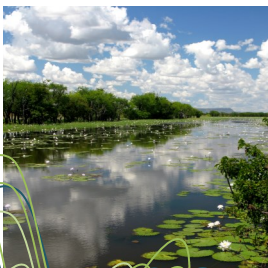
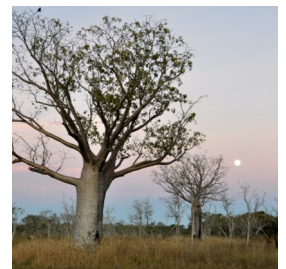
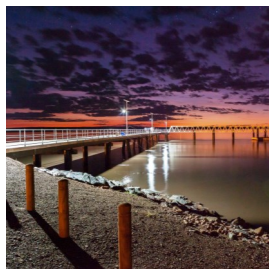


SHIRE of WYNDHAM EAST KIMBERLEY



Long Term Financial Plan 2012/13 - 2015/16



Draft

Acknowledgement

The Shire of Wyndham East Kimberley wish to acknowledge funding provided by the Department of Local Government and Department of Regional Development and Lands through Royalties for Regions to support this project.

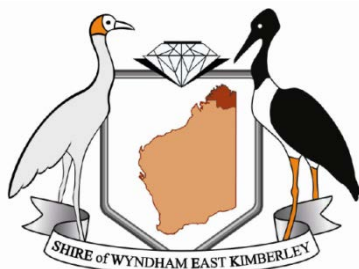


Department of **Local Government**
Department of **Regional Development and Lands**



Draft

The Draft Long Term Financial Plan has been developed and endorsed by the Shire of Wyndham East Kimberley



Address: 20 Coolibah Drive, Kununurra WA 6743

Postal Address: PO Box 614 Kununurra WA 6743

Telephone: (08) 9168 4100

Fax: (08) 9168 1798

Email: mail@swek.wa.gov.au

Web: www.swek.wa.gov.au

Prepared by:

CAM Management Solutions

Level 17, 45 Grenfell Street

Adelaide SA 5000

Telephone: (08) 8212 5188

Facsimile: (08) 8212 5288

Web: www.cammanagementsolutions.com.au

Disclaimer

This Long Term Financial Plan, prepared by CAM Management Solutions, has been based on information supplied to CAM Management Solutions by the Shire of Wyndham East Kimberley and the Government of Western Australia, Department of Local Government, Integrated Planning and Reporting Model Long Term Financial Plan June 2011.

CAM Management Solutions has not:

- Expressed any opinion (nor should any such opinion be inferred) as to the accuracy, reliability or completeness of this plan or the information contained in any documentation.
- Accepted any responsibility for any events or changes in any conditions affecting this consultancy after the date of this plan or any responsibility to revise the review to reflect any such events or changes in conditions; or
- Although every care has been taken in the development of this Long Term Financial plan, CAM Management Solutions does not accept responsibility for any loss or damage suffered at any time by any person as a result of any error, omission or inaccuracy in the document whether or not the error, omission or inaccuracy has resulted from negligence or any other cause.

Index

About This Plan	1
Strategic Context	3
Our Vision	3
Our Mission	3
Key drivers	4
Challenges facing the Shire	4
Key Opportunities	5
Our Priorities	5
Services	6
Asset Management.....	7
Workforce Planning Strategies	9
Scenario Modelling and Sensitivity Analysis	11
Rating Policy	13
Key Assumptions Underpinning the Long Term Financial Plan	14
Balancing Budget Line Item	15
Key Reasons for Gaps in Infrastructure funding	16
Risk Assessment	17
Financial Projections.....	17
Key Conclusions	19
Implementation and Review of the LTFP	19



About This Plan

The Shire of Wyndham East Kimberley's Long Term Financial Plan (LTFP) provides a mechanism for the Council to assess its long term financial sustainability and shows the linkages between specific plans and strategies and the impacts they may have on the Council's financial position.

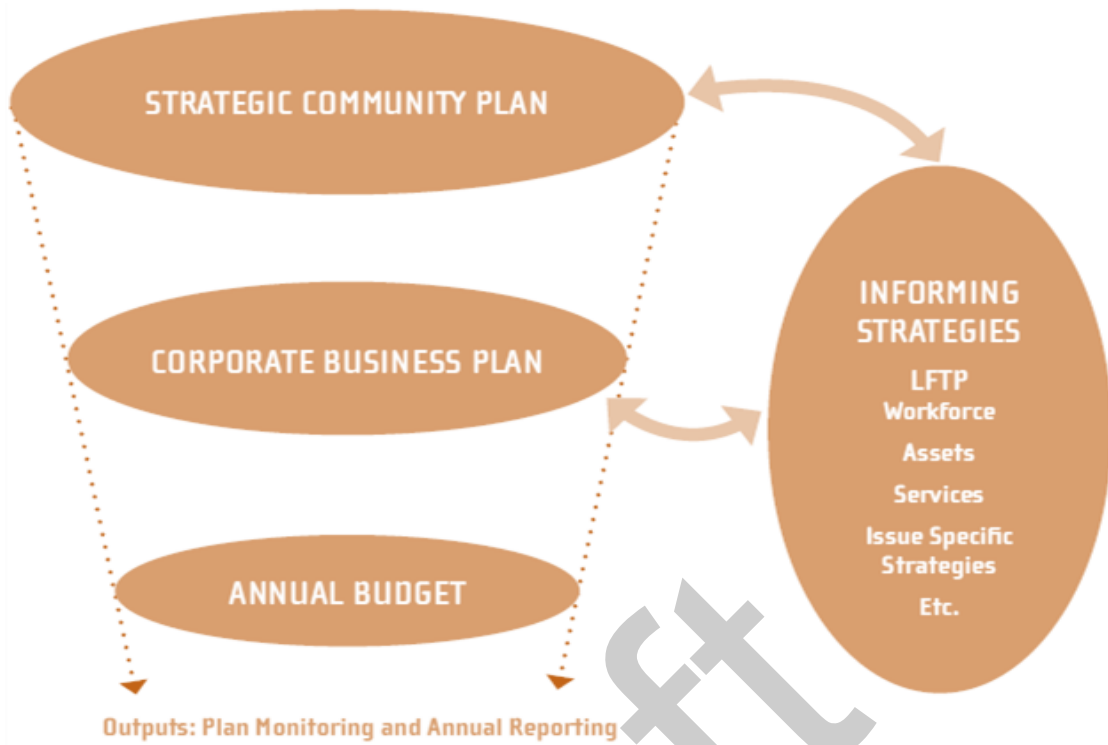
The LTFP enables the Shire to set priorities, based on its resourcing capabilities, for the delivery of short, medium and long term community priorities. The LTFP is intended to provide a robust, consistent and sustainable approach to establishing and maintaining a stable and prudent financial basis on which improvement and transformation of the organisation's services can progress.

This plan has been prepared taking into consideration the Council's Strategic Plan, Plan for the Future, Community Safety Plan, Workforce Plan, Strategic Rating Policy, Asset Management Policy, Capital Works Plan, adopted budget for 2012/2013, Corporate Business Plan and Depreciation Control Policy. This LTFP will be the basis for preparation of the Shire's Annual Budgets.

The LTFP is a dynamic tool which analyses financial trends over a ten year period on a range of assumptions and provides the Shire with information to assess resourcing requirements to achieve its strategic objectives and to assists the Shire to ensure its future financial sustainability.

It is acknowledged that the development of this plan is an initial draft, based on assumptions known at the time. This plan should be updated taking into consideration modifications to the following plans:

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



As Annual Budgets are developed from the LFTP there may be some annual variations between both which will be explained in the Annual Budget.

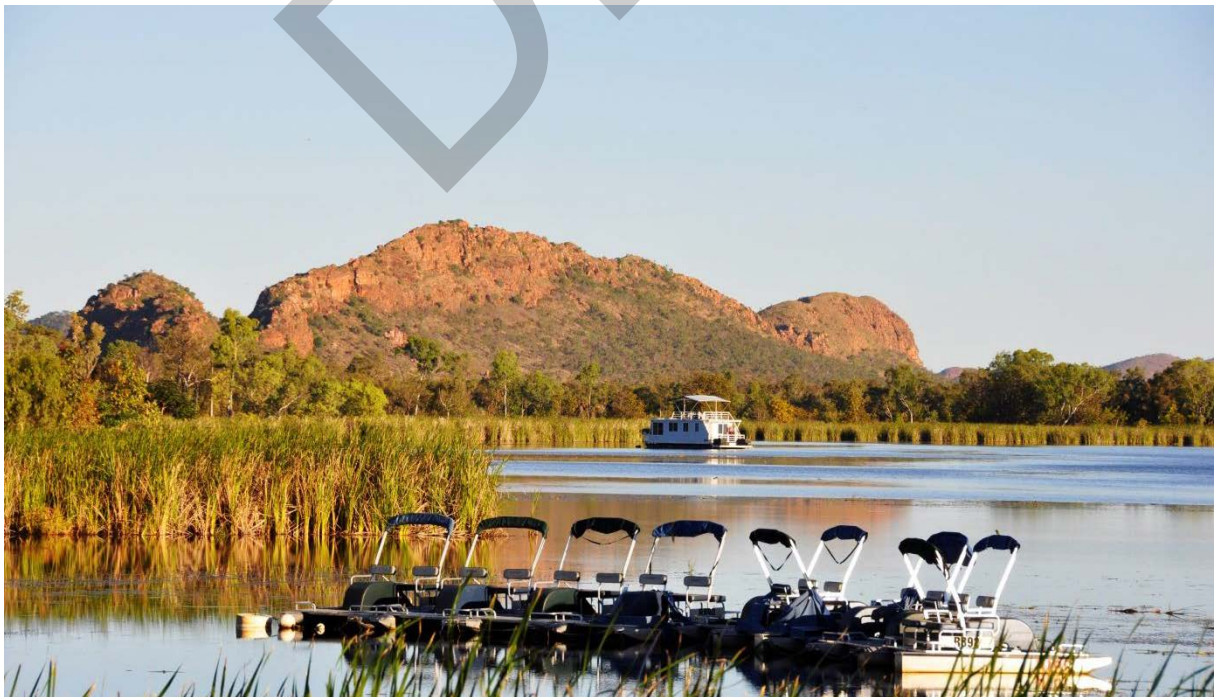
Strategic Context

Our Vision

For the East Kimberley to be a thriving community with opportunities for all.

Our Mission

To enable the East Kimberley to develop in a manner that will achieve social, cultural, economic and environmental benefits for all.



Key drivers

The following key drivers of community and economic development for the 10 years to 2022 have been identified for the Shire of Wyndham East Kimberley:

- Agricultural industry – Ord Stage 2 and 3
- Resources sector – mining, niche mining, petroleum
- Construction – linked to agriculture and resource development
- Government services
- Tourism sector – adventure and cultural tourism

Challenges facing the Shire

The Shire of Wyndham East Kimberley faces a variety of challenges over the next 10 years. The critical challenges affecting the Shire have been identified through community engagement and the Strategic Community planning process. These include:

- Cost of living
- Provision and maintenance of Infrastructure
- Attraction and retention of key workers
- The gap between Indigenous and non Indigenous

These challenges have been considered in the development of the Corporate Business Plan which informs this LTFFP.

The development of this plan is based on the Shire's current knowledge. However, there are some critical uncertainties that the Shire has no control over, which may affect its planning, resourcing and implementation of key initiatives. These include:

- Global financial conditions that may affect the resources industry and the Australian economy
- Change of State or Federal government policy
- Change of resource sector operations
- Climatic/weather changes
- Natural disasters

Key Opportunities

The following opportunities have been identified by the Shire during the development of the Strategic Community Plan and the Corporate Business Plan:

- Greater opportunity to work in partnership with different levels of government – to facilitate discussion and to avoid duplication.
- To promote racial harmony and address key social issues.
- To enhance and build upon what residents feel are the East Kimberley's most attractive attributes.
- Build vibrancy and connectedness in our main town centres.
- To ensure that new facilities are able to serve multiple purposes and are budgeted in consideration of expenses for their whole of life cost.
- To improve educational and training opportunities that will have long-term benefits for the region including the availability of locally trained employees.
- To seek opportunities for grants by working collaboratively with other agencies and organisations.
- The potential to extend the runway at the East Kimberley Regional Airport in order to increase competition and therefore reduce airfares.

Our Priorities

During consultation, the Community identified their top ten priorities as:

- Green spaces for children to play
- Upgrade shops and parking
- Upgrade/repair town roads
- More affordable housing
- Cheaper flights in and out of town
- Safe houses for kids on the street
- Promote racial harmony
- Culturally appropriate alternative education for indigenous people
- Teach Aboriginal language and culture at schools
- Change time-zone to match Darwin

In addition to these the Shire has identified further priorities being:

- Positive workforce culture
- Transparency and accountability
- Community engagement

Services

The four Directorates and their corresponding business units are responsible for delivering services and infrastructure to the community. Shire services are both internal and external to the organisation.

Governance	Corporate	Community Development	Infrastructure
<ul style="list-style-type: none"> ▪ Office of the Chief Executive ▪ Governance Administration ▪ Economic Development ▪ Wyndham Area Services ▪ Customer Services ▪ Records Management ▪ Integrated Planning ▪ Human Resources ▪ Occupational Health and Safety ▪ Airport Operations 	<ul style="list-style-type: none"> ▪ Corporate Administration ▪ Information & Communications Technology ▪ Finance 	<ul style="list-style-type: none"> ▪ Community Administration ▪ Libraries ▪ Strategic Planning ▪ Childcare ▪ Community Capacity Strengthening ▪ Disability Access ▪ Youth Services ▪ Club Development ▪ Leisure Facility Management ▪ Recreation Services and Programs ▪ Property and Regulatory Services Administration ▪ Buildings Applications and Permits ▪ Land Use Planning ▪ Property and Facility Maintenance ▪ Environmental Health Services 	<ul style="list-style-type: none"> ▪ Infrastructure Services Administration ▪ Ranger Services ▪ Emergency Services ▪ Asset Management ▪ Design and Development ▪ Project Delivery ▪ Depot Services Administration ▪ Plant and Equipment ▪ Roads and Bridges ▪ Footpaths, Trails and Cycle ways ▪ Drainage Systems ▪ Parks, Ovals and Reserves ▪ General Assets ▪ Waste Management

Asset Management

Recommendations from the Shire's Asset Management Plan have been incorporated into the Long Term Financial Plan, through the inclusion of annual upgrade, renewal and operating expenditures for each of the Shire's asset classes.

The Shire holds a portfolio of \$629.6m in infrastructure assets. The Shire is currently spending \$1.899m/annum on asset renewal and \$1.623m/annum to fund asset maintenance, a combined total of \$3.522m/annum.

Infrastructure Summary	Renewal Estimate	Renewal Expenditure	Maintenance Expenditure
Roads	\$488,550,938	\$1,678,625	\$1,198,000
Pathways	\$2,955,395	\$0	\$0
Buildings	\$66,136,318	\$170,000	\$344,250
Storm Water	\$30,042,000	\$0	\$0
Parks & Reserves	\$11,150,553	\$0	\$51,000
Miscellaneous	\$30,807,410	\$49,950	\$30,000
Total Infrastructure (inc Formation)	\$629,642,614	\$1,898,575	\$1,623,250
Total Infrastructure (ex Formation)	\$269,149,634		

A guideline in asset management is that between 2% - 4% of the infrastructure value is needed for asset renewal and maintenance combined. Based on an asset portfolio of \$269m (excluding the road and airport which is currently not modelled or depreciated), the Shire would need to be spending between \$5.3m (2%) and \$10.8m (4%) on asset renewal and maintenance.

The Shire does not presently have an accurate assessment of overall asset condition, as asset condition surveying has either not been undertaken, is out of date or is not in a format that is suitable for modelling purposes.

Modelling based on assumptions has predicted that Council has a 20 year annual average renewal demand of \$10.129m/annum and if fully funded, the annual consequential maintenance demand would be in the order of \$1.335m/annum (ie a combined maintenance and renewal of \$11.464m/annum). The Shire is currently spending \$1.899m/annum on asset renewal, which equates to a funding gap of \$8.230m/annum.

To close the funding gap, the Shire needs to consider options including:

- Rationalising assets where possible.
- Setting hierarchies across all asset groups and defining levels of service across each level of the hierarchy.
- Targeting funding opportunities and developing a long term funding strategy to address the renewal gap.

Draft

Workforce Planning Strategies

The Shire's Workforce Plan identified a range of key issues that impact the current and future workforce:

- Lack of experienced and skilled people available locally
- Competition from the mining industry for experienced and skilled labour
- Lack of adequate staff and community housing
- Comparatively high staff turnover in the Local Government sector which is also a feature of the Kimberley region

The Workforce Plan identified the following additional positions aligned to core business / service requirements within the 4 year duration of the Workforce Plan:

Position	Directorate	Sourcing	Award Grade Level	FTE	13/14	14/15	15/16
Community Development Officer	Community Development	Re-classification	6/7	1			
Grant Officer	Corporate Services	Re-classification	6/4	1			
Landfill Gate Keeper	Infrastructure	New Position	5/4	1.4			
Wyndham Childcare Early Educator	Community Development	New Position	6/8	1			
Municipal Emergency/Ranger Services Coordinator	Infrastructure	New Position	7	1			
Town Maintenance Officers	Infrastructure	New Position	4	2			
Works Supervisor	Infrastructure	New Position	7	1			
Total FTE's			6/7	8.4			

The costs associated with these positions have been incorporated in both the Corporate Business Plan and the Long Term Financial Plan.

Other key areas of focus and the actions/tasks to address them identified in the Workforce Plan include the following:

Workforce Focus	Actions / Tasks
Preparedness around succession planning for any future loss of key positions within the organisation.	Encourage mentoring and up skilling/job rotation of staff to ensure critical positions can be covered in the short term.
Attraction and retention of staff	Develop and implement strategies to retain and attract people into the Shire's workforce (e.g. Improve focus on local workforce and suitable housing options where applicable).
Performance management	Improve annual performance appraisals.
Agreement on employment conditions between employer and employees	Review and amend the Enterprise Agreement (13/14-15/16)
Employee engagement	Improve internal communications strategy.



Scenario Modelling and Sensitivity Analysis

Scenario modelling shows that in order to fund asset renewals, replacements and upgrades, increases to Council controlled revenue are needed in excess of CPI. This is due to a number of reasons:

Item	Net outlay over the 10 year plan
Ensuring continuous investments on Land and Buildings	\$ 50 million
Ensuring continuous investments on Road	\$ 27 million
Shire Office	\$ 4 million

Draft

The table below shows the results of 3 alternative scenarios. All of these scenarios assume the same level of service, same expected level of expenditure increases and the same capital works plan. The differing factor is the Council controlled revenue increase each year.

Item	Scenario 1	Scenario 2	Scenario 3
Rates, Fees and Charges	CPI (4%)	CPI+1% (5%)	CPI + 3% (7%)
Cash	Cash shortfalls in 9 of the 10 years, meaning that Council would not have sufficient funding to pay its expenses.	Cash shortfalls in 9 of the 10 years, meaning that Council would not have sufficient funding to pay its expenses.	Cash shortfalls in 9 of the 10 years, meaning that Council would not have sufficient funding to pay its expenses.
Debt assumption	Shire might have to fund the capital requirements through loans or increase grants/rates to Improve on the cash flow position.	Shire might have to fund the capital requirements through loans or increase grants/rates to Improve on the cash flow position.	Shire might have to fund the capital requirements through loans or increase grants/rates to Improve on the cash flow position.
Net profit/ Loss	Losses in 7 of the 10 years. Profitability weakens over time with losses reaching 16 Million in year 2021/2022.	Losses in 7 of the 10 years. Profitability weakens over time with losses reaching 15 Million in year 2021/2022.	Losses in 7 of the 10 years. Profitability weakens over time with losses reaching 13 Million in year 2021/2022.
Operating Surplus Ratio <i>A negative value means that Council does not have sufficient operating funding to cover standard expenses, and is reliant on external grant funding for capital works.</i>	Negative every year (to a high of - 171.82%) which is significantly lower than the recommended target of positive 0 to 15%.	Negative every year (to a high of - 159.26% which is significantly lower than the recommended target of positive 0 to 15%.	Negative every year (to a high of - 132.9%) which is significantly lower than the recommended target of positive 0 to 15%.

Rating Policy

The Shire of Wyndham East Kimberley has adopted a Strategic Rating Policy as a tool for community and financial planning. The objective of the policy is to outline the principles and methodology used when exercising the Council's discretionary powers to determine the level and structure of rates levied under the *Local Government Act 1995*.

The rating policy includes Council's approach to GRV differential rates and UV differential rates, transition provisions and the rating policy principles underlying the policy decisions outlined in the document. A copy of the Strategic Rating Policy is available on the Shire of Wyndham East Kimberley website, www.swek.wa.gov.au

Draft

Key Assumptions Underpinning the Long Term Financial Plan

The estimates in the LTFP are based on a number of assumptions and Council strategies. The base point for the modelling is the 2012 end of year 2011/12 forecast and assumptions have been applied to the model. The assumptions are:

- Low levels of growth in population, which are not anticipated to materially affect existing income or expenditure levels
- Existing service levels will be maintained
- Annual surpluses will be achieved each year
- Net staff levels will remain unchanged
- Staff costs will increase by 4% per annum over the life of the LTFP
- CPI will be approximately 4% per annum over the life of the LTFP
- Discretionary fees and charges will increase by 4%
- Interest rates for invested funds will be 1% from year 2013/2014 to year 2021/2022.
- Non-operating grants are assumed to be available for the proposed capital works plan. Note that if grant funding for identified projects is not obtained, Council will need to re-consider whether the projects continue or what the funding strategy will be.
- Materials and contracts will increase by 4.5%
- Interest rates on loans will remain at the current rates
- Utility costs will increase by 6%

Balancing Budget Line Item

A balancing budget line item namely “Infrastructure Gap Funding” has been added to the “Statement of Comprehensive Income by Nature and Type”. This line item is added to balance the balance sheet. Key reason for the need to add a balancing line item is as follows, Different Financial statements are updated from different sources. After the Annual report for year 2012/2013 is finalised the LTFP should be revised with the accurate values

Table 1 : Financial Statement Sources

Year	Financial Statement	Source
2012/2013	Statement of Comprehensive Income by Nature and Type	Amended Budget 12/13
2012/2013	New Initiatives	Amended Budget 12/13
2012/2013	Statement of Financial Position	2011/2012 Annual Report – Extrapolated
2012/2013	Cash Reserves	Adopted Budget 12/13
2012/2013	Statement of Cash Flows	Adopted Budget 12/13

Key Reasons for Gaps in Infrastructure funding

- Review service levels and reduce any over-servicing (without compromising service standards) - The Shire has reviewed all services as to their relevance and alignment to the Strategic Community Plan. The Shire will commence, in 2013/14 FYE, a detailed review of 'Levels of Service' starting with 'Infrastructure' in accordance with the Shire's Asset Management Strategy & Plan. Other Shire services will also be progressively reviewed with the community.
- Review, refine and verify asset renewal gaps - including asset condition assessments and differential renewal cycles for different asset classes - Shire staff in 2012/13 have undertaken a physical condition assessment review of 'buildings' and updated its Building's software. In 2013/14 Shire staff will commence a detailed review of asset conditions using the Pocket RAMS software and further updating its RAMS database.
- Consider new options for management or disposal of assets - The Shire has commenced a progressive review of its RAMS road assets and started the process of road closure for some roads. All assets will be reviewed as to their contribution to community/organisational needs in accordance with the Strategic Community Plan.
- Review depreciation methodologies to better reflect actual usage - As the Shire undertakes further condition assessments of its assets it will, over time, be in a position to review depreciation rates in line with actual usage rather than theoretical usage.
- Develop or review a formal financial management policy that makes optimum use of borrowings and cash reserves to fund major capital works - The Shire will develop a formal financial management policy in the near future.
- Review fees and charges - The Shire has undertaken a comprehensive review of fees and charges and has made substantial changes to its waste charges to reflect 'whole of life cycle costs'.

Risk Assessment

A detailed risk assessment for all assets and infrastructure will be undertaken as part of the development of Asset Management Plans.

The major risk associated with this long term financial planning is reliance on government grants and funding. If funding was reduced to levels below what have been estimated in the LTFP, it will have an impact on the level of service Council provides to the community. Also, it could be noted that Council's investment plan requires a considerable amount of financing leading to a negative cash flow position through the 10 years long term plan.

Financial Projections

The financial projections in this LTFP have been developed in a format that conforms to the *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards. This format has been chosen as it allows projections to feed into the statutory format of the Annual Budget and key performance measures in the LTFP to be compared with Annual Budgets and Annual Financial Reports. The Statutory schedules include:

- Statement of Financial Position (Balance Sheet) and Equity Statement
- Statement of Comprehensive Income
- Statement of Cash Flows
- Rate Setting Statement

Note: These statements are presented in a separate excel document (SWEK Long Term Financial Plan V 1.9).

The Statement of Comprehensive Income shows what is expected to happen during the year in terms of revenue, expenses and other adjustments from all activities. A surplus is estimated for each year of the LTFP.

The Statement of Financial Position is a snap-shot of the expected financial position of the Shire at the end of the financial year. It reports what is expected to be owned (assets) and what is expected to be owed (liabilities). The bottom line "Net Assets" represents the net worth of the Council. The assets and liabilities are separated into current and non-current. Current means those assets and liabilities that are recoverable or which fall due over a period less than 12 months.

The Statement of Cash Flows show what is expected to happen during the year in terms of cash. The net cash provided by operating activities shows how much cash is expected to remain after paying for the services provided to the community. This can be used to fund other activities such as capital works and infrastructure. The information in this statement assists in the assessment of the ability to generate cash flows and meet financial commitments as they fall due, including debt repayments.

The format of the Rate Setting Statement varies from the format of the statement prepared in Annual Budgets. In Annual Budgets, the bottom line of the statement is the amount to be made up from rates. In the LTFP, rates assessed in accordance with relevant assumptions has been shown as a revenue stream with all other sources of revenue, so that if a surplus results, this can be used to fund other services. However, where a shortfall results, this indicates that the Council is unable to fund the services proposed at the planned rating levels and may need to defer works or services, increase debt or increase rates even further to cover the cost of planned service provision. In the LTFP the Rate Setting Statement shows the accumulated surplus carried forward at the end of each year.

The statements are supported by schedules of:

- Assumptions used in the LTFP
- Loan borrowings and repayments
- Depreciation calculations
- Cash reserves
- Calculations and measurement of KPIs
- Capital works

Draft

Key Conclusions

The following conclusions can be drawn from the Long Term Financial Plan analysis:

- The Shire is in a relatively weak liquidity position with a current ratio lower than 1.0 in each of the 10 years from year 2012/2013 to 2020/2021. The negative current ratio is mainly due to the weakening negative cash flow trend starting from year 2013/2014 leading to a negative cash flow balance of \$ - (121,061,512), which in turn results in a negative current asset position. It is evident that the majority of the cash outflow is for investing activities and the gap in grant funding for new initiatives, creates a negative cash flow position. The liquidity position improves over the longer term to 2020/2021 ie a liquidity ratio of -2.27.
- From year 2012/2013 to year 2020/2021 the Shire is able to maintain a healthy ratio on the percentage revenue generated from operating grants and subsidiaries; the average percentage being 22.1%. This signifies that the Shire's revenue is not overly dependent on operating grants. However, to improve the cash flow position, the Shire will need to increase funding through grants to finance the capital investments or alternatively, it should look at other revenue options.
- The Department of Local Government WA recommends a Rates Coverage Ratio equal to or greater than 40% of total expenses. The Shire is well below this target, however the ration is in an improving trend with (-28.4%) in year 2012/2013 through to 2021/2022 at (-20.6 %)
- Given that the Shire forecasts a Net Operating Loss (Before Non-Operating grants and profit/loss on sale of assets) from year 2012/13 to 2020/2021, the Operating Surplus Ratio is also negative for these years. Given the Shire doesn't operate a surplus in these financial periods, it is reliant on non-operating grants to assist in capital projects, including asset upgrade and renewal initiatives.

Implementation and Review of the LTFP

The LTFP is informed by the Shire's Workforce Plan, Asset Management Plans and other Informing Strategies. It is also informed by and informs the Corporate Business Plan and Annual Budget.

An interim review of the LTFP will be undertaken following the completion of detailed Asset Management Plans

Modifications to the LTFP will occur each year in conjunction with the review of the Corporate Business Plan and operational planning to inform the Annual budget.

Draft

