



Shire of Murchison

Long Term

Strategic Financial Plan

2009/10 to 2018/19

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DOCUMENT MANAGEMENT

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1.0 INTRODUCTION

1.1 FOREWORD

Welcome to the Shire of Murchison's Long Term Strategic Financial Plan

This Long Term Financial Plan is a key document in helping the Shire improve its management of infrastructure and community resources. It links directly to Council's Strategic Plan and sets the framework to provide cost effective service with the resources available.

The world in which we live is constantly changing. For the Shire of Murchison this means managing our existing infrastructure, including roads and buildings, in a flexible manner. This must be achieved in an environment of obvious financial constraints. Reducing government assistance and keeping rate increases to a minimum are a priority. It is therefore vital that we have a clear vision of how we will focus our resources in order to best serve our community's needs.

Council has been persistent in its efforts to engage support from other levels of government and will continue to invest in the infrastructure needed to provide appropriate services, facilities and opportunities to meet the future needs of the Murchison community.

Simon A Broad
Shire President

1.2 CEO EXECUTIVE SUMMARY

The Shire of Murchison faces many financial challenges in the future. The council must lobby and be accountable for its share of state and federal government funding. The Long Term Strategic Financial Plan is a framework of expenditure for maintaining existing services and asset replacement, as well as the development of new infrastructure.

The Murchison Shire Council prides itself on sound financial management and its practice of saving for the future. The Long Term Strategic Financial Plan demonstrates to the community that Murchison Shire is in a sound financial position.

The Long Term Strategic Financial Plan sets out expenditure in the following key areas;

- Plant and equipment replacement
- Building of a new Ballinyoo bridge
- Resealing of existing sealed roads
- Development of the CBD
- Building replacement

The Murchison Shire is heavily dependent on external grant revenue to support its operations and capital works program. Council's challenge is to continue sourcing state and federal funding to maintain the service delivery it currently provides.

Ron Adams
Chief Executive Officer

1.3 DOCUMENT STATUS

Long term strategic planning is not a budgeting process but rather a continuous planning journey aimed at focussing attention on the Shires future financial needs. Its purpose is to build an improved understanding of the timing of financial needs over the life of the plan.

The future effect of Strategic plans and master planning has been combined with established services commitments to produce a summary plan that is part projection and part predictive.

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2.0 BACKGROUND

2.1 DISTRICT PROFILE

Murchison Shire Location

Shire Office and Chambers	Carnarvon Mullewa Road, Murchison
Postal Address	PO Box 61, MULLEWA WA 6630
Telephone	(08) 9963 7999
Facsimile	(08) 9963 7966
E-mail	admin@murchison.wa.gov.au
Web Page	www.murchison.wa.gov.au
Office Hours	8.00am to 5.00pm Monday to Friday
Road Condition Reports	24 Hours/7 Days at www.murchison.wa.gov.au/road_conditions

The Shire of Murchison covers an area of approximately 49,500 square kilometres in the Murchison sub region of Western Australia which consists of 7 shires. The Shire Settlement is situated on 708 hectares excised from the Wooleen pastoral lease and vested in the Council 200 km north of Mullewa on the Carnarvon Mullewa Road.

History of the Shire

The Shire of Murchison derives its name from the river, which flows almost diagonally through it from north east to south west, that river being the Murchison named in honour of Roderick Impey Murchison. Two tributaries of the Murchison are named the Roderick and the Impey, and the Shire's coat of arms is that of the Murchison family.

Population and Employees

With a population of 110 (Australian Bureau of Statistics 2006) and 106 electors, Murchison is the least populated Local Government in Australia. Another unique feature is that it is thought to be the only Shire in Australia without a gazetted town site. The District and Shire centre is the Murchison Settlement, population about 12. Council has 9 full time employees and 2 part time employees.

Location of Shire and Industry

The Shire of Murchison lies in the Murchison region of Western Australia. The Settlement is 669 kilometres north of Perth on the Carnarvon Mullewa road. The surrounding country is typical of the pastoral area and pastoralism is the principal industry. Station stays and the Murchison Oasis Caravan Park provide for tourists.

2.2 LINKAGE WITH STRATEGIC PLANNING

The Shire of Murchison has adopted a Strategic Plan covering the period 2009-2014. The prime objectives outlined in the Plan are summarized below:

1. Infrastructure
2. Land Use
3. Community Enrichment
4. Governance
5. Community Services
6. Creating Opportunities

The above objectives have been reference in the attached long term financial plan and, where possible, strategic projects have been cross referenced with the Shire's Strategic Plan.

2.3 FINANCIAL CAPACITY AND DEPENDENCE

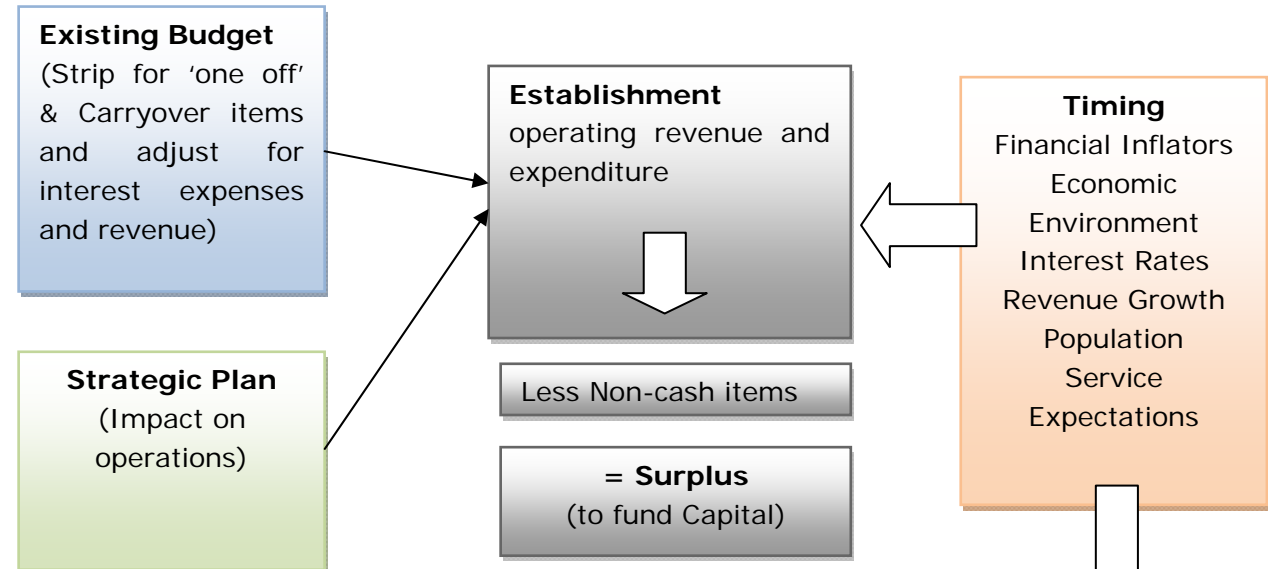
The Shire of Murchison is heavily dependent on external grant revenue to support its operations and capital works program. These allocations are subject to annual movements based upon grant allocation formulas and the priorities of the grant provider. Rate revenue, in comparison to these grant revenues provides only a small percentage the Shire revenue base.

This reliance on external government transfers causes difficulty in prediction the Shire's future revenue streams and complicates the task future financial planning. This plan should be read keeping this limitation in mind.

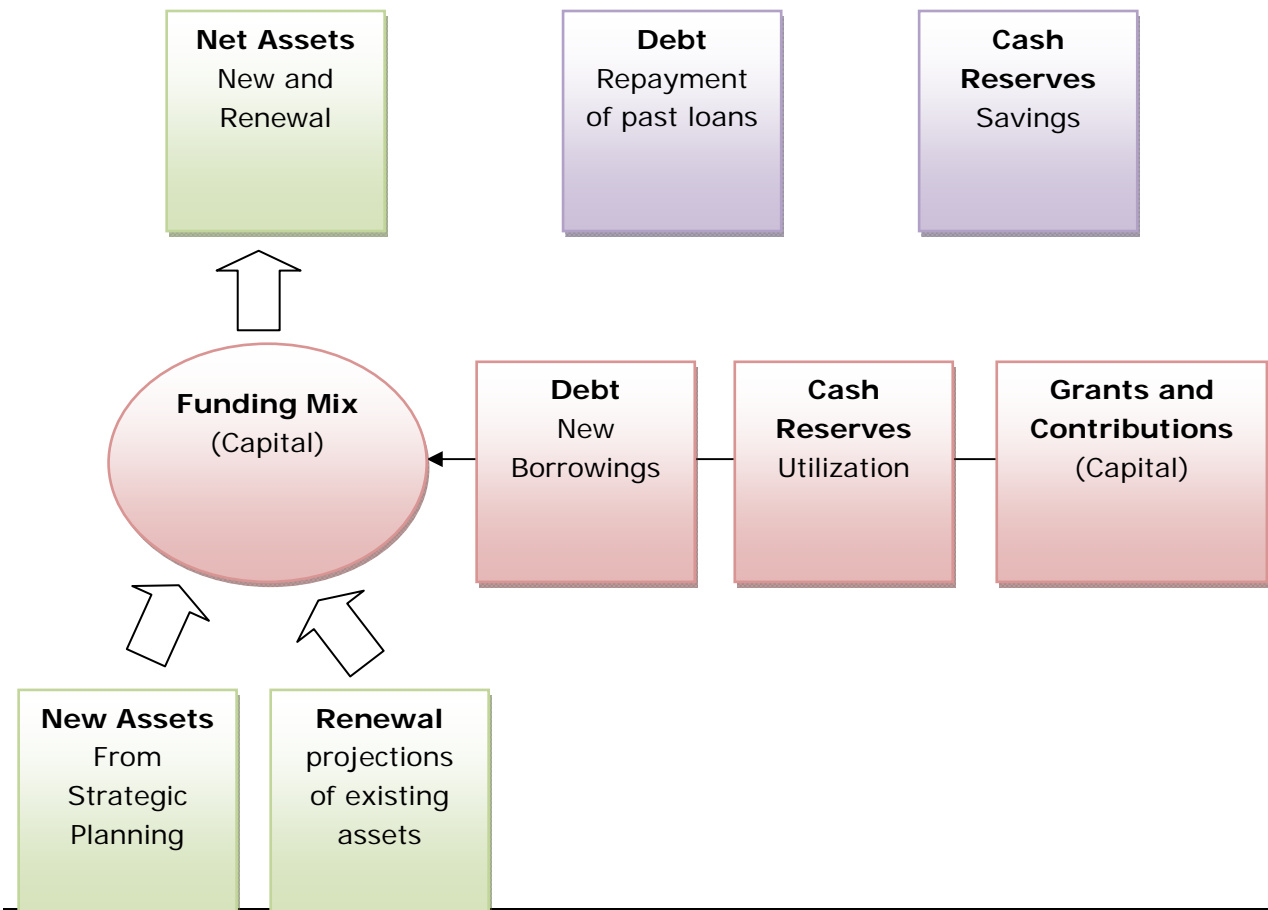
PLANNING PROCESS

The process used to prepare this plan can be summarized in the following diagram:

OPERATING BUDGET



CAPITAL PLAN



3.0 ASSUMPTIONS

3.1 TIMING

The Long Term Financial Plan has been prepared over a ten (10) year period with the first planning year being 2009-10 and concluding in 2018-19.

3.2 FINANCIAL STRATEGIES

3.2.1 Reserve Allocations

The Shire plans to use cash reserves as a method of saving for future asset replacement and help smooth future funding demands. This has been undertaken in the plan by predicting future asset renewal needs and transferring an annual provisional sum to the relevant reserve account. As asset replacement need arises, this amount will be drawn from the reserve to meet this need thus creating a perpetual source of funding for selected assets.

3.2.2 Asset Maintenance

The Shire's two principal asset classes are plant and equipment and infrastructure.

(a) Plant and Equipment – A sum of \$361,850 has been set aside in the Plant Reserve each year to provide for net future plant and vehicle replacement. This sum, plus annual interest, has been calculated as an average sum required funding the Shire's requirements.

(b) Infrastructure Roads – General road asset renewal has been funded annually but is heavily influenced by the extent of road grant funding received by the Shire. In the first year of the plan road construction is \$981,000 but this reduces to \$788,000 in year ten. This drop reflects the assumption that general purpose grants will not keep pace with the cost of inflation.

(c) Infrastructure Re-seals - have been projected and a separate cash reserve established to meet this future expenditure with an ongoing annual provisional sum of \$30,000. The first re-seal work is expected in the year 2013-14.

(d) Infrastructure Bridges – Bridge construction works is planned in the 2011-12 year with an annual provisional sum of \$20,000 being allocated to the Bridge construction Reserve thereafter to provide for renewal in 2087 (75 years).

3.2.3 Borrowing

The Shire is currently debt free and there are no plans to borrow within this plan.

3.3 VARIABLES

The following inflation assumptions have been used to produce the projections in the Plan. These assumptions have varying impact on the plans financial outcomes. The plan outcomes are most sensitive to a change in the percentages highlighted in bold below:

OPERATIONS-Revenue											
Rates - Base	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Rates - Growth or Decline											
Rates - Strategy											
Operating grants, subsidies and contributions	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Non-Operating grants, subsidies and contributions	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Fees and charges	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Interest Yield	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Other revenue	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
OPERATIONS-Expenditure											
Employee costs	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Materials and contracts	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Utility charges (electricity, gas, water etc.)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Depreciation on non-current assets	Calculated using average depreciation rates										
Insurance expense	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other expenditure	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
CAPITAL-Assets											
Average Depreciation - PPE (Buildings)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Average Depreciation - PPE (Other)	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Average Depreciation - Infrastructure Roads	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Average Depreciation - Infrastructure Other	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

3.4 GENERAL ASSUMPTIONS

Economic Assumptions	In general, the plan has been prepared on the basis of the Shire remaining as a single entity operating in a stable economy.
Inflation forecasts	<p>In general, operating expenditure has been inflated by 5% except for insurance which has been inflated by 3%.</p> <p>Operating revenue has been inflated by 3% with operating grant being inflated by 2%.</p> <p>Please note, inflation rates are difficult to predict particularly over the longer term.</p>
Interest rate movements	Changes in interest rates impact on the amount of revenue expected from reserve investments. On average an interest yield of 4% has been used.
Rates movements	<p>The rates movement assumption has three components:</p> <ol style="list-style-type: none"> 1. Base variable linked to the CPI or the local government cost index calculated on the existing rate base, 3% has been used in the Plan. 2. A second variable used to show the impact of rate base growth or decline, 0% has been used in the Plan. 3. A third variable used to show the impact of any strategic projects or a change of policy on rates revenue, 0% has been used in the Plan.

3.5 TERMINOLOGY

Capital expenditure has been separated into two sub-categories as follows:

3.5.1 Asset Expenditure (New) - This relates to capital expenditure resulting from strategic initiatives which provides the community with a new or higher level of service than previous provided.

3.5.2 Asset Expenditure (Renewal) - This relates to capital expenditure that renews existing assets and services to the same level as previously provided to the community

Disclosing separate categories of capital expenditure helps with the long term planning process and in determining long term sustainability and asset maintenance.

4.0 OUTCOMES

4.1 OPERATING RESULT

The Plan shows and the operating result, before asset related items, and also a result after asset related items. Asset related items refer to grants received to develop assets and gains or losses on asset disposals.

4.1.1 Before Asset Related Items

The plan predicts a reducing surplus gradually turning into a continuing increasing deficit. This is due to operating expenses predicting to increase at 5% per annum while revenue is predicted to increase at 2% for untied grants and 3% for rate revenue. Depreciation is also planned to jump post the construction of the Bridge.

4.1.2 After Asset Related Items

After capital grants, the plan predicts a reducing surplus which turns into a deficit in the last year of the plan. This is also due to the factors outlined above however with a delayed timing.

4.2 BALANCE SHEET

The main feature of the balance sheet is the changes in reserve cash over the period of the Plan. Cash reserves are reduced in 2011-12 as funds are used for Bridge construction but then continue to grow over the life of the plan.

In total, asset values grow over the life of the plan however the plan shows an increase in road values but a reduction in plant and equipment and infrastructure other.

4.3 CONCLUSION

The Shire of Murchison is very exposed to changes in the amount of untied and specified purpose grants it receives from the State and National Government. This plan demonstrates the importance of these revenue streams compared to the rates revenue. The Shire's deteriorating operating results are the result of predicted expenditure cost inflators greater those applied to untied grant revenue and rates.

The Shire has undertaken an analysis of its major future asset renewal needs and made annual provisional transfer to reserves in preparation for these events. On review of the ratio analysis presented at item 4.4 below the Shire, with the exception of the local government revenue to total revenue ratio, demonstrated a strong commitment to asset renewal and maintenance. The plan shows a health asset renewal to depreciation ratio which demonstrates the importance the Shire places on maintaining its asset stock. The reserves to realisable asset ratio also shows substantial reserves are being accumulated to provide for future asset replacement and protect the Shire from the effects of a sudden drop in untied grant revenue.

4.4 RATIO ANALYSIS

OPERATING RESULT	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	Average
Operating Result	1,867	1,107	871	410	415	269	195	111	215	(38)	
Rates Revenue (\$,000)	104	107	110	113	116	119	123	127	131	135	
Operating Result/Rates Revenue Ratio	17.95	10.35	7.92	3.63	3.58	2.26	1.59	0.87	1.64	(0.28)	4.95
Local Govt. Revenue (Revenue less Grants)	407	437	468	388	402	414	429	438	457	474	
Total Revenue	4,429	3,802	3,713	3,424	3,576	3,584	3,668	3,756	4,018	3,929	
Local Govt. Revenue/Total Revenue Ratio	0.09	0.11	0.13	0.11	0.11	0.12	0.12	0.12	0.11	0.12	0.11
FIXED ASSETS											
Economically realisable asset value	2,415	2,561	2,431	2,453	2,423	2,408	2,500	2,282	1,974	1,946	
Asset Renewal (\$,000)	1,145	1,760	1,355	1,572	1,467	1,524	1,639	1,415	1,213	1,605	
Depreciation	890	942	1,003	1,087	1,141	1,196	1,250	1,314	1,358	1,403	
Asset Renewal/Depreciation Ratio	1.29	1.87	1.35	1.45	1.29	1.27	1.31	1.08	0.89	1.14	1.29
Asset Expenditure (Renewal+New)	2,279	1,760	4,270	1,572	1,620	1,524	1,686	1,428	1,532	1,605	
Depreciation	890	942	1,003	1,087	1,141	1,196	1,250	1,314	1,358	1,403	
Asset Expenditure/Depreciation Ratio	2.56	1.87	4.26	1.45	1.42	1.27	1.35	1.09	1.13	1.14	1.75
RESERVES											
Cash Reserves Closing Balance (\$,000)	4,556	5,127	2,928	3,069	3,179	3,323	3,326	3,582	3,777	3,832	
Cash Reserves/Realisable Assets Ratio	1.89	2.00	1.20	1.25	1.31	1.38	1.33	1.57	1.91	1.97	1.58

5.0 APPENDICES