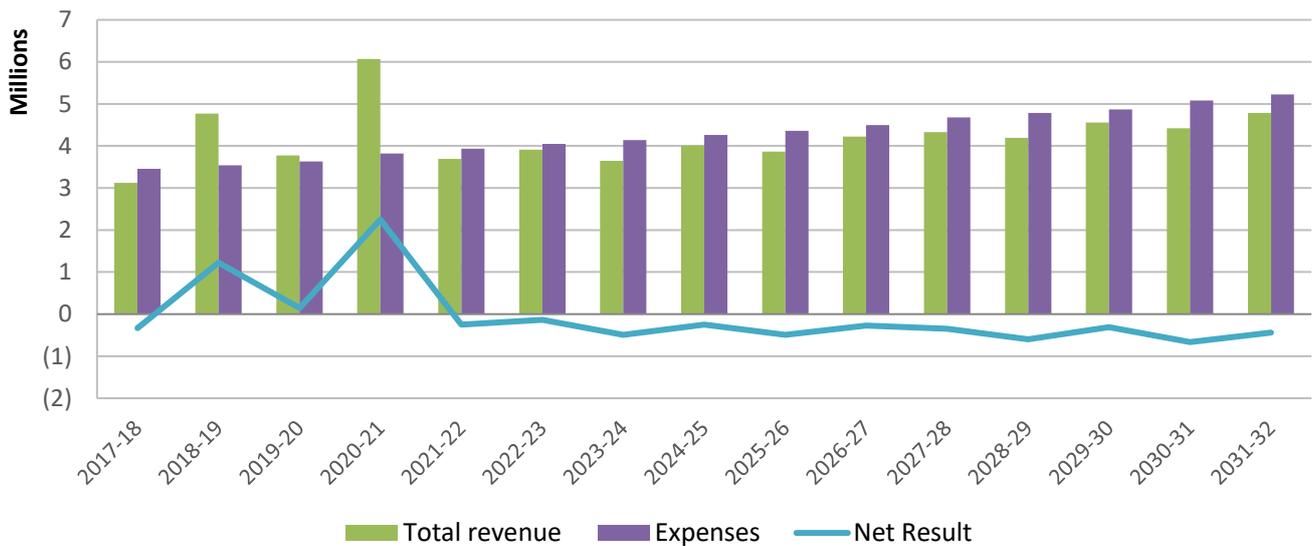
7.0 OPERATIONS OVERVIEW

7.1 OPERATIONS

The chart below shows the operating revenues and expenses over time represented as columns and the net result (revenues less expenses excluding asset revaluation adjustments) as a line.

The Shire is reliant on receiving more than \$17.4m over the 15 years in untied operating grants, subsidies and contributions to maintain the current level of operations and services. A steady increase in operating revenue and expenditure is forecast over the 15 years of the Plan. Fluctuations to the level of non-operating grants and contributions received, produce changes to the net result.

7.1.1 FORECAST REVENUE, EXPENSES AND NET RESULT



7.2 RATES REVENUE

Rate revenue is forecast to increase by 6% (CPI 2% + 4%) for the first four years of the Plan then increase by 5% (CPI 2% + 3%) for the next five years before increasing by 4% (CPI 2% + 2%) throughout the remaining term of the Plan. These increases are to assist in the long term financial stability of the Shire and to maintain the level of service to the community in the face of forecast reductions in external grants and contributions. Rates are expected to generate \$1.12m in 2017-18 increasing to \$2.16m in 2031-32.

7.3 NON-OPERATING GRANTS AND CONTRIBUTIONS

Non-operating grants and contributions increase significantly above the forecast 2017-18 level in year 2, due to forecast funding for the Wandering Narrogin Road and the Bunmulling Bridge realignment and widening in 2020-21.

7.4 WORKFORCE PLANNING

The Shire currently employs 14 full time equivalent employees to deliver a range of services to the community and maintain assets.

The Shire's workforce planning has been considered in the development of this Strategic Resource Plan. No financial impacts are expected from current workforce planning with employee costs forecast to rise in line with CPI at 2%.

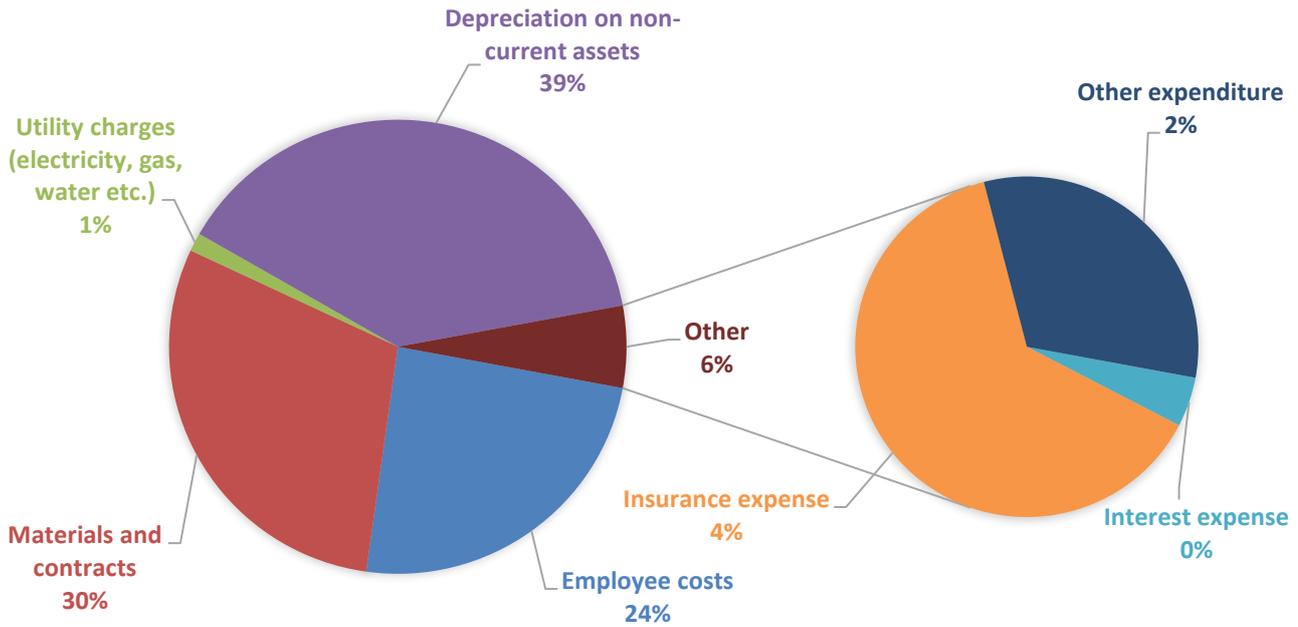
Council encourages a work life balance, multi skilling, flexibility and effective application of staff capability.

7.0 OPERATIONS OVERVIEW (Continued)

7.5 OPERATING EXPENDITURE

Over the term of the Plan, the operating expenditure components are forecast to remain relatively stable. Materials and contracts, depreciation and employee costs remain the dominant operating expenditure components as reflected in the chart below.

7.5.1 COMPOSITION OF FORECAST OPERATING EXPENDITURE 2017-18 (TOTAL OPERATING EXPENDITURE \$3.4m)



7.6 MAINTENANCE EXPENDITURE

The current maintenance expenditure allocated in the annual operating budget is expected to continue at current levels, with inflationary increases occurring each year.

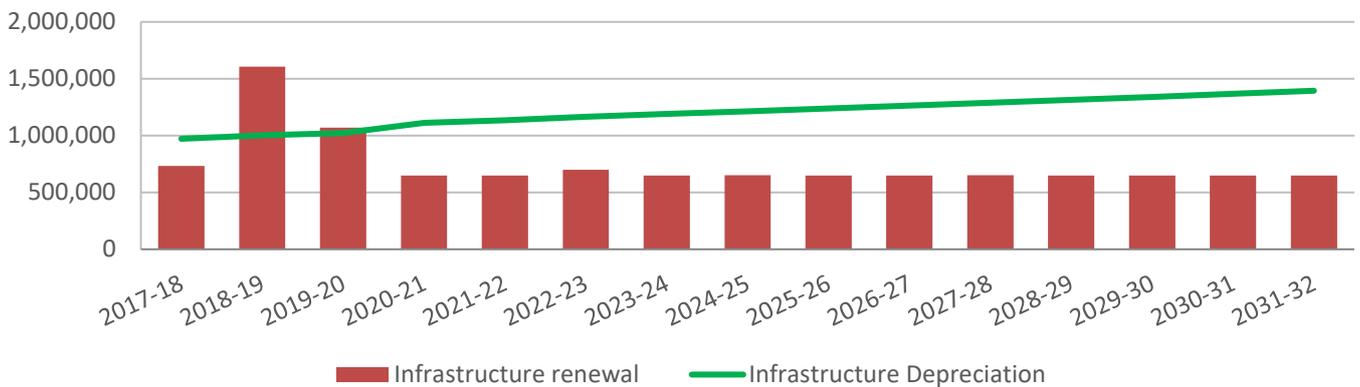
7.0 OPERATIONS OVERVIEW (Continued)

7.7 DEPRECIATION EXPENSE

Depreciation expense increase throughout the Plan from \$1.3m in year 1 to \$2.3m in year 15 as assets are revalued and renewed. Depreciation of infrastructure over the 15 years is \$18.0m, shown by the green line in the chart below. The planned level of infrastructure asset renewal expenditure at \$11.2m (reflected by the red columns) is lower than estimated infrastructure depreciation in all years except 2018-2020, as shown in the chart below.

Ideally, the average asset renewal should be in line with depreciation expense over the long term, to ensure that the Shire’s assets do not decrease in value. On average the Shire is renewing its assets at a lower level than they are depreciating over the term of the Plan.

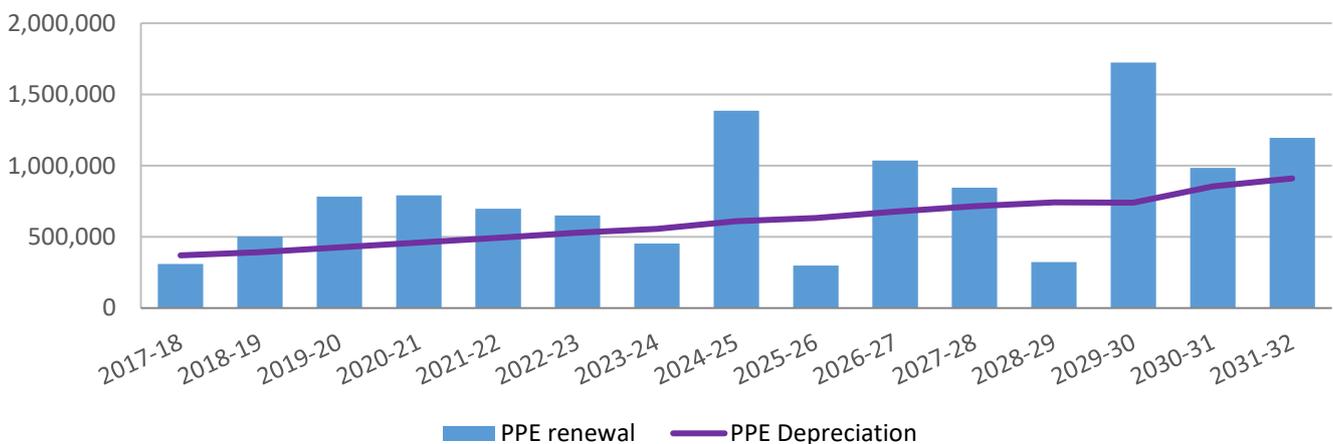
7.7.1 INFRASTRUCTURE DEPRECIATION EXPENSE -V- ASSET RENEWAL EXPENDITURE



Further improvements in asset management data and the estimation of depreciation expense along with the future renewal of long lived assets may result in closer alignment between asset renewals and depreciation expense.

Planned Property, Plant and Equipment asset renewals of \$12.0m (reflected by the blue columns) over the 15 years is aligned to depreciation expense of \$9.1m (reflected by the purple line) over the same period as shown in the chart below.

7.7.2 PROPERTY, PLANT AND EQUIPMENT DEPRECIATION EXPENSE -V- ASSET RENEWAL EXPENDITURE



Where the planned asset renewals are greater than depreciation, the written down value of these assets will increase over time as existing assets are renewed. Revaluation of assets in line with inflation will compound this increase and may mask a real decrease in value where planned asset renewals are lower than depreciation.

8.0 CAPITAL OVERVIEW

8.1 COMMUNITY DEMAND

User demand for a number of community buildings has decreased over time due to changing community interests and lifestyle. Community demand for roads remains high and has increased with the closure of the region's rail network.

8.2 UPGRADE/NEW EXPENDITURE

Upgrades to existing road infrastructure are planned to occur over the next 15 years in response to community expectation. With the exception of key bridge projects, upgrades have not been separately identified within the asset renewal expenditure, however where funds are available, after undertaking essential renewal works, funds will be utilised for improvement and new works. Detailed annual planning is to be undertaken for road infrastructure assets.

8.3 LEVEL OF SERVICE

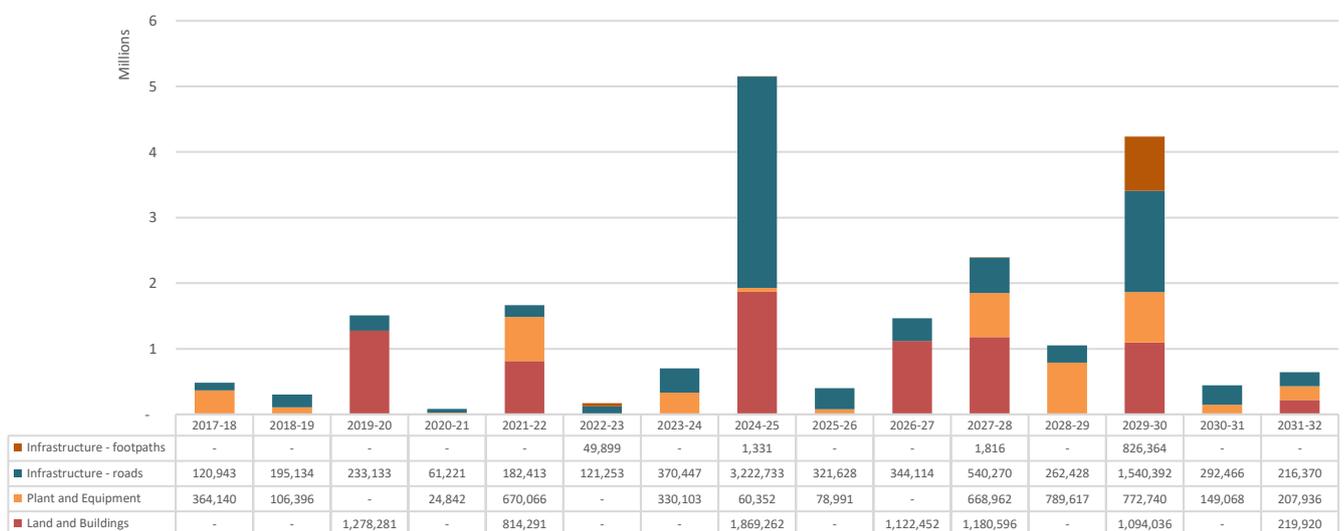
The level of service for roads, at its most basic, is reflected in the speed and weight ratings across the road network. As a measure, the lengths of sealed and unsealed road for each speed and weight rating is viewed as the most appropriate indicator of the level of service of the road network and will continue to be monitored into the future.

Level of service measures are defined for most asset classes within Appendix A.

8.4 RENEWAL EXPENDITURE

Asset renewal expenditure for the road network has been estimated. For other asset classes, forecast asset renewals have been based on the age of the assets and their estimated remaining useful life (determined during a recent revaluation) combined with the current replacement costs.

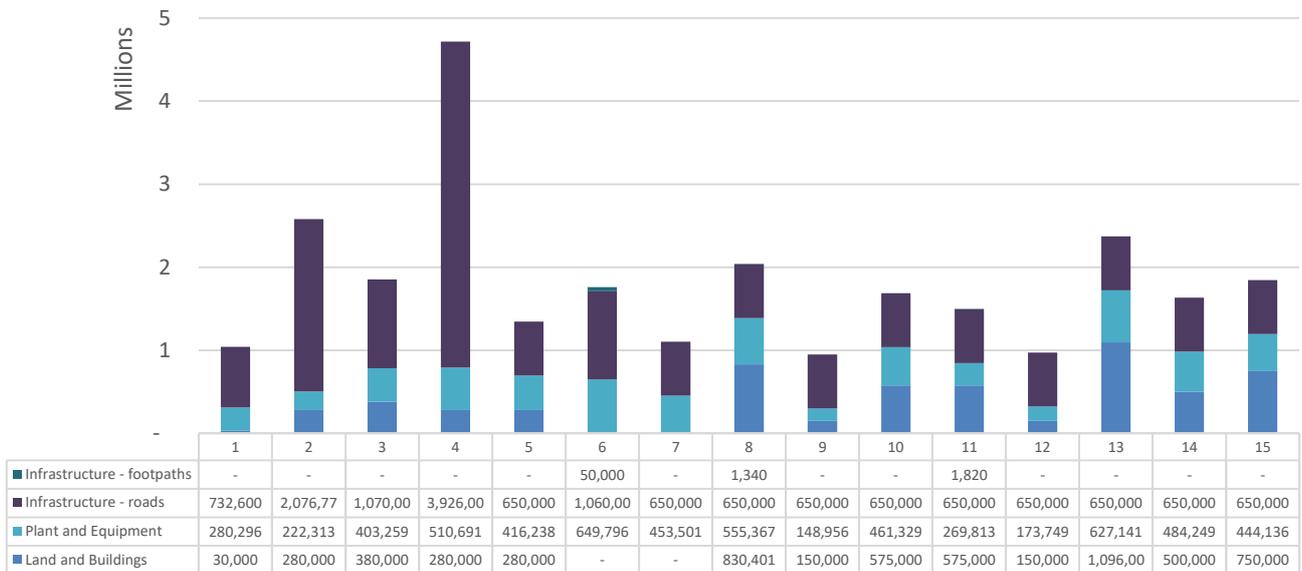
8.4.1 REQUIRED ASSET RENEWAL EXPENDITURE BY ASSET CLASS



Planned asset renewal expenditure has been determined by allocating the expected funds available for capital expenditure. Allocation of these funds between the various asset classes was undertaken to best match the required asset renewal expenditure. The timing and level of planned asset renewal expenditure for each asset class is summarised in the chart on the following page.

8.0 CAPITAL OVERVIEW (Continued)

8.4.2 PLANNED ASSET RENEWAL EXPENDITURE BY ASSET CLASS

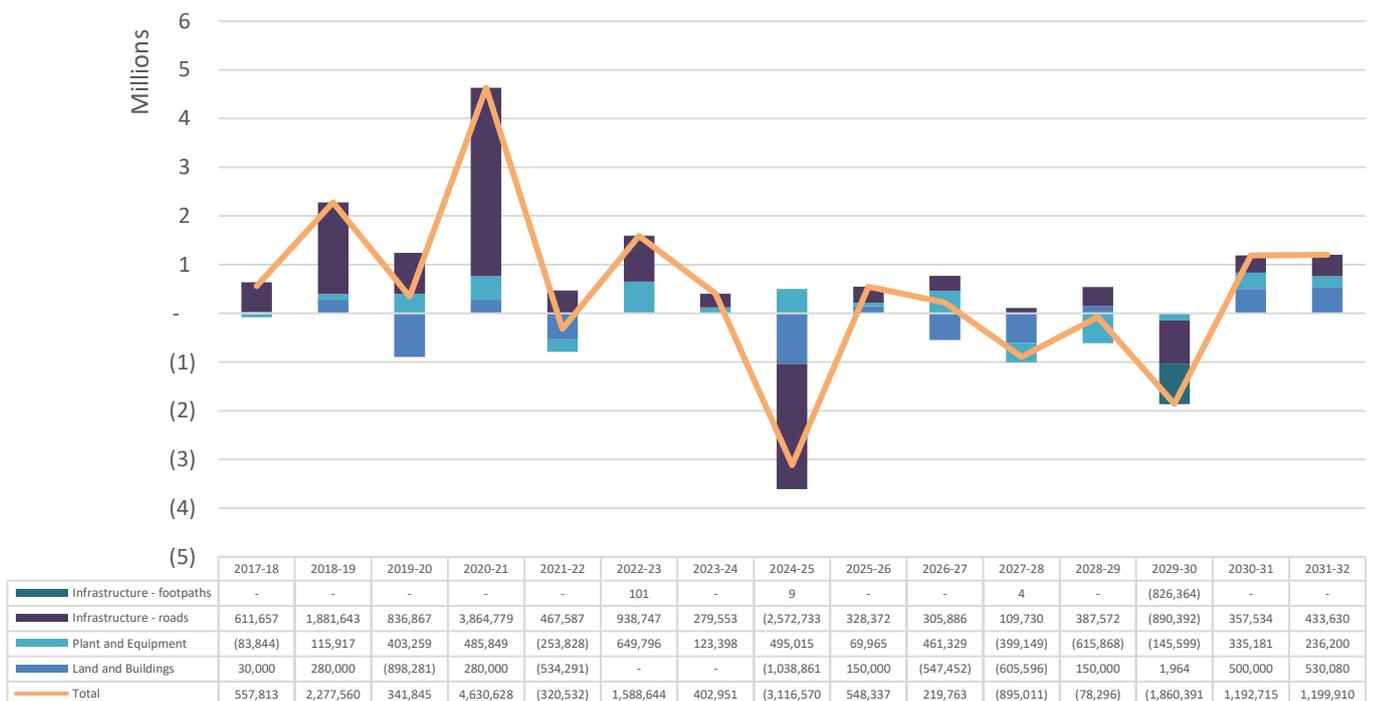


8.5 ASSET RENEWAL FUNDING SURPLUS/(DEFICIT)

The Shire is planning for renewal of all assets at the end of their useful life. The annual budget cycle and resource limitations result in differences between the planned and required renewal expenditure, referred to as an Asset Renewal Funding Surplus/(Deficit). The surplus or (deficit) for each asset class is shown by the columns in the chart below with the orange line reflecting the net asset renewal funding surplus/(deficit) for each year.

The chart below reflects in most years the net surplus/deficit remains above zero throughout the term of the Plan with an overall surplus is \$6.6m.

8.5.1 ASSET RENEWAL FUNDING SURPLUS/(DEFICIT)



Improvements in the estimation of the required asset renewals may significantly impact the level of this surplus.

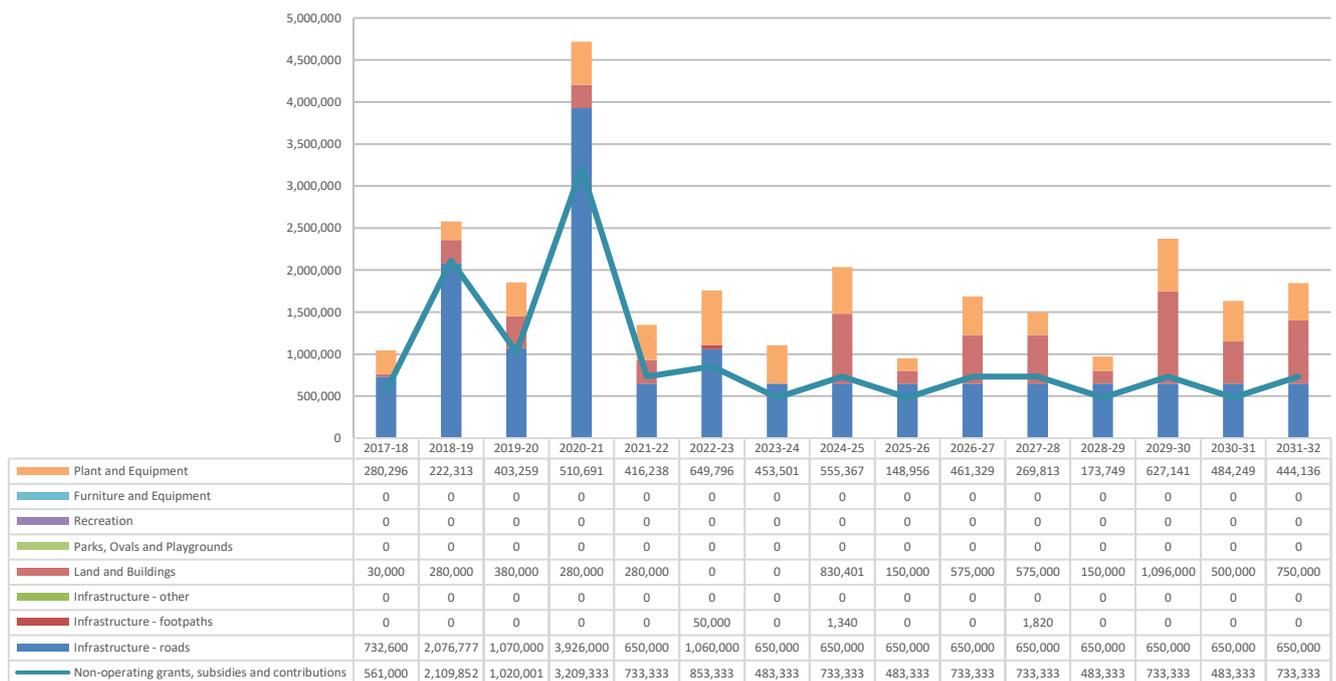
9.0 FORECAST CAPITAL PROJECTS

9.1 KEY ASSET RENEWAL

Renewal of plant and equipment and road infrastructure represents the bulk of the planned asset renewals. Expenditure on renewal of buildings is planned to help maintain existing service levels provided by existing buildings within the townsite.

Planned asset expenditure (by asset class) is reflected in the chart below, with the level of capital grants reflected by the blue line.

9.1.1 TOTAL PLANNED ASSET EXPENDITURE BY ASSET CLASS



Combined asset expenditure of \$27.4m has been planned. New/upgrade asset expenditure comprises \$4.1m of the total asset expenditure. Total asset expenditure by class is reflected in the chart below by the columns with the level of non-operating grants shown by the blue line.

9.0 FORECAST CAPITAL PROJECTS (Continued)

9.2 PLANNED CAPITAL EXPENDITURE

The table below sets out the total value of planned capital expenditure, detailed by project:

| Asset Class | Project | Total Expenditure (2017-2032) \$ |
|-----------------------------------|--|--|
| Plant and Equipment | | |
| | Plant Replacement | 6,100,834 |
| Plant and Equipment Total | | 6,100,834 |
| Infrastructure - roads | | |
| | Wandering Narrogin Rd | 2,679,777 |
| | Cuballing East Rd | 4,600 |
| | Stratherne Rd | 1,402,000 |
| | Popanyinning West Rd | 478,500 |
| | Yornaning West Road | 15,500 |
| | Victoria Rd | 12,000 |
| | Popanyinning East Rd | 864,000 |
| | Hart Street | 131,000 |
| | Bunmulling Bridge Realignment & Widening | 3,676,000 |
| | Carton St | 63,000 |
| | Congelin Narrogin Rd | 1,750,000 |
| | Russell Street | 28,000 |
| | Wardering Rd Bridge | 879,000 |
| | Clifford St | 132,000 |
| | RRG Road Renewals | 2,500,000 |
| | RTR Road Renewals | 750,000 |
| Infrastructure - roads Total | | 15,365,377 |
| Land and Buildings | | |
| | 10 Yr Building Program | 5,526,401 |
| | Popanyinning Community Hall | 350,000 |
| Land and Buildings Total | | 5,876,401 |
| Infrastructure - footpaths | | |
| | Footpath Renewal | 53,160 |
| Infrastructure - footpaths Total | | 53,160 |
| Grand Total | | 27,395,772 |

10.0 FINANCING OVERVIEW

In general, the finances of the Shire are expected to improve over the 15 year term, with a reduction in the level of outstanding borrowings and an increase in cash savings in the form of reserves as represented in the chart at 10.2.1 below.

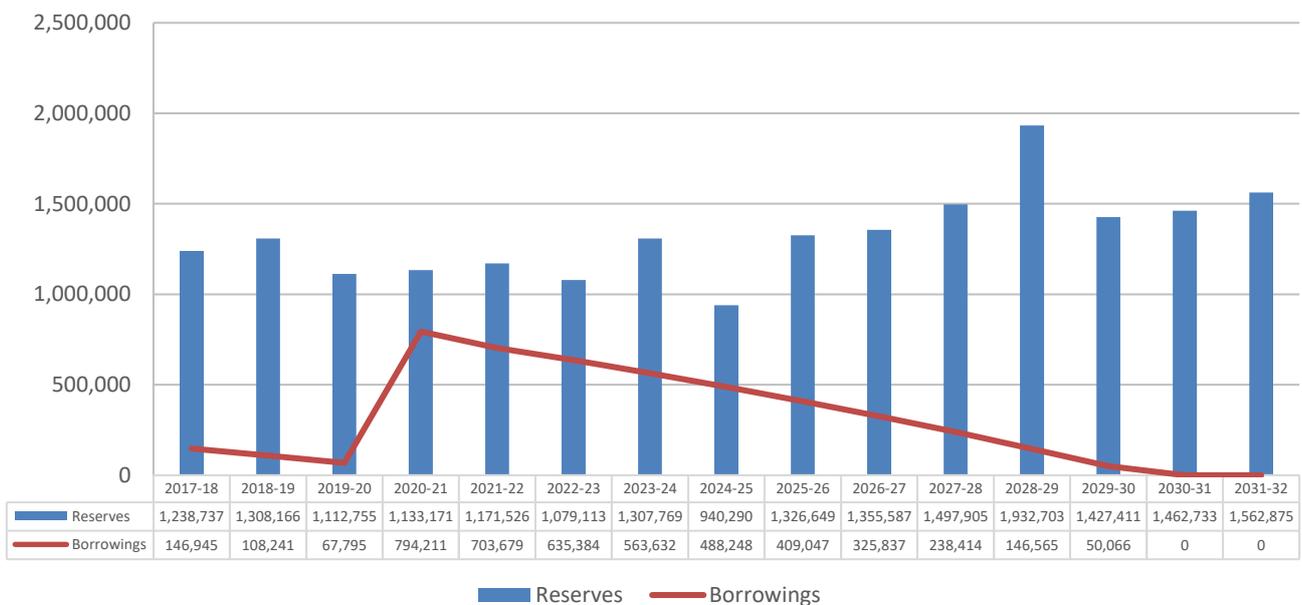
10.1 BORROWINGS

The principal outstanding on borrowings reduces over the first three years of the Plan, before a new borrowing of \$800,000 is taken up in 2020-21. Thereafter the principal outstanding on borrowings reduces over the life of the Plan, with all loans paid off by 2029-30. As existing loans come to an end, other than one new borrowing, no further new borrowings have been specifically identified. This provides the Shire with increasing capacity to borrow in reaction to unplanned events or urgent issues over the life of the Plan.

10.2 CASH RESERVES

The balance of cash reserves is forecast to fluctuate over the term of the Plan as funds are used to renew assets whilst generally trending upwards in line with inflation.

10.2.1 FORECAST BORROWINGS AND CASH RESERVES



11.0 SCENARIO MODELLING

11.1 SCENARIO MODELLING

Scenarios were developed to test the financial impact of reduced levels of operating funding with modelling for the impact on the Shire of various reduced funding levels.

To ascertain the effect of reduced funding levels, a base scenario was developed with an initial rate yield increase of 4% above inflation. Two alternative scenarios were also developed from this base, in Scenario 1, the rates yield increase is in line with inflation for the term of the Plan, and for Scenario 2 calculations reflect an increase of 2% above inflation for the term of the Plan.

All other assumptions remained the same across the three scenarios.

The base scenario was selected as the most appropriate and has been used for the remainder of the Plan. The base scenario includes levels of rate revenue to ensure the current levels of service are maintained.

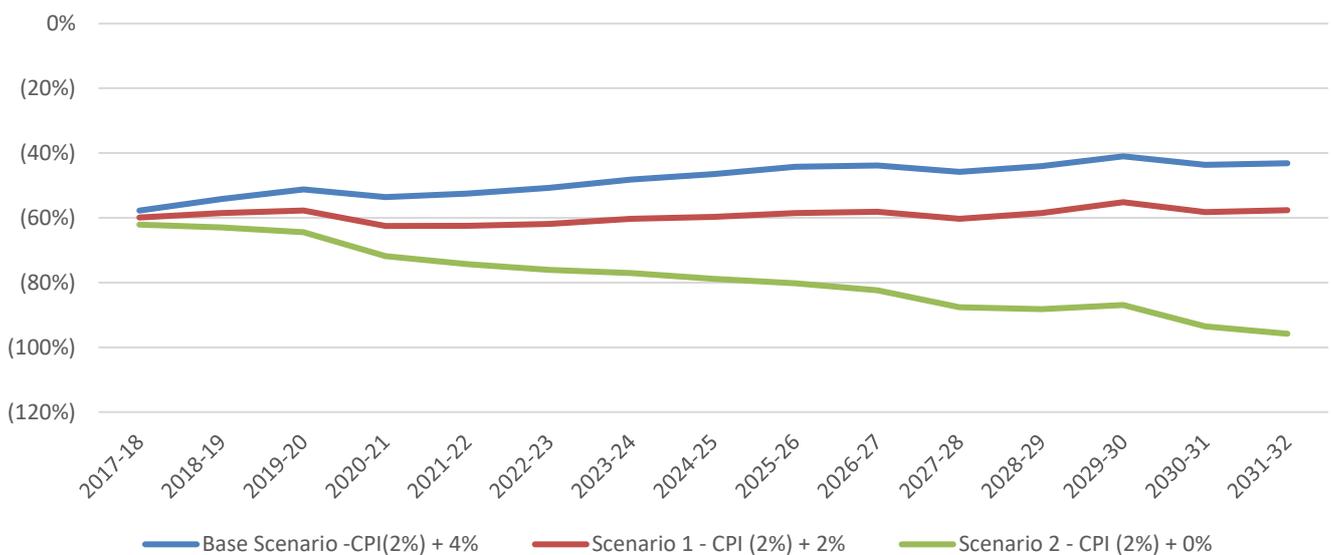
The table below reflects the impact of a change in total rates yield on the estimated surplus (deficit) June 30 from the base scenario (other assumptions remaining the same).

11.2 ESTIMATED SURPLUS (DEFICIT) JUNE 30 CARRIED FORWARD

| Funding Level | Variance from Base Level in Year 15 | Average Variance per Annum |
|---|-------------------------------------|----------------------------|
| (Scenario 1) 0% rate increase above inflation | (\$5,750,259) | (\$2,149,263) |
| (Scenario 2) 2% rate increase above inflation | (\$2,382,982) | (\$963,832) |

The chart below reflects the impact of the same change in total rates yield on the Shire’s Operating Surplus Ratio (other assumptions remaining the same). The base scenario was selected as it achieved an improvement in the operating surplus ratio toward the target ratios levels set out in the Department’s published Advisory Standard.

11.2.1 SCENARIO COMPARISON – OPERATING SURPLUS RATIO



12.0 RISK MANAGEMENT

12.1 RISK MANAGEMENT

The Shire provides a diverse range of services and facilities to the general public which exposes it to risks. As part of the implementation of Integrated Planning and Reporting, the Shire intends to formalise its risk based management practices to improve the management of identified risks.

The Shire has a practice of conducting a regular review of insurance levels of assets by the Chief Executive / Manger of Finance to ensure the level is adequate. The Shire's insurer is LGIS.

Recent amendments to applicable Financial Management Regulations requires the investment of surplus funds (including cash reserves) to be in term deposits held by authorised deposit taking institutions or Treasury bonds.

The Shire seeks to engage experienced and qualified personnel in areas of high risk and provides them with appropriate ongoing training and equipment, to ensure they are able to undertake their roles with minimal risk to the community and the Shire.

12.2 CERTAINTY OF ASSUMPTIONS

Included in the Plan is a detailed analysis of the assumptions used as part of the planning process and the level of risk associated with each assumption.

The impact of the assumptions applied to issues identified as carrying a high risk have been separately disclosed, as has the sensitivity of movements in these assumptions on the financial forecasts set out in this Plan.

12.3 SENSITIVITY ANALYSIS

Where an assessment has been made that a high level of uncertainty applies to the assumptions, sensitivity analysis has been used to help quantify the potential financial impact of a change in the assumption.

Assumptions with a high level of uncertainty and a higher dollar value present the greatest risk that a movement will result in unexpected and detrimental consequences. The details of this analysis are shown adjacent to each assumption on the following pages.

13.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY

13.1 REVENUE – ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY

| Disclosure/Assumption | Assessed Financial Risk | Impact of High Financial Risk Assumptions | Level of Uncertainty | Financial Impact and Sensitivity for Assumption with High Level of Uncertainty/Risk |
|---|-------------------------|---|----------------------|--|
| District Growth in Population: The number of residents in the Shire is expected to remain stable. | Low | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| Rates Level Increase: Annual rates have been based on an increase in the total rate yield of 4% higher than forecast inflation rate of 2% for the first 4 years. In years 5 to 9 the forecast increase in rate yield is 5% (CPI 2% +3%) and the remainder of the Plan 4% (CPI 2% +2%). | Medium | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| Operating Grants and Contributions: Increases in line with inflation forecast. | High | The road maintenance program and general operations of the Shire are dependent on levels of Federal Financial Assistance Grants. Changes in the levels of these grants would impact directly on the Shire's ability to meet projected service levels. | Medium | ± \$10,087 to the value of operating grants and contributions per 1% movement in the value in the first year of the Plan. |
| Non-operating Grants and Contributions: Remain in line with funding requirements identified for various capital works. | High | The forecast capital works program is highly dependent on Government grants and contributions. Changes in these levels would impact directly on the amount spent on capital projects and ultimately impact on service levels. | Medium | ± \$140,868 to the value of non-operating grants and contributions per 1% movement in the value over the life of the Plan. |
| Fees and Charges: Increases in line with inflation forecast. | Medium | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| Interest Earnings: Interest earning of an average rate of 1.50% per annum. | Low | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| Other Revenue: Increases in line with inflation. | Low | Not assessed as high financial risk. | Low | Not assessed as high level of uncertainty. |
| Profit on Asset Disposal: Profit on asset disposal results from a misallocation of depreciation over the life of the asset. As the level of depreciation is considered appropriate no profit on asset disposals has been included. | Low | Not assessed as high financial risk. | Low | Not assessed as high level of uncertainty. |

13.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (Continued)

13.2 EXPENDITURE – ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY

| Disclosure/Assumption | Assessed Financial Risk | Impact of High Financial Risk Assumptions | Level of Uncertainty | Financial Impact and Sensitivity for Assumption with High Level of Uncertainty/Risk |
|---|-------------------------|--|----------------------|---|
| Employee Costs: Increased annually by forecast inflation. | Medium | Not assessed as high financial risk. | Low | Not assessed as high level of uncertainty. |
| Materials and Contracts: Increased annually by forecast inflation. | High | The road preservation program and general operations of the Shire are dependent on levels of Federal Financial Assistance Grants. Changes in the levels of these grants would impact directly on the Shire's ability to meet projected service levels. | Medium | ± \$176,390 to the value of materials and contracts per 1% movement in the value over the life of the Plan. |
| Depreciation: Depreciation has been calculated using an average depreciation rate based on historical rates. | Low | Not assessed as high financial risk. | Low | Not assessed as high level of uncertainty. |
| Insurance: Base year increased in line with inflation. | Medium | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| Other Expenditure: Base year increased in line with inflation. | Medium | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| Loss on Asset Disposal: A loss on asset disposal results from a misallocation of depreciation over the life of the asset. As the level of depreciation is considered appropriate in the Plan no loss on asset disposals has been included in the Plan. | Low | Not assessed as high financial risk. | Low | Not assessed as high level of uncertainty. |

13.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (Continued)

13.3 ASSETS – ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY

| Disclosure/Assumption | Assessed Financial Risk | Impact of High Financial Risk Assumptions | Level of Uncertainty | Financial Impact and Sensitivity for Assumption with High Level of Uncertainty/Risk |
|---|-------------------------|---|----------------------|---|
| Revaluations: In line with annual inflation. | Low | The revaluation of assets may result in changes in asset ratio analysis and depreciations leading to a change in the net result. The revaluation of assets will have no impact on cashflows. | High | ±\$93,934 to the value of property, plant and equipment per 1% movement in the value over the life of the Plan. ±\$553,464 to the value of infrastructure assets per 1% movement in the value over the life of the Plan. |
| Impairment of Assets: No impairment of assets has been assumed over the life of the Plan. Impairment of assets usually occurs due to unplanned or unforeseen events such as natural disasters. | High | A widespread major impairment event may result in a requirement for high levels of expenditure to maintain service levels. | Medium | Unable to be quantified. |
| Infrastructure Assets: Expenditure has been based on historical levels escalated by inflation. | High | The capital works program is highly dependent on Government grants and contributions. Changes in these levels would impact directly on the amount spent on capital projects and ultimately on service levels. | High | ±\$140,868 to the value of infrastructure assets per 1% movement in the capital grants received over the life of the Plan. |
| Property, Plant and Equipment: Building expenditure is in accordance with the 10 Year Capital Plan and plant expenditure is based on the Plant Replacement Program. | Medium | Not assessed as high financial risk as the frequency of capital grants for buildings is not as pervasive as roadwork's and plant and equipment replacement is not influenced by external grant funds. | Medium | Not assessed as high level of uncertainty. |

13.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (Continued)

13.4 LIABILITIES – ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY

| Disclosure/Assumption | Assessed Financial Risk | Impact of High Financial Risk Assumptions | Level of Uncertainty | Financial Impact and Sensitivity for Assumption with High Level of Uncertainty/Risk |
|---|-------------------------|---|----------------------|---|
| Borrowings: New borrowings to be considered for capital works where required. | High | If the Shire is not able to secure borrowings in the future the likely impact will be the cancellation or postponement of related asset acquisitions, leading to a reduction in service levels over the short to medium term. | Low | Not assessed as high level of uncertainty. |
| Employee Entitlements: It has been assumed the Shire will be in a position to meet its obligations in relation to employee entitlements. | Medium | Not assessed as high financial risk. | Low | Not assessed as high level of uncertainty. |

13.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (Continued)

13.5 EQUITY RISKS, UNCERTAINTIES AND SENSITIVITY

| Disclosure/Assumption | Assessed Financial Risk | Impact of High Financial Risk Assumptions | Level of Uncertainty | Financial Impact and Sensitivity for Assumption with High Level of Uncertainty/Risk |
|--|-------------------------|--|----------------------|---|
| Cash Backed Reserves: It has been assumed the Shire will invest cash reserves in term deposits with banking institutions and these funds will be available for use during the term of the Plan. | Low | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| Revaluation Surplus: Increasing in line with inflation based revaluation. | Low | The revaluation of assets to their fair value may result in changes in asset ratio analysis and depreciation leading to a change in the net result. The revaluations of assets will have no impact on cashflows. | High | ±\$93,934 to the value of property, plant and equipment per 1% movement in the value over the life of the Plan. ±\$553,464 to the value of infrastructure assets per 1% movement in the value over the life of the Plan. |

13.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (Continued)

13.6 OTHER – ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY

| Disclosure/Assumption | Assessed Financial Risk | Impact of High Financial Risk Assumptions | Level of Uncertainty | Financial Impact and Sensitivity for Assumption with High Level of Uncertainty/Risk |
|---|-------------------------|--|----------------------|--|
| Ownership of Strategic Assets: The Shire has not planned for the ownership of any strategic assets to be transferred to another party over the term of the Plan. | High | Any significant changes to the ownership of strategic assets would require an amendment to this Plan and, depending on the circumstance, be subject to community consultation. | Low | Not assessed as high level of uncertainty. |
| Inflators: Forecast inflation at 2% per annum. | Medium | Not assessed as high financial risk. | High | ± \$492,873 to operating revenue per 1% movement in the inflators over the life of the Plan. ± \$643,313 to operating expenditure per 1% movement in the inflators over the life of the Plan. |
| Commercial Activities: The Shire has no plans to undertake a significant commercial activity during the period of the Plan. | Medium | Not assessed as high financial risk. | Low | Not assessed as high level of uncertainty. |
| General Economic Forecasts for State: The economic forecast for the State is closely linked to the success of the mining industry. Demands for minerals is forecast to decline in the short term with a corresponding tightening of the state economy. | Medium | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |
| General Economic Forecasts for Region: Historically, the region's economy is heavily dependent on agriculture and processing of agricultural produce and this remains the assumption for the term of this Plan. | Low | Not assessed as high financial risk. | Medium | Not assessed as high level of uncertainty. |

14.0 MONITORING AND PERFORMANCE

14.1 MONITORING

The Plan will be the subject of a desktop review each year to take into account changing circumstances, with a full revision scheduled every two years in line with the review of the Strategic Community Plan.

Monitoring the Shire's financial rigidity and financial position along with its asset management performance is undertaken by preparing and monitoring various statutory ratios.

14.2 PERFORMANCE ASSESSMENT

A series of performance indicators, in the form of financial ratios, have been used to assess the financial performance of the Shire.

To maintain comparability across the industry, these ratios and their respective target ranges, have been derived from the Department's Long Term Financial Planning Guidelines and *Regulation 50 of Local Government (Financial Management) Regulation 1996*.

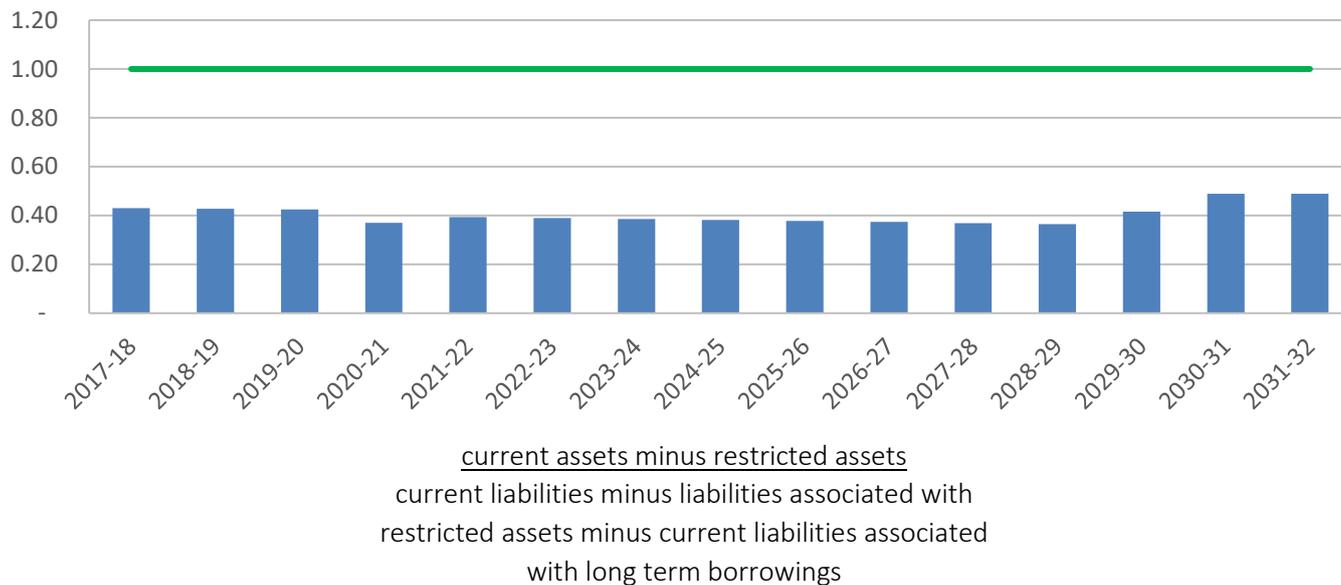
Graphs of these financial ratios are presented on the following pages together with the formula used to calculate the ratio, a brief description of what the ratio indicates and an assessment of the impact of the ratio on the Shire's finances in the future.

14.3 RATIO TARGETS

The Department's Advisory Standard provides target levels for each of the ratios. These target levels are represented on the ratio graphs as a red or green line. The red line represents the level at which a 'basic standard' is met, the green line representing the level at which an 'advanced standard' is met.

14.0 MONITORING AND PERFORMANCE (Continued)

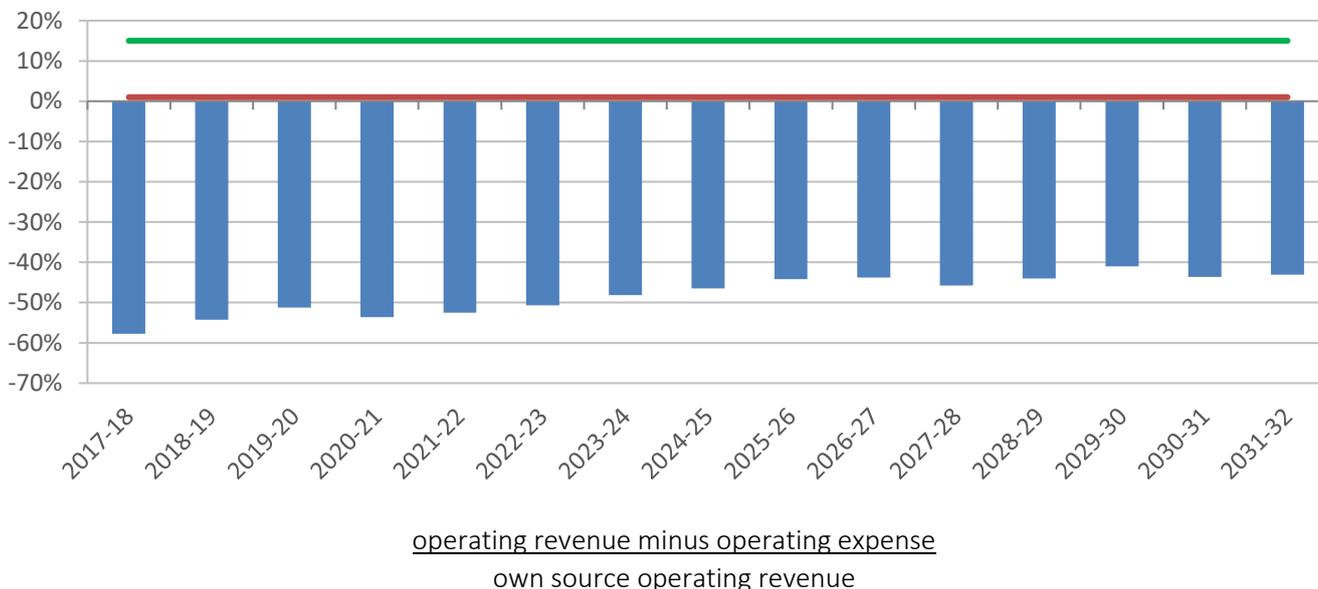
14.4 FORECAST RATIO ANALYSIS – CURRENT RATIO



Indication: A measure of the Shire’s immediate liquidity and the capacity to meet short term financial obligations from unrestricted current assets.

Commentary: As expected for a Shire with a forecast balanced funding surplus position and current borrowing liabilities, the ratio is less than 1.0. As borrowings are settled the ratio increases. The trend is not considered to indicate a threat to the Shire’s long term financial position.

14.5 FORECAST RATIO ANALYSIS – OPERATING SURPLUS RATIO

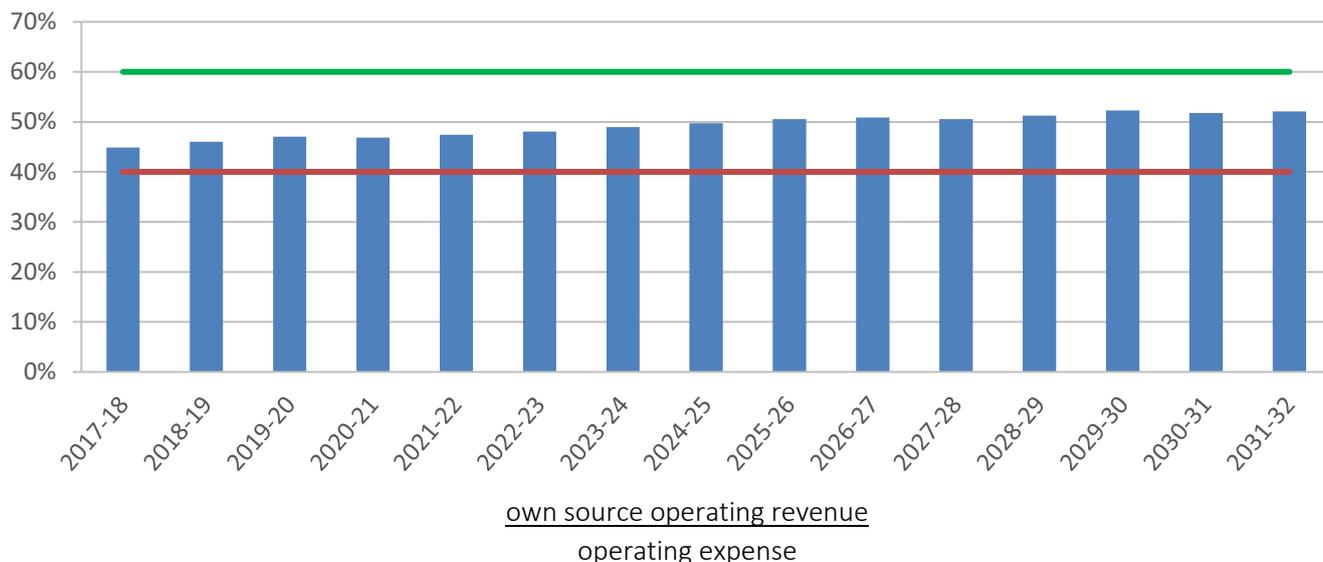


Indication: A measure of the extent to which own source revenues raised cover operational expenses.

Commentary: While the ratio is below the target, the ratio is slightly improving over the term of the Plan indicating an increased capacity to renew assets into the future with forecast operating revenues increasing at a greater rate than forecast operating expenditure.

14.0 MONITORING AND PERFORMANCE (Continued)

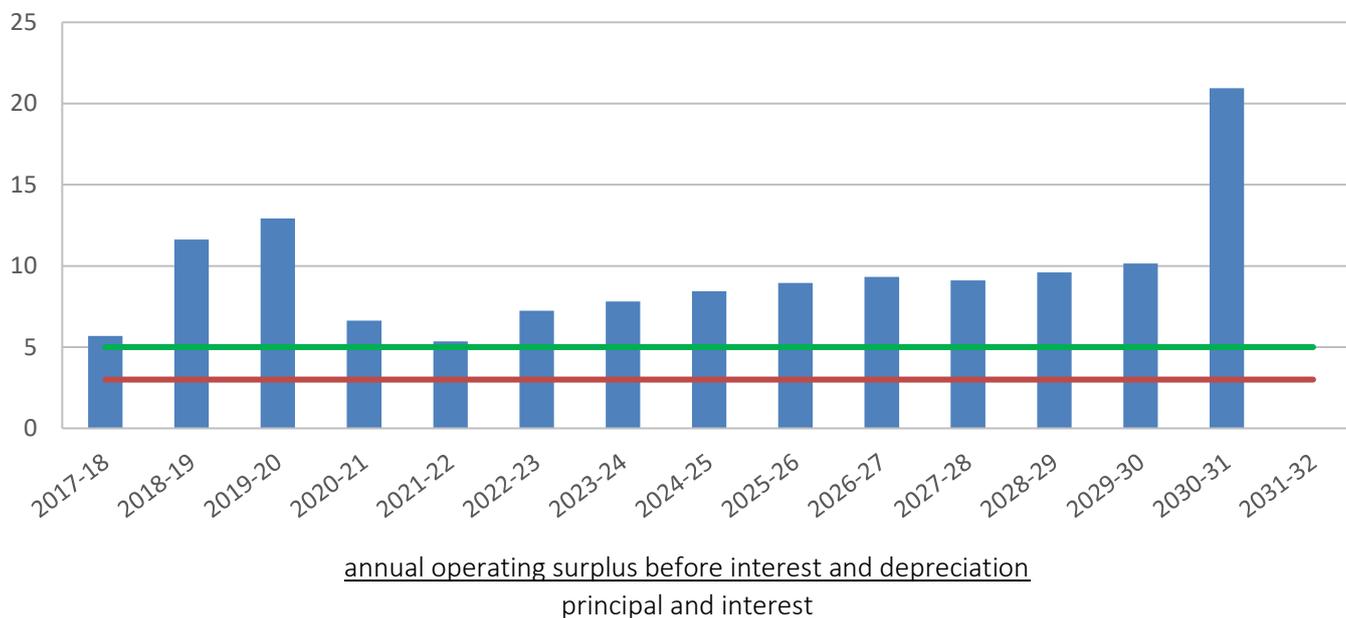
14.6 FORECAST RATIO ANALYSIS – OWN SOURCE REVENUE COVERAGE RATIO



Indication: A measure of the extent of the Shire’s ability to cover costs using only discretionary revenue.

Commentary: The ratio being just above the target range indicates that the Shire is not over reliant on external funding to continue to operate.

14.7 FORECAST RATIO ANALYSIS – DEBT SERVICE COVERAGE RATIO



Indication: A measure of the extent of the Shire’s capacity to generate sufficient cash to cover debt payments.

Commentary: The ratio is in the advanced range and continues to improve over time as existing borrowings are paid off. After year 5 of the Plan, there are no new borrowings forecast and the ratio continues to improve. The ratio indicates the Shire has a capacity to borrow in the short term with increasing capacity for the term of the Plan.

14.0 MONITORING AND PERFORMANCE (Continued)

14.8 FORECAST RATIO ANALYSIS – ASSET CONSUMPTION RATIO

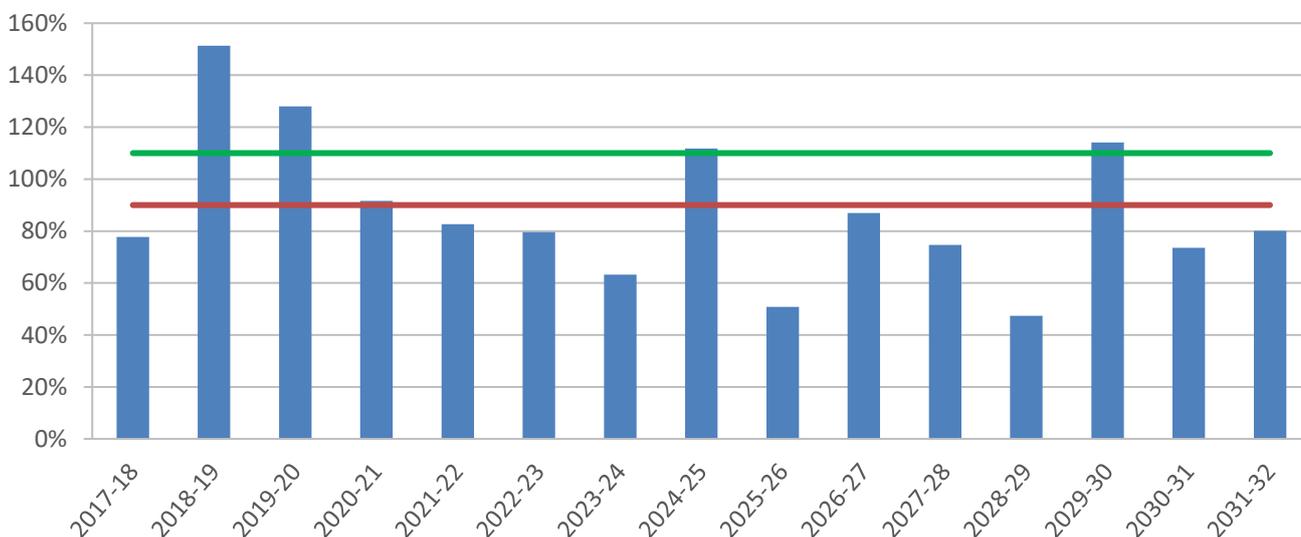


$$\frac{\text{depreciated replacement cost of assets}}{\text{current replacement cost of depreciation assets}}$$

Indication: A measure of the aged condition of the Shire’s physical assets.

Commentary: The ratio is above the target range and remains so throughout the term of the Plan, with assets being renewed at adequate levels to maintain the average age of assets.

14.9 FORECAST RATIO ANALYSIS – ASSET SUSTAINABILITY RATIO



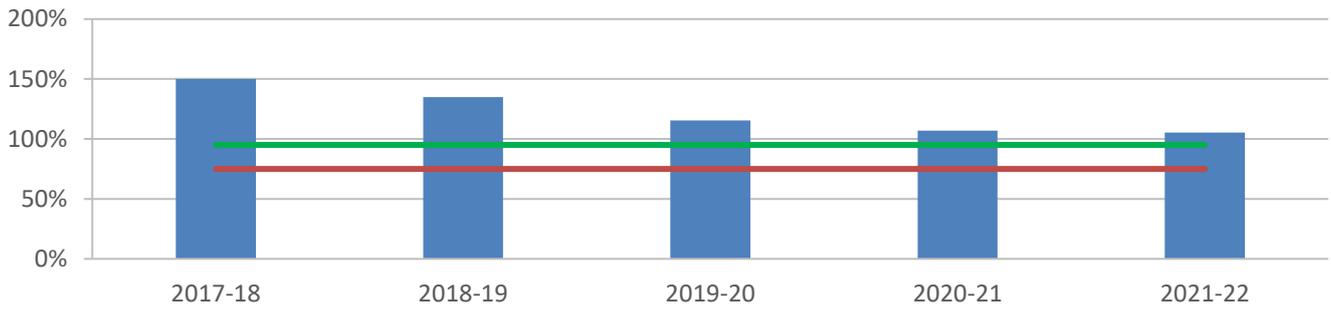
$$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expense}}$$

Indication: A measure of the extent to which assets managed by the Shire are being replaced as they reach the end of their useful lives.

Commentary: The ratio highlights asset renewal expenditure relative to depreciation fluctuates as expected. The ratio averages at 88% over the term of the Plan, which is marginally below the guideline level (90%) and indicates the Shire is generally renewing assets at an adequate rate over the long term.

14.0 MONITORING AND PERFORMANCE (Continued)

14.10 FORECAST RATIO ANALYSIS – ASSET RENEWAL FUNDING RATIO



NPV of planned capital renewals over 10 years
NPV of required capital expenditure over 10 years

Indication: The Shire’s financial capacity to fund asset renewal to support existing service levels. (This ratio is based on the 10 years forecast expenditure and as such is only able to be calculated of the first five years of the Plan).

Commentary: The ratio is within the target ratio with planned asset renewal expenditure being in line with required asset renewal expenditure as set out in this Plan.

15.0 IMPROVEMENT PLAN

15.1 STRATEGIC RESOURCE IMPROVEMENT PLAN

All strategic plans require continuous development in order to improve the quality of planning. The following asset management areas are suggested as worthy of focus in the future.

Hierarchy: A hierarchy exists for road assets and should be further developed for other asset classes.

Level of Service: Level of service measures are defined for each asset class in the Appendices to this Plan. Systems are required to record and report against these levels of service.

Risk Management: Risk management is used as a decision making tool to define and treat risks facing the Shire when seeking to meet its defined objectives. The Shire is in the very early stages of utilising risk techniques. As risk management is developed, a greater understanding of risks will be formalised.

Operation and Maintenance: The Shire does not have a current documented Operation and Maintenance Strategy.

Renewal and Replacement forecasts: A key component of understanding long term asset funding requirements is determination of the extent and timing of likely costs to refurbish or replace an asset in future in order to maintain a consistent level of service to the community. These forecasts require constant review and revision to ensure they remain appropriate.

New, Upgrade and Disposal: The Shire does not have a current documented Capital Investment Plan to address future asset demands or Asset Disposal Plan (other than the disposal of plant and equipment).

There are several improvement actions per the Improvement Plan, some key improvement actions resulting from this Strategic Resourcing Plan are to:

- Undertake routine condition inspections;
- Report levels of service for key assets;
- Improve the accuracy of future financial forecasts through improved forecasting of operational, maintenance, renewal, new and upgrade costs; and
- Maintain formal asset maintenance and renewal programs for all assets.