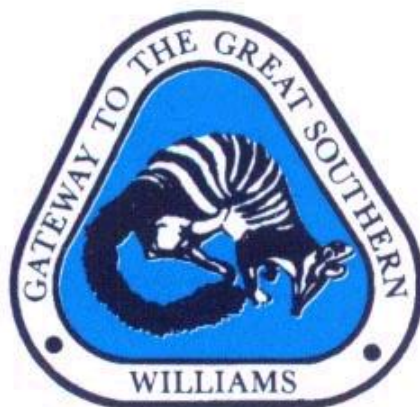


# ***SHIRE OF WILLIAMS***



## ***SIGNIFICANT ADVERSE TRENDS IN THE FINANCIAL POSITION 2017-2018***



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## **SIGNIFICANT ADVERSE TRENDS IN THE FINANCIAL POSITION**

<b>File Reference</b>	4.22.00
<b>Statutory Reference</b>	<i>Local Government Act 1995 and Local Government Amendment (Auditing) Act 2017</i>
<b>Author &amp; Date</b>	Geoff McKeown 15 August 2019
<b>Attachment</b>	Nil

### **Background**

In November 2017 the proclamation of the *Local Government Amendment (Auditing) Act 2017* introduced a number of reforms to auditing laws. The legislation requires local governments to examine an audit report it receives and implement appropriate action in respect to the significant matters raised.

The Department of Local Government, Sport and Cultural Industries (the Department) has received the Shire's 2017-18 Audit Report. This report identifies a significant adverse trend in the financial position of the Shire, indicating that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department's standard.

Local governments must prepare a report addressing the significant matters identified in their audit report, which is to be considered by the local government's audit committee before being adopted by council.

The Department has written to the Shire requesting that action be taken to comply with this requirement.

### **Comment**

The relevant comments in the 2017-2018 Audit Report from Butler Settineri (Audit) Pty state:

*"We did not, during the course of our audit, become aware of any instances where the Shire did not comply with the statutory requirements of the Local Government Act (1995) (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).*

*In accordance with the Local Government (audit) Regulations 1996, we also report that:*

- a) Apart from the asset sustainability ratio and operating surplus ratio there are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.*
- b) The Shire substantially complied with Part 6 of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).*
- c) All information and explanations required were obtained by us.*
- d) All audit procedures were satisfactorily completed in conducting our audit."*



➤ **Asset Sustainability Ratio**

$$\text{Asset Sustainability Ratio} = \frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$$

The purpose of this ratio is to indicate whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out. The Department has determined that a ratio below 0.90 (90%) is below the standard required. The Office of the Auditor General suggests below 0.80 (80%) is below the standard required.

The following table highlights the Shire's ratio as calculated for the last three financial years, along with an unaudited figure for the 2018/19 financial year:

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19 (unaudited)</b>
Asset sustainability ratio	0.37 (37%)	0.49 (49%)	0.37 (37%)	0.96 (96%)

This ratio is influenced by the extent to which a local government creates new assets or upgrades assets, as opposed to the replacement or renewal of an existing asset. In the period covered in the table above, and specifically in the 2017/18 financial year, the Shire of Williams has developed new assets, including Aged Appropriate Units, Industrial Unit and the first stage of the Williams Lions Park redevelopment. These significant projects have now been completed with the unaudited 2018/19 ratio reflecting a return to a typical asset replacement and renewal programme. This unaudited ratio now meets the 'basic' standard.

➤ **Operating Surplus Ratio**

$$\text{Operating Surplus Ratio} = \frac{\text{(Operating Revenue MINUS Operating Expense)}}{\text{Own Source Operating Revenue}}$$

The purpose of this ratio is a measure of a local governments' ability to cover its operational costs and have revenues available for capital funding or other purposes. The Department has determined that a ratio below 0.01 (1%) is below the standard required. The Office of the Auditor General suggests below 0.00 (0%) is below the standard required.

The following table highlights the Shire's ratio as calculated for the last three financial years, along with an unaudited figure for the 2018/19 financial year:

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19 (unaudited)</b>
Operating surplus ratio	-0.47 (-47%)	-0.28 (-28%)	-0.20 (-20%)	-0.07 (-7%)



Own source operating revenue is made up of rates, fees and charges, interest income, profit on disposals of assets, reimbursements and recoveries, and other revenue. Small regional local governments are limited in their ability to increase own source revenue and are more reliant on grant funding for renewal of assets.

Depreciation expense is a significant factor in this ratio as it is included in operating expenses. The requirement to revalue road assets on a regular basis, and attribute an appropriate level of depreciation, has been a challenge for local governments. This process has matured in recent years and this Shire has better systems in place to more accurately account for road asset depreciation expense.

While taking these factors into consideration, the trend for the Shire of Williams is moving towards achieving a ratio above the minimum standard.

### **Strategic Implications**

This item aligns with the community's vision and aspirations as contained in the Shire of Williams Strategic Community Plan 2017 to 2032. Specifically, it relates to the following strategy(s):

- CL 2.2 Maintain accountability, transparency and financial responsibility.
- CL 2.3 Monitor revenue streams and implement opportunities where appropriate.  
Consistently review rate income.

### **Financial implications**

Current trends indicate that the Shire is moving towards achieving a ratio above the minimum standard.

### **Voting Requirements**

Simple Majority

### **Officer's Recommendation**

That Council

1. Notes the significant adverse trends in the financial position of the Shire, as identified in the 2017/18 Audit Report, stating that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department of Local Government, Sport and Cultural Industries standard; and
2. Authorises a copy of this report to be forwarded to the Minister for Local Government and be published on the Shire's official website.



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## **Council Resolution**

### ***Carne/Watt***

That Council

1. Notes the significant adverse trends in the financial position of the Shire, as identified in the 2017/18 Audit Report, stating that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department of Local Government, Sport and Cultural Industries standard; and
2. Authorises a copy of this report to be forwarded to the Minister for Local Government and be published on the Shire's official website.

**Carried 8/0**  
**Resolution 32/20**