

SHIRE OF
MERREDIN

DRAFT STRATEGIC RESOURCE PLAN

(Incorporating Asset Management Planning and Long Term Financial Planning)

2019 - 2034

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1.0 FOREWORD

We are pleased to present to the community the Shire of Merredin Draft Strategic Resource Plan 2019 - 2034.

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 of our district. We invite members of the community to contact a Councillor or Senior Council staff member if they have any questions.

The Shire of Merredin's Strategic Resource Plan is an important planning tool as we strive to achieve the strategies set out in the Shire of Merredin Strategic Community Plan 2018-2028.

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 "Merredin is a sustainable regional centre with a bright future".

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.

Ken Hooper
President

Greg Powell
Chief Executive Officer

Our Vision

"Merredin is a sustainable regional centre with a bright future"

ASSUMPTIONS


 **2%**
Inflation Rate

 **Stable**
Population

 **Stable**
Levels of Service

 **Stable**
Operations

 **Balanced**
Annual Budget

 **3%**
(1% + CPI 2%)
Rates | Fees and Charges

 **2%**
Employee Costs

STATISTICS ¹ ²

 **9**
Elected
Members

 **53**
Employees

 **2,060**
Electors

 **1,635**
Dwellings

 **257km**
Distance from
Perth

 **3,293km²**
Area

 **3,350**
Population

FINANCIAL INFORMATION³

\$4,154,604
Rates Revenue

\$1,397,107
Fees and Charges

\$7,836,779
Operating Revenue

\$11,316,326
Operating Expenditure

\$221,560,988
Net Assets

\$1,963,344
Cash Backed Reserves

\$4,879,613
Long Term Borrowings

¹WALGA Online Local Government Directory 2017/2018, Shire of Merredin

²Australian Bureau of Statistics Merredin (S) (LGA55460) 2016 Census of Population and Housing, viewed 11 April 2019

³Shire of Merredin 2017-18 Annual Financial Report

3.0 EXECUTIVE SUMMARY

The following information provides a brief summary of the Draft Strategic Resource Plan 2019 - 2034, this should be read in conjunction with the underlying assumptions detailed in this Plan.

3.1 Planning for a Sustainable and Stable Future

The Shire of Merredin 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.

Long term maintenance and renewal of the Shire's infrastructure remains a significant challenge and requires external funding to ensure the economic and social benefits of the Shire's infrastructure to the broader region and Western Australia are not impacted.

3.2 Significant Issues

The continued provision of road and community infrastructure remains one of the key priorities and major expenditure items for the Shire.

Road maintenance and road renewal remain a high priority for the Shire due to the strategic economic benefit the road network provides to the district.

Adequate maintenance, renewal and upgrading of the road network remains highly dependent on the receipt of external grants and contributions.

Rate revenues are forecast to increase by 3.0% (CPI 2% + 1%) over the term of the Plan. These increases are to assist in the long term financial stability of the Shire and to increase the level of services to the community.

3.3 Operating Surplus Ratio

Recent audit reports have highlighted an adverse trend in the financial management of the Shire due to the operating surplus ratio being below 0.00 over a number of years. The Shire has planned to improve the ratio over the term of the plan through increasing rates revenue at a rate above inflation whilst maintaining expenditure in line with inflation.

Given the Shire receives non-operating grants for the renewal of assets it maintains the view the financial position of the Shire is appropriate. This is demonstrated through the preparation of an amended operating surplus ratio which includes grants for the renewal of assets within operating revenues given they will partially cover the cost of depreciation of assets. An explanation of all ratios is provided at Section 11.0.

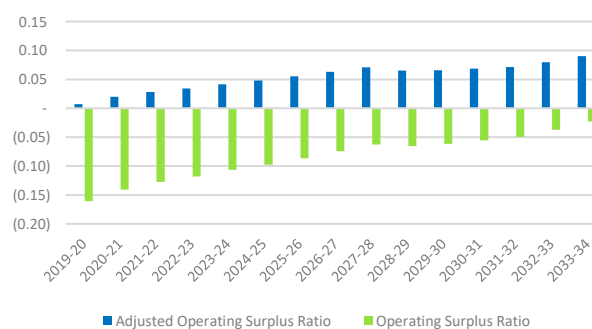
The operating surplus ratio (Green columns) and adjusted operating surplus ratios are reflected in the chart on the right at 3.5. The ratios improve throughout the plan with the adjusted ratio being above the target of 0.00 throughout.

3.4 Forecast Capital Projects

A capital works program has been planned over the term of the Plan with a mixture of new/upgrade assets and asset renewals aimed at ensuring the continued provision of high quality community infrastructure to residents of the Shire. External funding is required to undertake these works.

| Project by Asset Class | 2019-2034 Amount (\$) |
|---|-----------------------|
| Furniture and Equipment | |
| Furniture and Equipment | 750,000 |
| Plant and Equipment | |
| Plant Replacement | 10,377,804 |
| Infrastructure - Roads | |
| Road Renewal RRG | 6,360,779 |
| Road Renewal RTR | 11,250,000 |
| Road Renewal Urban SCP | 1,509,490 |
| Road Renewal Rural SCP | 1,511,890 |
| Road Renewal | 10,056,344 |
| Infrastructure - Roads Total | 30,688,503 |
| Infrastructure - Footpaths | |
| Footpath Program | 3,000,000 |
| Buildings | |
| Buildings Renewal | 4,950,000 |
| SES Building Renewal (Lions Club Shed) | 182,530 |
| Buildings - specialised Total | 5,132,530 |
| Infrastructure - Parks & Gardens | |
| Dam and Pump Infrastructure | 150,000 |
| Grand Total | 50,098,837 |

3.5 Operating Surplus Ratio and Adjusted Ratio



4.0 COMMUNITY PROFILE, VISION AND OBJECTIVES

4.1 Location

The Shire of Merredin is located in the Wheatbelt region of Western Australia, 250 kilometres east of the State capital, Perth. The Shire covers an area of 3,372 square kilometres and encompasses the town sites of Merredin, Burracoppin, Muntadgin and Hines Hill.

Agriculture is the region's primary industry, with Merredin being the regional receival point for Co-Operative Bulk Handling (CBH). China Southern Airlines has also established a training facility at the Merredin Aerodrome. The Shire of Merredin is home to the Collgar Wind Farm; a \$750 million project that has seen the establishment of the largest single stage wind farm in the southern hemisphere.

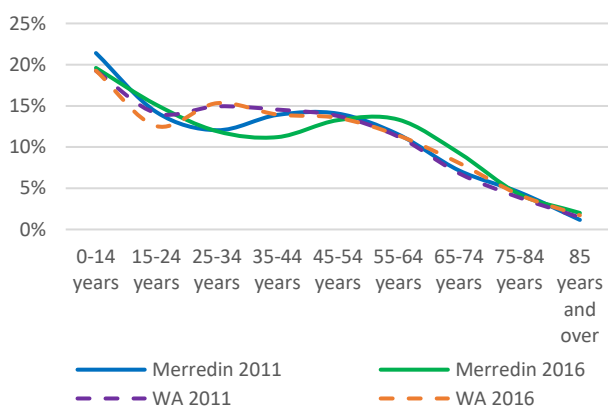
Merredin is a major regional centre providing facilities for health, sport and recreation, education and business. The Shire has recently established a new multi-purpose facility at the recreation ground, providing a new sporting facility for the region. Education in the region has also received a boost, with the Department of Education developing the previous High School site into the new Merredin College, catering for students from Kindergarten to Year 12.

It is expected that the Merredin District Hospital will be substantially upgraded in the coming years under the Southern Inland Health Initiative.

4.2 People

The following statistics reflect the Shire's population in comparison to the population of the state of Western Australia.

| Population | 2011 | 2016 |
|------------|-------|-------|
| Merredin | 3,282 | 3,350 |
| WA | 2.35m | 2.47m |



4.3 Vision

The Shire's strategic vision: "**Merredin is a sustainable regional centre with a bright future**"

4.4 Strategic Objectives

The following key themes are captured in the Shire's Strategic Community Plan 2018-2028 and considered within the Strategic Resource Plan:

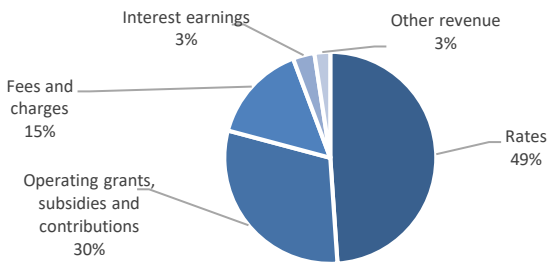
- **Community & Culture:** Merredin is rich in cultural diversity, performing and fine arts and a variety of sports available for both residents and visitors;
- **Economy & Growth:** Merredin seeks new opportunities for growth and strives to develop a rich and multifaceted economy;
- **Environment & Sustainability:** Merredin values the preservation of the natural environment and researches and implements practices to ensure sustainability;
- **Communication & Leadership:** Merredin Council engages with its Community and leads by example;
- **Places & Spaces:** Merredin is an attractive regional town that creates opportunities for residents and visitors to enjoy its many attractions; and
- **Transport & Networks:** Merredin provides transport networks that connects it locally, nationally and internationally.

5.0 LONG TERM FINANCIAL PLANNING OVERVIEW

5.1 Forecast Revenue

Rates are expected to generate \$4.27m in 2019-20 increasing to \$6.47m in 2033-34 and comprise 49% of operating revenue over the 15 years. The Shire is reliant on receiving more than \$49.19m over the next 15 years in untied operating grants, subsidies and contributions to maintain the current level of operations and services. Non operating grants for renewal of community infrastructure are expected to remain stable.

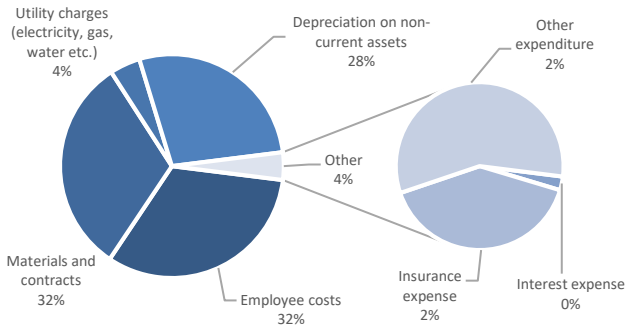
5.2 Revenue Composition Year 1 to 15



5.3 Forecast Expenditure

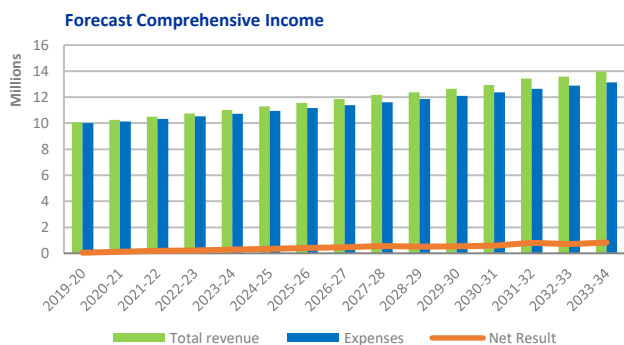
Expenditure is forecast to increase in line with inflation with the exception of depreciation expense which is impacted by the addition of assets.

5.4 Expenditure Composition Year 1 to 15



5.5 Net Result

The chart below reflects in the columns the steady increase in operating revenue and expenditure forecast over the 15 years, with the orange line reflecting the net result.

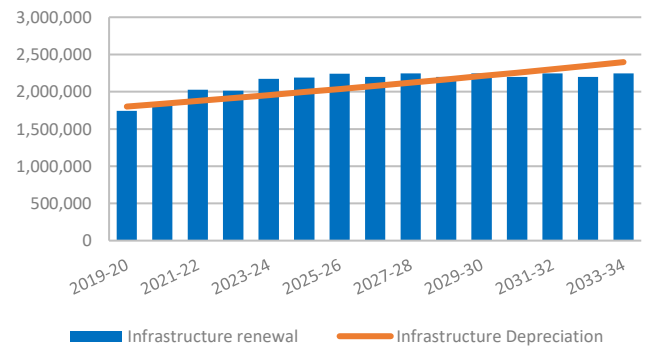


5.6 Depreciation Expense

Depreciation expense increases throughout the Plan from \$2.74m in year 1 to \$3.68m in year 15 as assets are revalued and renewed. Depreciation of infrastructure over the 15 years is \$31.29m, shown by the orange line in the chart below. The planned level of infrastructure asset renewal expenditure at \$31.98m (reflected by the blue columns) is over the term of the Plan just above the level of depreciation.

Ideally, the average asset renewal should be in line with depreciation expense over the long term, to ensure the value of assets is maintained. On average, the Shire is planning to renew its infrastructure assets in line with the level they are depreciating over the term of the Plan.

5.7 Infrastructure Depreciation Expense -V- Asset Renewal Expenditure

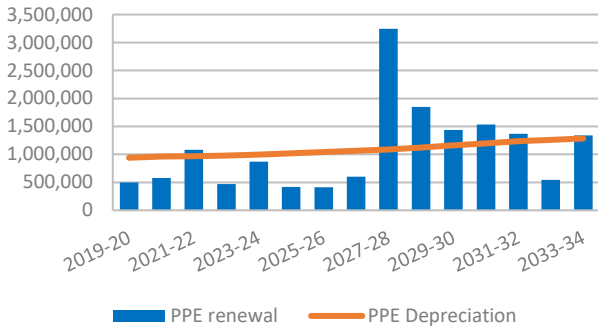


Further improvements in asset management data and the estimation of depreciation expense along with the future renewal of long lived assets may result in a closer alignment between asset renewals and depreciation expense.

Planned property, plant and equipment asset renewals of \$16.26m (reflected by the columns) over the 15 years is just below depreciation expense of \$16.32m (reflected by the orange line) over the same period as shown in the chart on the following page at 5.8.

5.0 LONG TERM FINANCIAL PLANNING OVERVIEW (CONTINUED)

5.8 Property, Plant and Equipment Depreciation Expense -V- Asset Renewal Expenditure



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

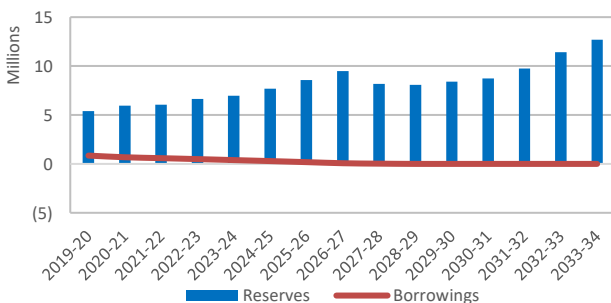
5.9 Maintenance Expenditure

The current maintenance expenditure allocated in the annual operating budget is expected to continue at current levels of approximately \$1.3m, with inflationary increases occurring each year.

5.10 Forecast Borrowings and Cash Reserves

In general, the finances of the Shire are expected to remain stable over the long term. Reserves will be utilised to save for major forecast asset renewals and then utilised to fund the renewals resulting in the variations in reserve levels as shown in the chart below.

Forecast Borrowings and Reserves

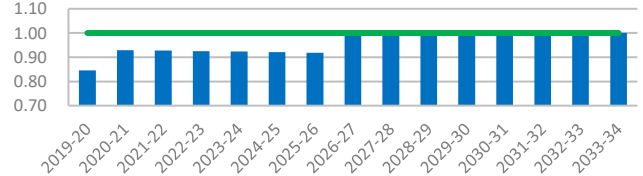


The Shire has not planned for any new borrowings for the term of this Plan. This is part of its strategy to allow flexibility to respond to sudden or unexpected expenditure requirements and provides scope to leverage off future grant funding opportunities when, and if, they become available. The strategy also includes the use of cash backed reserves to save for significant future asset renewal spikes.

5.11 Forecast Operating Ratios 2019-2034

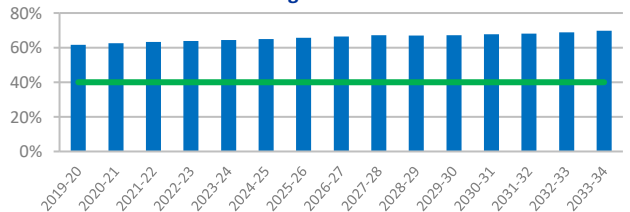
Monitoring the Shire’s financial rigidity and financial position along with its asset management performance is undertaken by preparing and monitoring various statutory ratios. The green lines reflect the Department of Local Government, Sport and Cultural Industries’ (the Department) minimum target level of the ratio.

Current Ratio



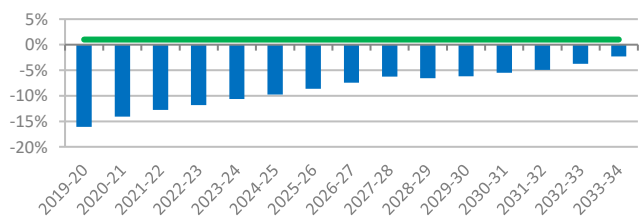
As expected for a Shire with a forecast balanced funding surplus position and current borrowing liabilities, the ratio is less than 1.0 until 2027 when the borrowings are paid off. The trend is not considered to indicate a threat to the Shire’s long term financial position.

Own Source Revenue Coverage Ratio



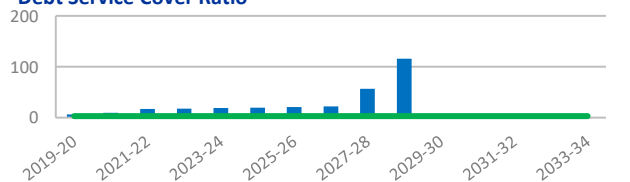
The ratio is above the target indicating the Shire is not reliant on grants and contributions.

Operating Surplus Ratio



The ratio above highlights how the cumulative impact of the rates increases are intended to address the Operating Surplus Ratio.

Debt Service Cover Ratio



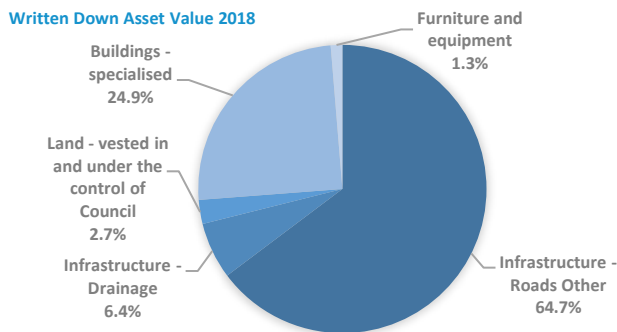
The ratio indicates the Shire has a capacity to take up the planned borrowings in the short term, providing underlying assumptions remain valid.

An explanation of all ratios is provided at Section 11.0.

6.0 ASSET MANAGEMENT PLANNING OVERVIEW

6.1 Key Asset Information

The Shire controls an asset network with a written down value \$110.5m, of which Roads and Buildings constitute the largest component value as reflected in the chart below.



6.2 Asset Management Policy

The purpose of an asset management policy is to:

- 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.

The 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.

6.3 Asset Management Strategy

Developing 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.

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.

Modelling was undertaken to determine the long term funding required for asset maintenance and renewal. By adjusting the estimated useful life of assets, the balance between the risk of loss of asset service and the financial costs of asset renewal and maintenance was determined.

Detailed long term planning is required for the renewal of building assets 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 grant funding.

It is important to note, capital works identified in this Plan funded by 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 unexpected asset failure bringing with it the potential for a loss of service.

Recognising a 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 aims to ensure the long term affordability of Shire assets. By focusing 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 based on an annual rate increase of 3% (CPI of 2% + 1%).

6.4 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.

6.0 ASSET MANAGEMENT PLANNING OVERVIEW (CONTINUED)

6.5 Financial Management Strategy for Assets

Based on the 2017-18 Annual Financial Statements and 2018-19 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.

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 along with the forecast required asset renewals to maintain services in the future are shown as columns in the chart below with the values in the table on the right. 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.

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 asset renewal funding surplus/(deficit) representing the difference between the planned and required asset renewals is represented by the line in the chart below with values provided in the table to the right.

Forecast Planned and Required Asset Renewals

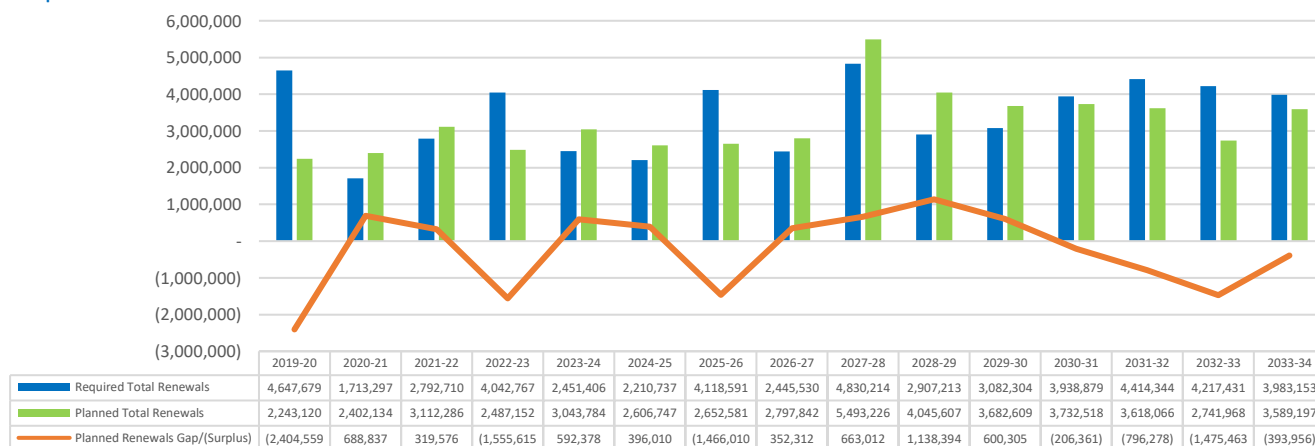
| Year | Planned Asset Renewal \$ | Required Asset Renewal \$ | Asset Renewal Surplus/ (Deficit) \$ |
|--------------|--------------------------|---------------------------|-------------------------------------|
| 2019-20 | 2,243,120 | 4,647,679 | (2,404,559) |
| 2020-21 | 2,402,134 | 1,713,297 | 688,837 |
| 2021-22 | 3,112,286 | 2,792,710 | 319,576 |
| 2022-23 | 2,487,152 | 4,042,767 | (1,555,615) |
| 2023-24 | 3,043,784 | 2,451,406 | 592,378 |
| 2024-25 | 2,606,747 | 2,210,737 | 396,010 |
| 2025-26 | 2,652,581 | 4,118,591 | (1,466,010) |
| 2026-27 | 2,797,842 | 2,445,530 | 352,312 |
| 2027-28 | 5,493,226 | 4,830,214 | 663,012 |
| 2028-29 | 4,045,607 | 2,907,213 | 1,138,394 |
| 2029-30 | 3,682,609 | 3,082,304 | 600,305 |
| 2030-31 | 3,732,518 | 3,938,879 | (206,361) |
| 2031-32 | 3,618,066 | 4,414,344 | (796,278) |
| 2032-33 | 2,741,968 | 4,217,431 | (1,475,463) |
| 2033-34 | 3,589,197 | 3,983,153 | (393,956) |
| Total | 48,248,837 | 51,796,254 | (3,547,417) |

A number of assumptions and estimates have been utilised in arriving at these values and actual events may vary significantly from those provided.

The data reflects the spikes in required asset renewals over the next 15 years have been met through the annual planned renewal of assets over the same period.

As assets approach their initial estimated asset renewal, the timing and need for renewal will be re-assessed and may well vary enabling the reallocation of limited resources between asset classes and between years through the use of cash backed reserves.

Required v Planned Asset Renewals

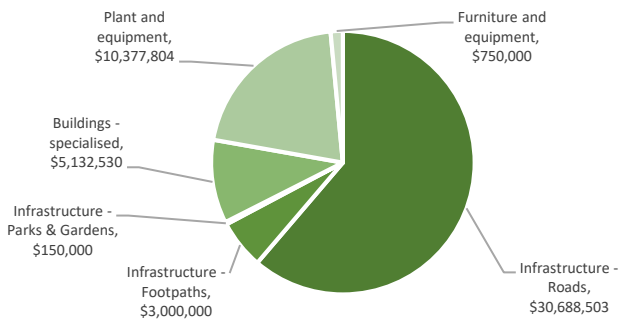


3.0 6.0 ASSET MANAGEMENT PLANNING OVERVIEW (CONTINUED)

6.6 Planned Asset Expenditure

Combined new and renewal asset expenditure of \$50.1m has been planned. New and upgrade asset expenditure comprises \$1.9m of the total asset expenditure and asset renewal expenditure of \$48.2m as per the previous table.

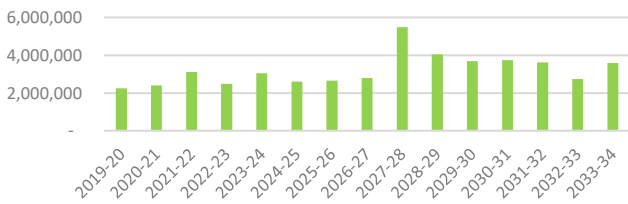
6.7 Planned Capital Expenditure 2019-2034



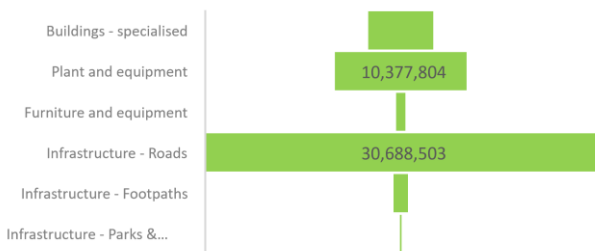
6.8 Planned Asset Renewal

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 below.

6.9 Planned Asset Renewal Expenditure



6.10 Planned Asset Renewal Expenditure by Class



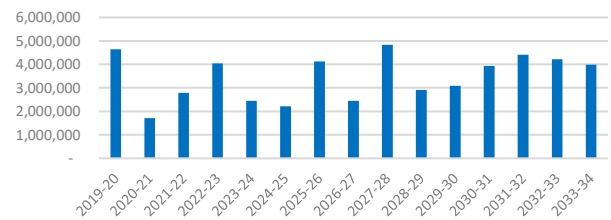
Planned asset renewals by asset class over the 15 years of the Plan reflected in the chart above shows the major renewal spend relates to roads infrastructure.

6.11 Required Renewal Expenditure

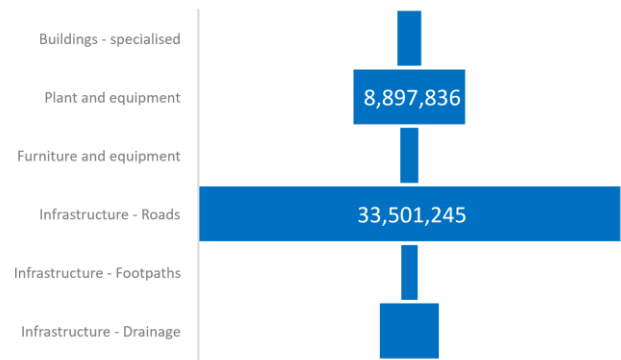
Asset renewal expenditure for the road network has been estimated based on road conditions and forecast usage. For other asset classes, forecast asset renewals have been based on the age of the assets and their estimated remaining useful life (determined during recent revaluations) combined with the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

Asset renewal expenditure has been estimated based on forecast renewal costs and timings. Total asset renewals of \$48.2m are forecast to be required over the 15 years of the Plan.

6.12 Required Asset Renewal Expenditure



6.13 Required Asset Renewal Expenditure by Asset Class

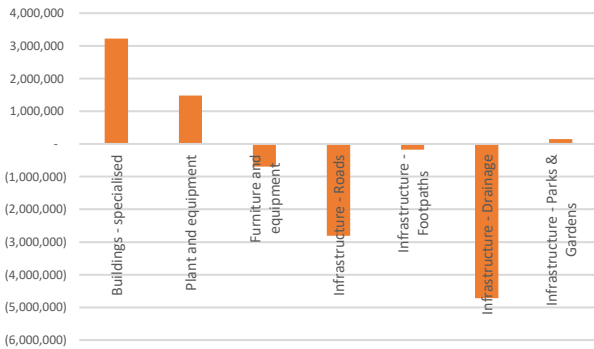


Renewal of roads dominate the forecast required asset renewals.

6.0 ASSET MANAGEMENT PLANNING OVERVIEW (CONTINUED)

6.14 Asset Renewal Funding Surplus/(gap)

Differences between the forecast planned and required asset renewals for all each asset class over the 15 years of the plan exist as shown in the chart below.



Asset renewals for roads, buildings and plant are to occur as part of the significant upgrade of these assets and associated expenditure has been classified as upgrade/new expenditure and not renewal.

6.15 Upgrade/New Expenditure

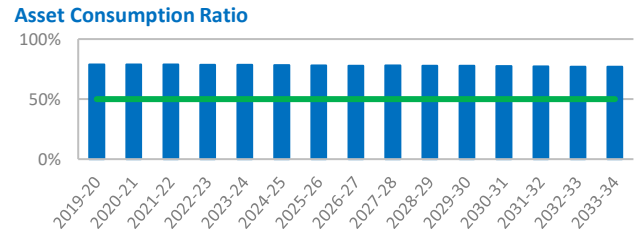
Upgrades to infrastructure are planned to occur over the next 15 years in response to community expectation. Where funds are available after undertaking essential renewal works, funds will be utilised for improvement and new works. Detailed annual planning will be undertaken for asset upgrade/new expenditure prior to each project.

Upgrade/new asset expenditure by asset class over the 15 years of the plan is reflected in the table below.

| Asset Class | Upgrade/New Expenditure |
|--------------------------------------|-------------------------|
| Footpaths | \$1,850,000 |
| Total new capital expenditure | \$1,850,000 |

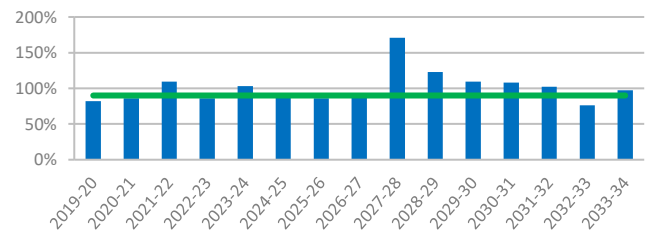
6.16 Forecast Asset Ratios 2019-2034

The asset consumption 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.



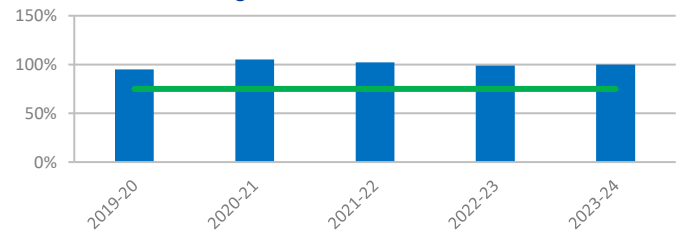
The ratio highlights asset renewal expenditure relative to depreciation fluctuates as expected. The ratio average is below the guideline level and indicates the Shire is generally not renewing assets in line with their forecast useful lives due to the average useful life of assets exceeding the 15 years of the Plan.

Asset Sustainability Ratio



The ratio is above the target ratio with planned asset renewal expenditure being above required asset renewal expenditure as set out in this Plan. Further improvements in forecasting the remaining useful lives of assets may result in a decrease in this ratio.

Asset Renewal Funding Ratio



7.0 SCENARIO MODELLING

7.1 Scenario Modelling

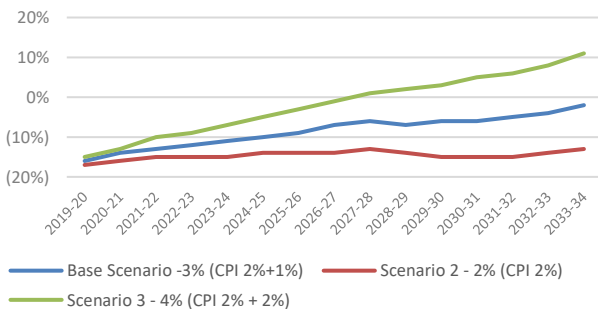
Scenarios were developed to test the financial impact of reduced levels of operating funding with modelling for the impact on the Shire of various reduced funding levels.

To ascertain the effect of reduced funding levels, a base scenario was developed with a rate yield increase of 1% above inflation (2%). Two alternative scenarios were also developed from this base as reflected in the table below. All other assumptions remained the same across the three scenarios.

| Scenario | Increase above CPI (2%) | Total Increase |
|---------------|-------------------------|----------------|
| Base Scenario | 1% | 3% |
| Scenario 2 | 0% | 2% |
| Scenario 3 | 2% | 4% |

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

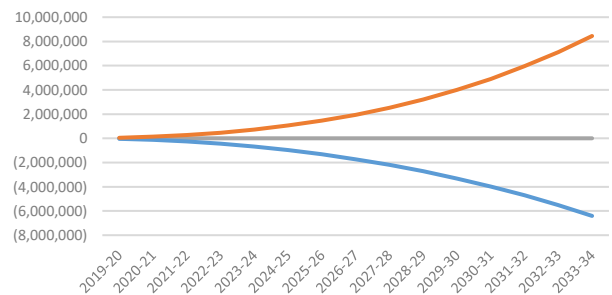
7.2 Scenario Comparison – Operating Surplus Ratio



The chart above shows 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 improved the operating surplus ratio.

The following chart shows the impact of a change in total rates yield on the estimated surplus (deficit) at June 30 from the base scenario (other assumptions remaining the same).

7.3 Estimated Surplus (Deficit) June 30 Carried Forward



The cumulative impact of the changes in rates along with fees and charges results in the surplus (deficit) shown in the table below.

| Year | Scenario 2 - CPI 2% | Scenario 3 - CPI 2% + 1% |
|---------|---------------------|--------------------------|
| 2019-20 | (41,547) | 41,545 |
| 2020-21 | (128,587) | 129,414 |
| 2021-22 | (265,324) | 268,754 |
| 2022-23 | (452,134) | 465,103 |
| 2023-24 | (689,284) | 724,418 |
| 2024-25 | (979,182) | 1,053,101 |
| 2025-26 | (1,324,330) | 1,458,025 |
| 2026-27 | (1,727,321) | 1,946,568 |
| 2027-28 | (2,190,844) | 2,526,643 |
| 2028-29 | (2,717,689) | 3,206,730 |
| 2029-30 | (3,310,748) | 3,995,911 |
| 2030-31 | (3,973,020) | 4,903,910 |
| 2031-32 | (4,707,615) | 5,941,132 |
| 2032-33 | (5,517,756) | 7,118,703 |
| 2033-34 | (6,406,785) | 8,448,516 |

8.0 STRATEGIC PLANNING AND POLICIES

8.1 Linkage with Other Plans

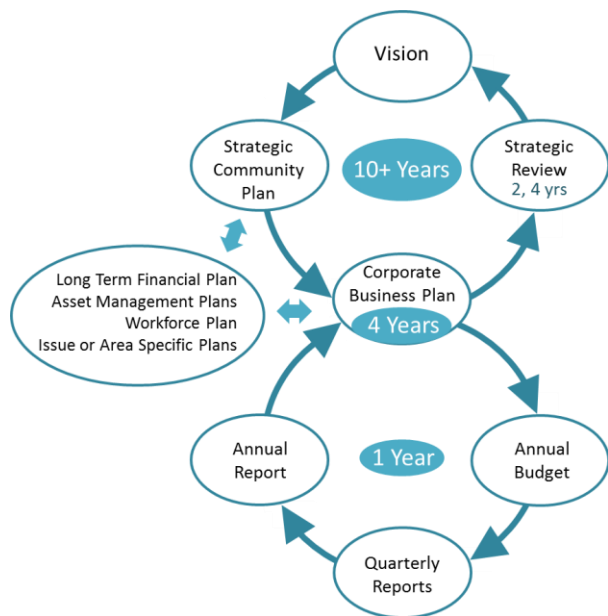
The Strategic Resource Plan is one component of a number of integrated strategic planning practices the Shire has developed. Combining asset management planning and long term financial planning into one document, the Strategic Resource Plan considers, and influences, workforce planning along with other 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’s Integrated Planning Framework and Guidelines.

8.2 Strategic Documents Linkage

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.

Diagram: Integrated Planning and Reporting Cycle¹



8.3 Strategic Community Plan 2018-2028

The Strategic Community Plan has been prepared to cover a minimum period of 10 years and set out the community’s vision, aspirations and objectives for the Shire. To achieve the vision, a series of priorities, objectives and strategies were developed. Many strategies may be required to achieve a single objective and many objectives needed to achieve a single priority.

Individual strategies all require actions involving extra human, physical and financial resources. Achieving the Shire’s strategic priorities requires careful operational planning and prioritisation. This planning process is formalised as a Corporate Business Plan which operates on a rolling four-year basis.

8.4 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 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.

8.5 Workforce and Other Strategic Plans

The Workforce Plan and other strategic plans integrate with the Strategic Resource Plan through the workforce requirement for assets and financial resources along with the requirements for a workforce to manage the Shire’s assets and financial resources. As far as possible, these requirements are met in the Plan.

The Shire’s Workforce Plan has been considered in the development of this Strategic Resource Plan. No financial impacts are expected from the Workforce Plan with employee costs forecast to rise in line with forecast inflation at 2%.

¹ Department of Local Government, Sport and Cultural Industries, Integrated Planning and Reporting: Framework and Guidelines, September 2016

9.0 RISK MANAGEMENT

9.1 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 Officer/Executive Managers to ensure the level is adequate to protect the Shire's assets. The Shire's insurer is LGIS.

The Financial Management Regulations require 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.

9.2 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.

9.3 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.

10.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY

10.1 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 3%, being 1% higher than forecast inflation rate of 2%. | Low | 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. | High | ± \$28,446 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. | High | ± \$156,730 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 1.5% 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. |

10.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (CONTINUED)

10.2 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 | ± \$541,005 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 the estimated useful lives on individual assets. | 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. |

10.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (CONTINUED)

10.3 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 | ±\$727,603 to the value of property, plant and equipment per 1% movement in the value over the life of the Plan. ±\$2,159,639 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 | ±\$156,730 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. |

10.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (CONTINUED)

10.4 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. |

10.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (CONTINUED)

10.5 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 | ±\$727,603 to the value of property, plant and equipment per 1% movement in the value over the life of the Plan. ±\$2,159,639 to the value of infrastructure assets per 1% movement in the value over the life of the Plan. |

10.6

10.0 ASSUMPTIONS, RISKS, UNCERTAINTIES AND SENSITIVITY (CONTINUED)

10.7 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 | ± \$1,627,101 to operating revenue per 1% movement in the inflators over the life of the Plan. ± \$1,717,910 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 remain stable in the short term with a corresponding stability 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 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. |

11.0 MONITORING AND PERFORMANCE

11.1 Monitoring

The Plan will be the subject of a desktop review each year to consider 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.

11.2 Ratio Targets

A series of performance indicators, in the form of financial ratios set out in the table below, 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*.

The Department's Advisory Standard also provides target levels for each of the ratios.

| Ratio | Calculation | Indication | Minimum Target |
|-----------------------------------|---|---|----------------|
| Current Ratio | $\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets minus current liabilities associated with long term borrowings}}$ | A measure of the Shire's immediate liquidity and the capacity to meet short term financial obligations from unrestricted current assets. | 1. |
| Operating Surplus Ratio | $\frac{\text{operating revenue minus operating expense}}{\text{own source operating revenue}}$ | A measure of the extent to which own source revenues raised cover operational expenses. | 1% |
| Own Source Revenue Coverage Ratio | $\frac{\text{own source operating revenue}}{\text{operating expense}}$ | A measure of the extent of the Shire's ability to cover costs using only discretionary revenue. | 40% |
| Debt Service Coverage Ratio | $\frac{\text{Annual operating surplus before interest and depreciation}}{\text{principal and interest}}$ | A measure of the extent of the Shire's capacity to generate sufficient cash to cover debt payments. | 3 |
| Asset Consumption Ratio | $\frac{\text{depreciated replacement cost of assets}}{\text{current replacement cost of depreciation assets}}$ | A measure of the aged condition of the Shire's physical assets. | 50% |
| Asset Sustainability Ratio | $\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expense}}$ | A measure of the extent to which assets managed by the Shire are being replaced as they reach the end of their useful lives. | 90% |
| Asset Renewal Funding Ratio | $\frac{\text{NPV of planned capital renewals over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$ | The Shire's financial capacity to fund asset renewal to support existing service levels. (This ratio is based on the ten years forecast expenditure and as such is only able to be calculated of the first five years of the Plan). | 75% |

12.0 IMPROVEMENT PLAN

12.1 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 were defined within the previous Asset Management Plan. No systems are currently in place 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: 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. Constant review and improvement to these forecasts is likely to result in improved planning outcomes.

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 a number of improvement actions as per the Asset Management Improvement Plan, some key improvement actions resulting from this Strategic Resourcing Plan are to:

- 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.