Shire of Nannup

rest • connect • grow

We are a unique town that role models sustainability, friendliness, taking the time to celebrate our heritage and festivals.
We are surrounded by amazing nature, with charming historic and built fabric.
Our leaders provide for and listen to all of us.

Long Term Financial Plan

2017 – 2027

This plan is available online at:

www.nannup.wa.gov.au

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EXECUTIVE SUMMARY

The Shire of Nannup has a history of prudent financial management and of making difficult decisions when the need arises; it therefore benefits from a sound financial base.

Capital resources are limited by the level of available capital grants available and the capital program is structured to deliver projects within the resources available without resorting to borrowing. It is anticipated that this program will come under pressure as resources decline and the decision will have to be taken on whether borrowing is necessary to meet the Council's priorities.

Total spending in 2015/16 was approximately $9.2 million, with almost $2.7 million being devoted to capital projects, and $1.7 million dedicated to property, plant & equipment. A large portion of Council's income, approximately $2.3 million, is in the form of capital grants. Other operating revenue streams include revenue grants of $1.4 million, rate income of $1.47 million and fees and charges for services are approximately $370,000.

The reliance on capital grants means that as these grants decline increasing pressure will be put on other income streams, primarily rate income, to fund the shortfall. This situation arises because the capital grants are making a contribution to the council's fixed overheads and other operational costs that will remain once the grant income has gone. Council's net operational expenditure is almost $3 million, with funding from rates accounting for $1.47 million of this and the remainder coming from fees and charges, operating grants and capital grant funding.

The rate requirement for 2016/17 is currently $1,509,754 and this has been modelled forward over the 10 year planning horizon so that the rate yield funds the expenditure remaining after all other income sources have been applied.

Rate income will always be required to cover funding shortfall from other revenue streams. This will always represent a challenge to local government. The need to fund all operational activities while ensuring rate rises remain at a level palatable to the community.

Due to inconsistencies within capital grant expectations there are anticipated fluctuations to the rate requirement within the next 10 year period. Current modelling reflects the possibility of greater rate increases than those favoured by Council. With this in mind careful observation and mitigation will be instigated wherever possible to smooth out these larger rate increases currently anticipated.

1.0 WHY ARE WE DOING THIS?

The West Australian State Government requires all local governments to develop an integrated planning and reporting framework. The elements of the framework were implemented on 1 July 2013. The Long Term Financial Plan (LTFP) was been prepared as part of this framework and is one of the Informing Strategies that underpin the key documents.

The LTFP has been designed as a flexible planning tool to aid the Council's decision making in facing the financial demands placed upon it over the next 10 years. It is reviewed annually to continuously inform other strategic plans and the annual budget.

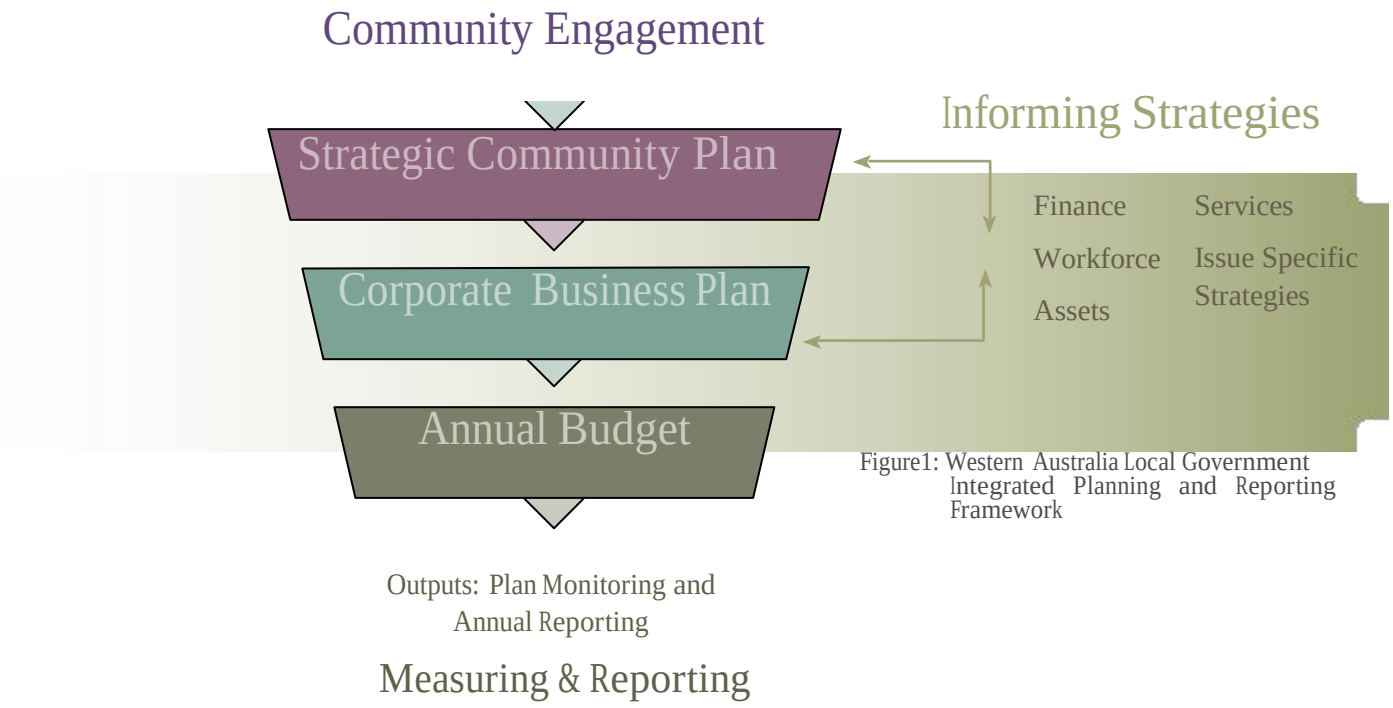


Figure1: Western Australia Local Government Integrated Planning and Reporting Framework

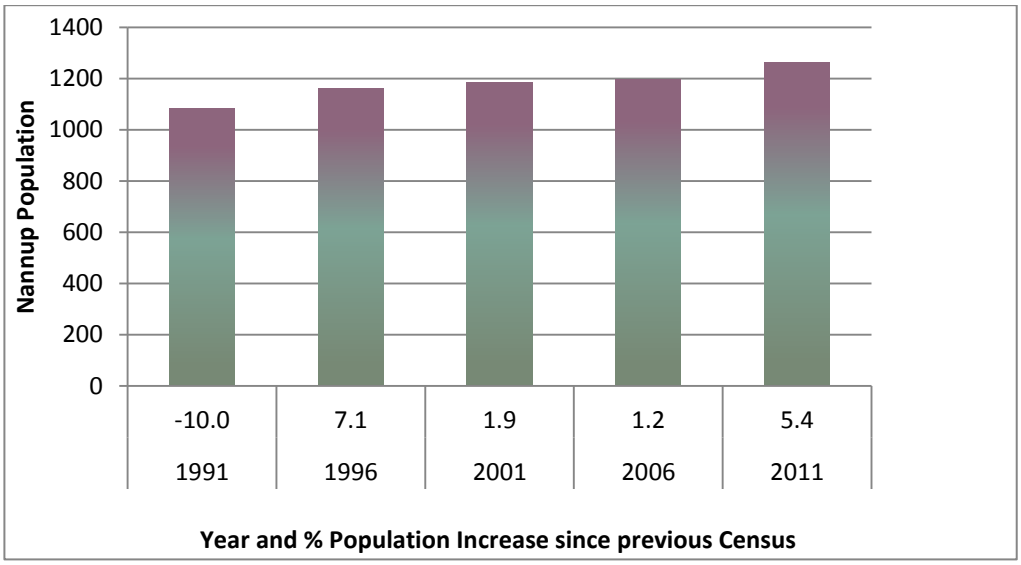
1.1 ABOUT US

Nannup is situated 288km south of Perth, and is geographically in the centre of the South West. The Shire of Nannup covers over 3,000 square kilometres, with a total population of 1,262 (2011 Census). Eighty-five percent of the Shire is under forest, however the rich soils, high rainfall and an excellent climate also provides ideal conditions for farming. Environment and heritage play a large role in the community's culture. Nannup boasts a variety of successful industries including beef cattle, horticulture, tourism, arts and crafts, floriculture, aquaculture, viticulture and timber processing.

With National Parks and State Forest being a prominent feature in the Shire, it makes us a significant tourist attraction for the region and is popular with outdoor adventure enthusiasts. Nannup hosts several significant local events including the Nannup Music Festival, Flower and Garden Festival, and Forest Car Rally.

The population is spread throughout the Shire district with about half of the population residing in the Nannup town site.

More recent data relating to population growth, industries etc. will be included within the results of the Census 2016. This data is anticipated to be available by the end of June 2017. It is therefore anticipated that the revision to include this data will be used within the 2018 review of this document.



People	Home Life	Working Life
Population: 1262 Median Age: 49 Average Children per family: 1.8	Median Weekly Household Income: $821 Median Weekly house rent: $116.00	People >15 years in the workforce: 620 <u>Top five industries</u> Agriculture 13.6% Timber 7.3% Education 6.1% Accommodation 4.1% Volunteers, (unpaid): 32.5%

Based on the 2011 census

1.2 COMMUNITY STATEMENT

"We are a unique town that role models sustainability, friendliness, taking the time to celebrate our heritage and festivals. We are surrounded by amazing nature, with charming historic and built fabric. Our leaders provide for and listen to all of us."

1.3 LINKAGE TO SHIRE OF NANNUP'S STRATEGIC PLANS

The Long Term Financial Plan is one component of a number of integrated strategic planning practices the council has developed in response to the West Australian State Government's Integrated Planning Framework.

The plan influences and has been prepared after taking account of financial issues arising from other Council plans and strategies, in particular:

- Strategic Community Plan
- Corporate Business Plan
- Asset Management Plan
- Workforce Plan

The Strategic Community Plan expresses the community's vision and priorities for the next ten years and beyond. The plan establishes priorities and aligns them with operational functions. It also supports improved services and outcomes for the community and will continue to evolve to support the needs of our community.

The Shire of Nannup's Corporate Business Plan 2017-2021 uses the Community Plan to Identify and prioritise the principal strategies and activities that Council will undertake in response to the aspirations and objectives stated in the Community Plan. It sets out in greater detail the resources required to deliver our priorities set out the direction and specific actions for our organisation through the communities priorities for the next four years.

The Asset Management Plan sets out Council's overall approach to asset management. The plan, and the linked Asset Improvement Strategy, sit below the Community Strategic Plan and inform the Long Term Financial Plan. Together, these documents will inform the annual budget.

1.4 OBJECTIVES

The Long Term Financial Plan is linked to and underpins Council's priorities as set out in the Corporate Business Plan; it has four main objectives:

To enable the long term planning of the delivery of Council's strategic vision, its corporate priorities and objectives;

- To secure a continual and sustainable level of reserves which will underpin Council's financial standing;
- To support the required level of capital investment to meet Council's strategic requirements; and
- To manage spending within affordable net expenditure levels, to avoid major in year variances and to give a greater certainty of outturn.

Objective 1

Council's strategic vision, its corporate priorities and objectives are set out in the Strategic Community Plan and the Corporate Business Plan. The Corporate Business Plan identifies the financial resource requirement needed to deliver Council's service objectives, thus providing a direct thread from the corporate vision to annual service budgets, ensuring that Council's budget setting process is informed by its priorities.

Objective 2

Reserves are the principle mechanism that Council uses to save for the future and to protect itself from financial shocks. The Long Term Financial Plan assesses the spending requirements over a 10 year planning horizon and maps the reserve contributions required to maintain Council's operations.

Objective 3

Council has a well-developed financial management framework both to develop budgets and to manage those budgets during the financial year. This is supported by robust monitoring arrangements carried out by service managers and monthly reporting to Council.

2.0 METHODOLOGY USED

The plan is underpinned by a financial model that can be updated and enables 'what if' testing for various future scenarios; including the impact on cash flow of use of reserves and capital spending. The model is designed to estimate the rate increases that would be required to fully meet Council's expenditure plans over the next 10 years. These estimates are then used to develop an investment/savings strategy to bring the rate increase to a level that meets community expectations.

2.1 ASSUMPTIONS

A range of assumptions have been made in developing the financial model underpinning the Long Term Financial Plan:

- Estimates of inflation have been used to model Council's income and expenditure. Different rates are used for different classes. A general level of 2% for CPI has been assumed, which reflects the long term intention of the Federal Government.
- Interest rates are based upon a long term estimate of 1.5%.
- Population growth and the consequent growth in the rate base are assumed to be stable over the life of the plan. This is a conservative assumption as any growth is likely to be upward.
- Service delivery levels reflect the aspirations as set out in the Strategic Community Plan.
- With the exception of specific projects and Commodity Route funding all external grant sources are assumed to continue over the life of the plan with a modest increase to reflect CPI.
- Borrowing requirements reflect Council's current loan portfolio and no new borrowings are assumed over the life of the plan.
- Known changes to costs and funding levels (such as the planned increase in employer superannuation contributions) have been built into the planning model.

2.2 FINANCIAL STRATEGIES

The Long Term Financial Plan incorporates a number of financial strategies that underpin the forward projections.

Balanced Budget

The projections assume a balanced budget position throughout the life of the plan. This means that each year will be fully funded with expenditure matching exactly the income available; there is no allowance made for rates to be higher or lower than required to meet the financial obligations of Council.

The balanced budget model also implies that expenditure and income budgets will be fully utilised in each year, with no budget carry forwards applied. Whilst this might not be achievable in practice it does allow a simplification of the modelling process and does not materially affect the results of the model.

Reserves

Council has a strategy of funding long term commitments and cyclical expenditure from established reserves. This policy allows uneven expenditure patterns for items such as the replacement of major plant and equipment, to be smoothed over the period, thus reducing the variability of the rate demand.

Debt

Council currently has one outstanding loan, which is a self-supporting loan that has no net effect on its operational expenditure. No allowance has been made in the projections for further loan debt.

Asset Management

The Long Term Financial Plan models the data projected in the Asset Management Plan. The capital program reflects the investment profile or assets as set out in the Asset Management Plan and funds this investment profile over the 10 year planning horizon by making suitable contributions to the Asset Management Reserve.

2.3 RISK MANAGEMENT & SENSITIVITY ANALYSIS

The purpose of risk management is to develop a culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. It also is designed to reduce the potential cost of risk by reducing liability, preventing litigation and improving loss control. Risk management is a key process in developing the strategic direction of Council.

Nannup Shire Council is committed to managing risk in the Shire and will implement the AS/NZ 4360 Standard as the minimum standard.

The risk assessment process identifies credible risks, the likelihood of the risk event occurring, the consequences should the event occur, developing a risk rating, evaluating the risk and developing a risk treatment plan for unacceptable risks. Critical risks, being those assessed as 'High'- require immediate corrective action.

Risk will be managed by systematically applying policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

An assessment of the risks associated with the issues addressed in the Long Term Financial Plan is set out below. The impact of assumptions on issues identified as carrying a high risk have been disclosed along with the sensitivity of movements in those assumptions on the forecasts contained within this plan. Those assumptions with a high level of uncertainty and high values represent areas where there is a high risk of unexpected and detrimental consequences.

Risk	Sensitivity	Probability	Impact	Risk Treatment Plan
Population growth: Population growth is not constant	1% movement in the base would generate $15,000	Medium	Low	Projections assume constant base. Any upward movement would be beneficial.
Operating Grants: Operating grants could be reduced by the State Government	1% movement in operating grants is equivalent to $13,000	Low	Low	Financial Assistance Grants have been frozen for the past 3 years. It is uncertain when this freeze will be lifted.
Non-Operating Grants: Non-Operating grants could be reduced by the State Government	1% movement in non-operating grants is equivalent to $13,000	Medium	Low	Non-operating grants are tied to capital expenditure. Capital projects will not be included unless capital funding is secured.
Fees & Charges: Fees and charges may not achieve the levels in the plan	1% movement in fees & charges is equivalent to $3,400	Medium	Low	Fees and charges have been modelled with a conservative increase based on long term inflation expectations.
Interest Received: Interest income could fall as rates reduce and grant income declines	Interest income equates to $28,000 in 2015/16. 1% fall would be around $2,800	High	Med	The plan models a 14% reduction in investment income in year 1. This could decline further and the plan will be updated to reflect expected trends.
Employee costs: Employee costs could rise at a greater extent than modelled.	1% movement equivalent to $17,000	Low	Med	An annual review into employee costs should mean this movement is not an issue.
Other Expenditure	1% movement equivalent to $19,000	Medium	Med	Other operating costs have been modelled with a conservative increase based on long term inflation expectations.
Asset Renewal: The asset renewal estimates could be underestimated	The Asset Management Plan show a net investment requirement of $978K over the next 10 years	Medium	Med	A higher than anticipated investment requirement would be met by either an increase in the annual contribution to the Asset Management Reserve or a re-profiling of the investment program.

3.0 EXTERNAL TRENDS

The 2017/18 Federal Budget (the budget), released on 9 May 2017, has been delivered with a strong economic outlook. The economic growth forecast for 2017/18 has been predicted to grow by 2.75%, and pick up by 3% in 2018/19. Within the current Federal Budget there are modest inclusions for local governments overall which should see increased spending in infrastructure and general spending.

Financial Assistance Grants (FAGs) support general council spending, in 2014 the Australian Federal Government announced a suspension on any increase of this funding in line with indexation with this freeze scheduled to last for three years. Within the budget announced May 2017, the Australian Federal

Government has indicated that FAGs will return to include increases in line with indexation from July 1, 2017 onwards. While this inclusion is viewed as good news the reality is that there is still a way to go in terms of recovery from the three year freeze which has permanently reduced the base level of the FAGs. It is estimated that the freeze on indexation has cost local communities in the vicinity of $600 million Australia wide with the biggest losses sustained in smaller rural communities. For Nannup this loss is estimated to be in the vicinity of $134,000 which in present day terms equates to an 8.45% rate requirement. It is currently not known what this return to indexation will mean to the FAGs income received for the Shire of Nannup. Built into the model is an annual indexation of 2% adjusted as required to ensure that within each financial year the rate income required will ensure that all expenditure is covered.

The Roads to Recovery program helps to fund capital expenditure on Council's road network and funding is broadly consistent with forward estimates from previous Budgets. Western Australia is expected to receive $166 million in 2017/18, of which Nannup is expected to receive $441,000.

The Australian economy forecast continues to perform strongly compared to the rest of the developed world. CPI increase Year on Year (YoY) up to the March 2017 quarter was 2.1% which was slightly below the market expectations of 2.2% but much higher than seen in the previous quarter of 1.5%. The main driver of this increase was the cost of fuel which experienced a 5.7% increase. This increase is relevant to local government in that fuel costs associated with our Transport Schedule remains a high cost factor for inclusion in the annual budget.[1]

The Local Government Cost Index, which measures a basket of goods more typically procured by councils, estimates that here will be an increase of 1.0% YoY within 2017/18 as at February 2017.[2] Actual figures are yet to be released and are expected by the end of May 2017. Of particular concern for local government was the alert that local governments need to be prepared for the possibility of changes to State funding, or cost shifting as programs and services are cut or reduced. To date this has resulted in a cut of transport licencing concessions which has resulted in an annual increase of $30,000 anticipated in expenses from the 2017/18 budget forward. This equates to a 2% increase in rates levied.

Interest rates continue to fall and this will affect the council's income from investments. Interest is earned on money held from annual rate payments and from capital grants received. Should the current forecast of grant income being reduced overall, this will impact on this revenue stream into the future.

[1] http://www.watc.wa.gov.au/home/economic-services/economic-analysis/economic-indicators/consumer-price-index/march-quarter-2017.pdf

[2] http://walga.asn.au/getattachment/News,-Events-and-Publications/Publications/Local-Government-Economic-Briefing/Federal-Budget-Update-2017.pdf.aspx

3.2 NANNUP'S BUDGET

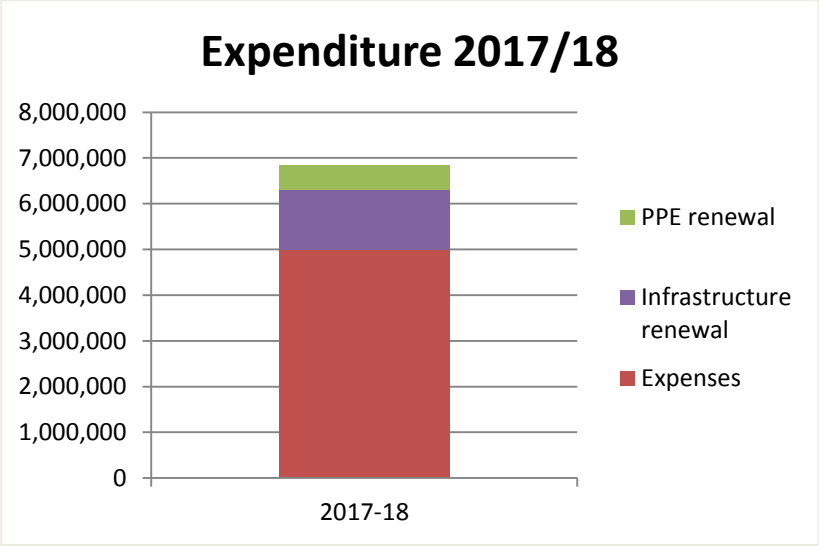


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Figure 1: Total Expenditure 2016/17

Total spending in 2017/18 as per the adopted Annual Budget is expected to be approximately $8.15 million, with almost $1.5 million being devoted to capital projects, and approximately $400,000 dedicated to property, plant & equipment. The majority of the council's income, approximately $3 million, is in the form of grants. This is made up of $1.4m non-operating grants and $1.6m in operating grants. Other revenue streams include rate income of $1.6 million; Fees and charges $370,000; and interest earnings of $40K. Total revenue and expenditure streams are shown in the graphs below:

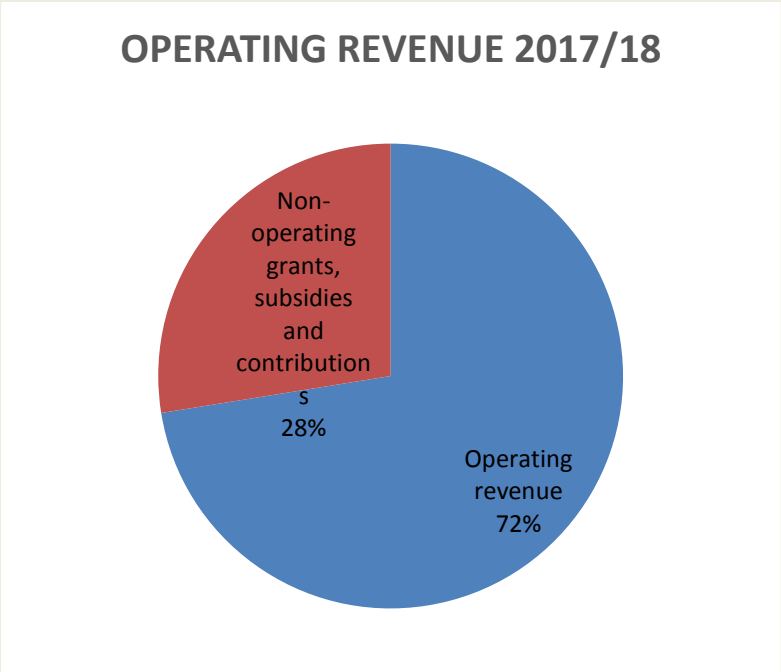

Figure 2: Total Income 2016/17

The employee budget is a major component of the Council's finances. Increases within this area of spending within this model reflect a CPI Increase for all employees. Further increases to Employee costs may occur as a result of any statutory increase in employer superannuation contributions; employer contributions as at 2017/18 are at the present rate of 9.50% of ordinary hours worked.

Council's total income for the 2016/17 financial year was budgeted for $4.8 million; of this 1.9 million was classes as operating income and $975k as capital grant funding. Of the operating income $1.95 million was from own source revenue. This is made up of rates revenue of $1.5 million and income from fees and charges of approximately $450,000.

For the Shire of Nannup, the remaining income is in the securing of capital grants. This reliance on capital grants means that as grant funding declines there is increasing pressure put on other income streams, primarily rate income, to fund the shortfall. This is as a result of several factors:

- Firstly, capital projects that include an element of employee labour and plant hire also contain a portion of overheads attached to these elements. Employee costs remain after the project is completed and the overhead component previously allocated to the capital project needs to be covered by another source of revenue. As a general rule this source is primarily rate revenue.
- Secondly, capital funding allows Council to take on projects that would be unattainable without the support of external funding. Our main street upgrade and the building of the Recreational function room are two prime examples. If funding is not available the ability to refurbish or increase the level of infrastructure assets recedes and capital projects cannot be taken on. This can lead to community frustrations that the service levels they would like to see within the community are not possible.

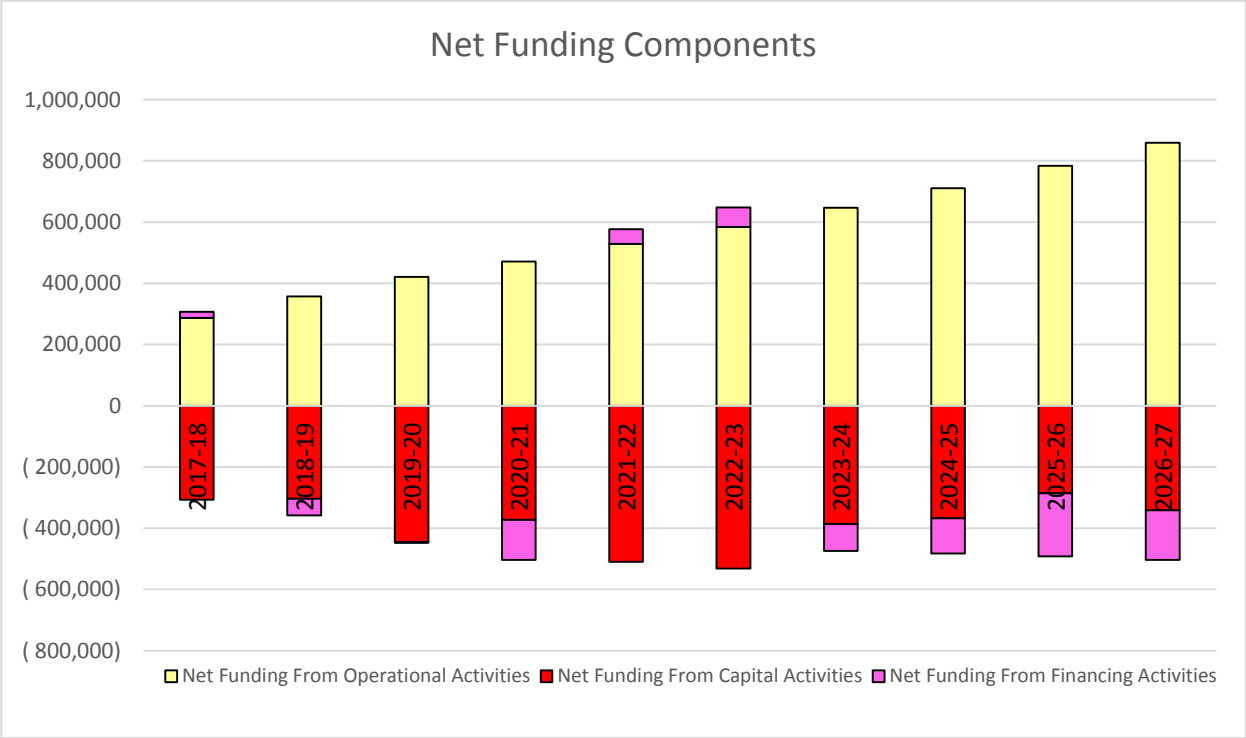

Figure 3: Net Funding Component

Figure 3 – Net funding components shows that in base year of 2017/18 once all operational expenses are been accounted for there remains a surplus which together with our investments (Reserve funds) can be used for renewal and regeneration. However from 2018/19 onwards this trend retracts with the outcome being that we will need to review how our capital program is covered. Mitigation of this will most likely be through one of three options or a combination of the three:

1. Reduce the capital spend
2. Reduce the contributions of reserves consumed and made
3. Increase the surplus from operating activities i.e. increase rates.

In anticipation of this, Council is currently considering an infrastructure asset reserve contribution for the 2017/18 budget to be used to offset predicted expenditure in future years.

Council maintains a number of reserves set up for specific purposes. The table in Appendix 1 details the reserve position as reflected in the Long Term Financial Plan and the purpose for which each reserve is maintained. Current modelling suggests that the reserves are adequate to meet the future needs of the Council and are anticipated to have sufficient funds to meet expected expenditure over the next 10 years.

3.3 FORWARD PROJECTIONS

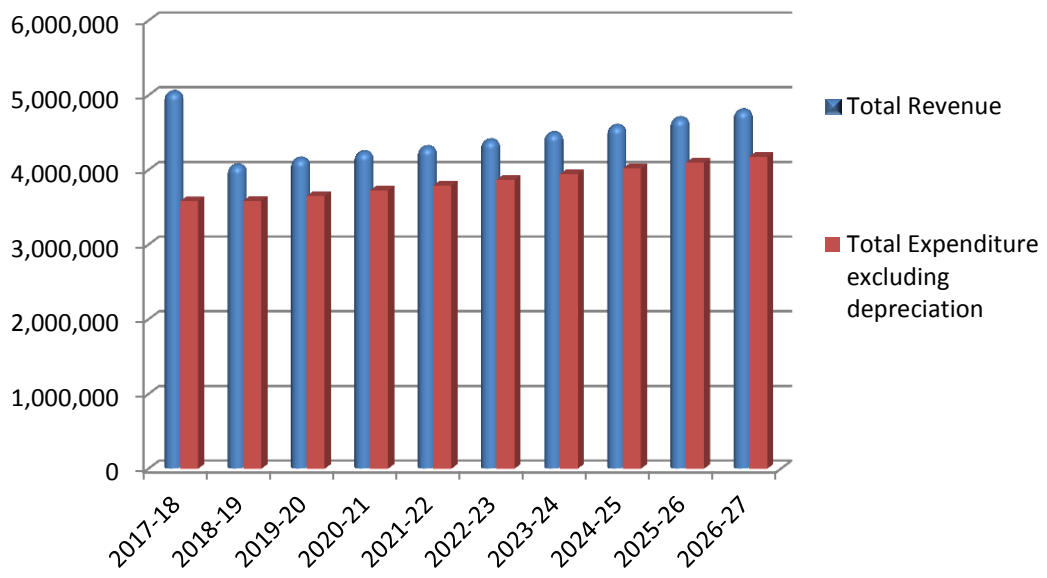

Figure 4: Revenue v Operating Expenditure

The net budget for next ten years is anticipated to cover expenses relating to the operating expenditure. This is shown within Figure 4 above. However the reality is that the above graph, while showing that revenue exceeds operating expenditure, does not account for the capital expenditure. This area of expenditure relates to the maintenance and construction of our roads, bridges, buildings and plant. To a degree these assets are covered within the various reserves currently in place however there is to date no reserve in place for our road related infrastructure spend. Unfortunately should capital grants not be available to cover costs associated with these infrastructure assets then as explained earlier this shortfall will need to be recovered by other means or service levels currently in place reduced to a point where revenue can cover expenditure.

As at modelling completed to date for the next ten years this is likely to result in years where rate increases exceed the preferred 4% that Council has indicated is tolerable. This modelling will continue on a yearly basis and wherever possible increases will be smoothed to the best of Council's ability.

The council's forecast capital program includes the following major projects:

- Heart of Nannup –Stage 3 of the Main Street Redevelopment – 2017/18
- Bridgework program – works to bridges in the Shire funded by Main Roads Australia
- Local road construction program
- Resealing of the local road network
- Footpath program – provision of new footpaths in the Nannup townsite
- Refurbishment of fire sheds
- Construction of a waste transfer station at the Nannup Waste and Recycling Facility

- Major plant renewals
- Office equipment and plant renewals
- Building renewals as identified within the Asset Management plan

As disclosed in the Financial Strategies in Section 2.2, Council does not at this time anticipate further borrowing to fund its capital commitments. Details of anticipated borrowing costs are shown in Appendix 3.

Year	Rate Requirement $	Increase Annual %	Increase Cumulative %
2016/17	1,509,754		
2017/18	1,582,036	4.78%	4.78%
2018/19	1,645,317	4.00%	8.78%
2019/20	1,711,130	4.00%	12.78%
2020/21	1,779,575	4.00%	16.78%
2021/22	1,850,758	4.00%	20.78%
2022/23	1,924,788	4.00%	24.78%
2023/24	2,001,780	4.00%	28.78%
2024/25	2,081,851	4.00%	32.78%
2025/26	2,165,125	4.00%	36.78%
2026/27	2,251,730	4.00%	40.78%

The rate requirement levied for 2016/17 was $1,509,753 and this has been modelled forward over the 10 year planning horizon to include as close as possible a 4% rate yield increase. While this rate increase is considered to be palatable for the community, care will need to be taken to model what the impact will be on future service levels achievable if the predicted capital income is received. As shown within Figure 3, modelling using the rate increase of 4% per annum at this point in time shows a shortfall between the capital works expenditure and capital income receivable. Should these modelling scenarios occur Council will be required to either adjust service levels to a more attainable level, source alternative funding i.e. source loan funding or increase rate revenue above the 4% shown within the table above.

As with previous long term financial planning, work will also be undertaken to smooth this increase over future years.

4.0 MONITORING AND PERFORMANCE

Identifying measures to mitigate projected rate increases will remain the main focus of each financial year and will include an annual review of the Long Term Financial Plan. Typically, there will be four strands to this work:

1. Reducing the cost base by identifying efficiencies
2. Achieving economies of scale by working with others
3. Increasing other income streams
4. Reducing service levels

The plan will be the subject of annual monitoring and updating to ensure that it remains a useful document to inform the annual budget and other plans. Typically this review will occur within January of each year to allow Council to review planned work for the upcoming budgetary process in line with grants anticipated. Early revision will allow the updated projects to inform the budget for the following financial year and commentary from the plan can form part of the annual budget review.

4.1 FINANCIAL RATIOS

Seven performance indicators, in the form of financial ratios, have been specified by the Department for Local Government in Regulation 50 of the Local Government (Financial Management) Regulations 1996. The Department has also set target levels for these ratios.

The projected ratios are shown in the table below:

Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
	$	$	$	$	$	$	$	$	$	$	$
Current Ratio	1.6	2.60	2.45	2.15	1.79	1.52	1.28	1.25	1.06	1.15	1.07
Operating Surplus Ratio	-1.25	-1.3	-1.25	-1.21	-1.19	-1.18	-1.16	-1.13	-1.11	-1.08	-1.06
Own Source Revenue Coverage Ratio	0.18	0.32	0.33	0.34	0.34	0.35	0.35	0.36	0.36	0.37	0.38
Debt Service Cover Ratio	0	3.22	7.12	9.12	12.05	0	0	0	0	0	0
Asset Sustainability Ratio	0.65	0.67	0.23	0.28	0.29	0.29	0.25	0.23	0.26	0.2	0.23
Asset Consumption Ratio	0.73	0.71	0.7	0.69	0.67	0.66	0.635	0.63	0.62	0.6	0.59
Asset Renewal Funding Ratio	1	1	1	1	1	1	1	1	1	1	1

Current Ratio

$$\frac{\text{Current assets minus restricted assets}}{\text{Current liabilities minus liabilities associated with restricted assets}}$$

A measure of the council's immediate liquidity and the capacity to meet short term financial obligations from unrestricted current assets.

Target – greater than or equal to 1:1

With this ratio comfortably above the benchmark it demonstrates that the council will maintain a suitable level of liquid funds over the period of the plan.

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.

Target – between 0% and 15%

This ratio demonstrates the council's reliance on external sources of funding to cover its operating expenditure. While the ratio starts to improve after the cessation of capital grant contributions it continues to reflect the council's dependence on Financial Assistance Grants to fund its spending programs.

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.

Target –less than 0.9

This ratio demonstrates the council's reliance on external sources of funding to cover its operating expenditure. While the ratio starts to improve after the cessation of capital grant contributions it continues to reflect the council's dependence on Financial Assistance Grants to fund its spending programs.

Debt Service Coverage Ratio

$$\frac{\text{Annual operating surplus before interest and depreciation}}{\text{Principal and interest}}$$

A measure of the Shire's capacity to generate sufficient cash to cover debt payments.

Target – greater than or equal to 2

This ratio shows that Council can comfortably cover all debt outstanding. As at 2020/2021 there is currently no debt that will require repayment as loans outstanding will have been paid in full.

Asset Consumption Ratio

$$\frac{\text{Depreciated replacement cost of assets}}{\text{Current replacement cost of depreciable assets}}$$

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

Target – Between 50% and 75%

This ratio suggests that current level of investment is adequate to maintain assets and to preserve their service levels.

Asset Sustainability Ratio

$$\frac{\text{Capital renewal and replacement expenditure}}{\text{Depreciation expense}}$$

A measure of the aged condition of the council's physical assets.

Target – Between 90% and 100%

With the withdrawal of Commodity Routes funding this ratio has declined to within a 60 – 70% ratio. The reason for this is that there is no funding program to maintain disposable assets but these assets will continue to attract a depreciation charge.

Asset Renewal Funding Ratio

$$\frac{\text{NPV of planned capital renewals over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$$

The council's financial capacity to fund asset renewal to support existing service levels.

Target – between 75% and 95%

This ratio sits in the mid-range of expectations. The value represents the intention of the Council to continue to ensure that the funding requirements for asset renewal are met.

5.0 FINANCIAL STATEMENTS

Forecast financial statements have been prepared in accordance with the guidance on long term financial planning issued by the Department for Local Government. These statements are set out in Appendix 4.

Statement of Comprehensive Income

Often referred to as the operating statement, it shows the revenues and expenses over the periods, broken down into the nature and type of income and expenditure, to disclose a net result.

Statement of Financial Position

More commonly referred to as the Balance Sheet, this statement discloses the forecast changes in the balance of assets and liability accounts over the periods.

Statement of Cash Flows

Represents the forecast cash inflows and outflows and discloses the balance of cash over the period.

Rate Setting Statement

Represents the calculation of the rates required to fund the budget.

6.0 OTHER INFORMATION

In line with guidance issued by the Department for Local Government the accounting policies used in compiling these statements are disclosed in Appendix 5.

7.0 ABOUT THIS DOCUMENT

Effective From:	1 July 2017
Expires on:	30 June 2027
Next Review:	2020
Adopted by Council:	22 day of June 2017

8.0 APPENDICES

APPENDIX 1 – FORECAST RESERVES

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	$	$	$	$	$	$	$	$	$	$
Long Service Leave										
Opening Balance	207,126	215,733	224,469	233,336	242,336	251,471	260,743	270,154	279,706	289,402
Contributions to reserve	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Interest Earnings	3,107	3,236	3,367	3,500	3,635	3,772	3,911	4,052	4,196	4,341
Contributions from reserve	-19,500	-19,500	-19,500	-19,500	-19,500	-19,500	-19,500	-19,500	-19,500	-19,500
Closing Balance	215,733	224,469	233,336	242,336	251,471	260,743	270,154	279,706	289,402	299,243
Plant Reserve										
Opening Balance	380,463	401,170	405,688	302,908	268,661	197,517	152,371	191,765	146,122	322,630
Contributions to reserve	149,000	154,500	159,135	214,909	168,826	173,891	179,108	184,481	190,016	195,716
Interest Earnings	5,707	6,393	6,466	4,930	4,422	3,361	2,690	3,287	2,608	5,262
Contributions from reserve	-134,000	-156,000	-268,000	-253,700	-244,000	-222,000	-142,000	-233,000	-15,700	-224,000
Closing Balance	401,170	405,688	302,908	268,661	197,517	152,371	191,765	146,122	322,630	299,185
Recreation Centre Reserve										
Opening Balance	529	537	545	553	561	569	578	587	596	605
Contributions to reserve										
Interest Earnings	8	8	8	8	8	9	9	9	9	9
Contributions from reserve										
Closing Balance	537	545	553	561	569	578	587	596	605	614

Community Bus Reserve

Opening Balance	5,000	10,075	15,226	20,454	25,761	31,147	36,614	42,163	47,795	53,512
Contributions to reserve	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Interest Earnings	75	151	228	307	386	467	549	632	717	803
Contributions from reserve										
Closing Balance	10,075	15,226	20,454	25,761	31,147	36,614	42,163	47,795	53,512	59,315

Office Equipment Fund

Opening Balance	66,817	58,923	55,260	59,315	64,418	55,897	49,961	57,923	67,005	70,023
Contributions to reserve	15,000	16,000	17,000	18,000	19,000	20,000	21,000	22,000	23,000	24,000
Interest Earnings										
Contributions from reserve	-23,896	-20,547	-13,774	-13,787	-28,487	-26,774	-13,787	-13,787	-20,987	-12,197
Closing Balance	58,923	55,260	59,315	64,418	55,897	49,961	57,923	67,005	70,023	82,876

Main Street Upgrade Reserve

Opening Balance	64,000	0	0	0	0	0	0	0	0	0
Contributions to reserve										
Interest Earnings										
Contributions from reserve	-64,000									
Closing Balance	0	0	0	0	0	0	0	0	0	0

Landfill Site Reserve

Opening Balance	72,440	93,527	114,930	136,654	158,704	181,085	203,801	226,858	250,261	274,015
Contributions to reserve	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Interest Earnings		1,087	1,403	1,724	2,050	2,381	2,716	3,057	3,403	3,754
Contributions from reserve										
Closing Balance	93,527	114,930	136,654	158,704	181,085	203,801	226,858	250,261	274,015	298,125

Gravel-Pit Reserve

Opening Balance	60,292	81,196	102,414	123,950	145,809	167,996	190,516	213,374	236,575	260,124
Contributions to reserve	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Interest Earnings	904	1,218	1,536	1,859	2,187	2,520	2,858	3,201	3,549	3,902
Contributions from reserve										
Closing Balance	81,196	102,414	123,950	145,809	167,996	190,516	213,374	236,575	260,124	284,026

Emergency Management Reserve

Opening Balance	55,381	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Contributions to reserve										
Interest Earnings	831	843	856	869	882	895	908	922	936	950
Contributions from reserve										
Closing Balance	56,212	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000

Infrastructure Asset Reserve

Opening Balance	51,461	77,233	28,391	28,817	29,249	29,688	30,133	30,585	31,044	31,510
Contributions to reserve	25,000									
Interest Earnings	772	1,158	426	432	439	445	452	459	466	473
Contributions from reserve		-50,000								
Closing Balance	77,233	28,391	28,817	29,249	29,688	30,133	30,585	31,044	31,510	31,983

Aged Housing Reserve

Opening Balance	22,157	22,489	22,826	23,168	23,516	23,869	24,227	24,590	24,959	25,333
Contributions to reserve										
Interest Earnings	332	337	342	348	353	358	363	369	374	380
Contributions from reserve										
Closing Balance	22,489	22,826	23,168	23,516	23,869	24,227	24,590	24,959	25,333	25,713

Asset Management Reserve										
Opening Balance	531,838	480,816	525,528	565,411	665,892	636,880	562,933	541,377	629,498	591,940
Contributions to reserve	89,000	90,000	91,000	92,000	93,000	94,000	95,000	96,000	97,000	98,000
Interest Earnings	6,175	7,212	7,883	8,481	9,988	9,553	8,444	8,121	9,442	8,879
Contributions from reserve	-148,000	-52,500	-59,000		-132,000	-177,500	-125,000	-16,000	-144,000	
Closing Balance	480,816	525,528	565,411	665,892	636,880	562,933	541,377	629,498	591,940	698,819

Aged Housing Reserve										
Opening Balance	22,157	22,489	22,826	23,168	23,516	23,869	24,227	24,590	24,959	25,333
Contributions to reserve										
Interest Earnings	332	337	342	348	353	358	363	369	374	380
Contributions from reserve										
Closing Balance	22,489	22,826	23,168	23,516	23,869	24,227	24,590	24,959	25,333	25,713

Total Reserves										
Opening Balance	1,517,504	1,497,911	1,552,332	1,552,477	1,683,687	1,635,781	1,572,434	1,660,841	1,775,948	1,982,417
Interest Earnings	21,803	22,468	23,284	23,288	25,255	24,536	23,586	24,913	26,640	29,736
Contributions to/(from)reserve	(41,396)	31,953	(23,139)	107,922	(73,161)	(87,883)	64,821	90,194	179,829	132,019
Closing Balance	**1,497,911**	**1,552,332**	**1,552,477**	**1,683,687**	**1,635,781**	**1,572,434**	**1,660,841**	**1,775,948**	**1,982,417**	**2,144,172**

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this budget are:

(a) Basis of Preparation

The budget has been prepared in accordance with applicable Australian Accounting Standards (as they apply to local government and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 1995 and accompanying regulations.

The budget has also been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

(b) The Local Government Reporting Entity

All Funds through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this budget.

In the process of reporting on the local government as a single unit, all transactions and balances between those Funds (for example, loans and transfers between Funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements, but a separate statement of those monies appears at Note 16 to this budget document.

(c) 2016/17 Actual Balances

Balances shown in this budget as 2016/17 Actual are as forecast at the time of budget preparation and are subject to final adjustments.

(d) Rounding Off Figures

All figures shown in this budget, other than a rate in the dollar, are rounded to the nearest dollar.

(e) Rates, Grants, Donations and Other Contributions

Rates, grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions. Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

(f) Goods and Services Tax

Revenues, expenses and assets capitalised are stated net of any GST recoverable.

Receivables and payables in the statement of financial position are stated inclusive of applicable GST.

The net amount of GST recoverable from, or payable to, the ATO is included with receivables on payables in the statement of financial position.

Cash flows are presented on a Gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

(g) Superannuation

The Council contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Council contributes are defined contribution plans.

(h) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Bank overdrafts are shown as short term borrowings in current liabilities in the statement of financial position.

(i) Trade and Other Receivables

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

(j) Inventories

General

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Land Held for Resale

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development. Finance costs and holding charges incurred after development is completed are expensed.

Revenue arising from the sale of property is recognised in the statement of comprehensive income as at the time of signing an unconditional contract of sale.

Land held for resale is classified as current except where it is held as non-current based on Council's intentions to release for sale.

(k) Fixed Assets

Each class of fixed assets is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Initial Recognition

All assets are initially recognised at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income in the period in which they are incurred.

Revaluation

Certain asset classes may be revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Those assets carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses, are to be revalued with sufficient regularity to ensure the carrying amount does not differ materially from that determined using fair value at reporting date.

Land Under Roads

In Western Australia, all land under roads is Crown land, the responsibility for managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with treatment available in Australian Accounting Standard AASB 1051 Land Under Roads and the fact that Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of AASB 1051, Local Government (Financial Management) Regulation 4(2) provides, in the event of such an inconsistency, the Local Government (Financial Management) Regulations prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Council.

Depreciation of Non-Current Assets

All non-current assets having a limited useful life (excluding freehold land) are systematically depreciated over their useful lives in a manner which reflects the consumption of the future economic benefits embodied in those assets.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time the asset is completed and held ready for use.

Depreciation is recognised on a straight-line basis, using rates which are reviewed each reporting period. Major depreciation periods are:

Buildings	30 to 100 years	Straight Line
Furniture and Equipment	4 to 20 years	Straight Line
Plant and Equipment	5 to 20 years	Straight Line
Sealed Roads		
formation	not depreciated	
pavement	80 years	Straight Line
seal		
bituminous seals	34 years	Straight Line
asphalt surfaces	43 years	Straight Line
Gravel Roads		
formation	not depreciated	
pavement	80 years	Straight Line
Formed roads		
formation	not depreciated	

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

Capitalisation Threshold

Expenditure on items of equipment under $1,000 is not capitalised.

(l) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Council commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost.

Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

(a) the amount in which the financial asset or financial liability is measured at initial recognition;

(b) less principal repayments;

(c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest rate method; and

(d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(i) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Derivatives are classified as held for trading unless they are designated as hedges.

Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets where they are expected to mature within 12 months after the end of the reporting period.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments that the Council's management has the positive intention and ability to hold to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as non-current.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in current assets, where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as non-current.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Council assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in profit or loss. Any cumulative decline in fair value is reclassified to profit or loss at this point.

Derecognition

Financial assets are derecognised where the contractual rights for receipt of cash flows expire or the asset is transferred to another party, whereby the Council no longer has any significant continual involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(m) Impairment

In accordance with Australian Accounting Standards the Council's assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other standard.

For non-cash generating assets such as roads, drains, public buildings and the like, value in use is represented by the depreciated replacement cost of the asset.

At the time of adopting this budget, it is not possible to estimate the amount of impairment losses (if any) as at 30 June 2013.

In any event, an impairment loss is a non-cash transaction and consequently, has no impact on this budget document.

(n) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Council prior to the end of the financial year that are unpaid and arise when the Council becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Employee Benefits

Provision is made for the Council's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(p) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset.

(q) Provisions

Provisions are recognised when:

a) The Council has a present legal or constructive obligation as a result of past events;

b) for which it is probable that an outflow of economic benefits will result; and

c) that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(r) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle.

In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for resale where it is held as non-current based on the Council's intentions to release for sale.

(s) Comparative Figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current budget year.

(t) Budget Comparative Figures

Unless otherwise stated, the budget comparative figures shown in this budget document relate to the original budget estimate for the relevant item of disclosure.

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