

Audit Findings for the  
Financial Year Ended 30<sup>th</sup> June 2019  
Report on Significant Matters

**Asset Sustainability Ratio**  
**Operating Surplus Ratio**  
**Own Source Revenue Ratio**

The 2018-2019 Independent Auditor's Report has identified a significant adverse trend in the financial position of the shire. This significant adverse trend is that the Asset Sustainability Ratio, Operating Surplus Ratio and the Own Source Revenue Ratio has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for that ratio for past 3 years as reported in the financial report.

### Operating Surplus Ratio

The DLGSCI standard for the Operating Surplus Ratio is 0.01 or greater. The Shire of Wickepin's Operating Surplus Ratio for the last 4 years has been:

- 2016 – (0.28)
- 2017 – (0.26)
- 2018 – (0.29)
- 2019 – (0.26)

Figures in () are negative.

Management have reviewed the Operating Surplus Ratio and the factors determining this.

It has been concluded that with the limited ratepayer base it will not be possible to achieve the minimum standard without significant additional untied external funding

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

For this ratio to become positive, rather than negative, as it is now, it is necessary for Operating Revenue to exceed Operating Expense.

### Operating Revenue

"Operating Revenue" excludes grants and contributions for the development or acquisition of assets.

Operating revenue includes rates, fees & charges and operating grants. The only income the council can control is rates, fees and charges. Based on the audited 2018-2019 figures to correct the situation:

a) All rates, fees and charges would have to increase by over 39%

or

b) Rates would have to increase over 90%.

Increases of this magnitude are clearly unacceptable and unaffordable to the ratepayers and council's customers. The only practical way that this ratio could be become positive through an increase in income in the foreseeable future would be if the untied operational grants were increased by at least 50%.

### Operating Expense

A major component of Council's Operating Expense is depreciation, this makes up almost 50% of councils operating expenditure and this is largely beyond council's control and subject to significant changes from year to year.

Another 9.5% is spent on essential road maintenance.

If a reduction in operating expenses alone is made in order to meet the essential target for the Operating Surplus Ratio the reduction in operating expenditure would need to be approximately \$750,000. This could not be achieved without impacting on Council's ability to meet its essential responsibilities and legal compliance obligations.

The Operating Surplus Ratio is unlikely to meet the OAG standard in the foreseeable future

### Own Source Operating Revenue

Own Source Operating Revenue is revenue from rates and service charges, fees and user charges, reimbursements and recoveries, interest income and profit on disposal of assets. This is the only component of the ratio that is subject to significant Council control.

Changes in this figure will change the magnitude of the ratio however to it is essential that Operating Revenue exceed Operating Expense for the Operating Surplus Ratio meet the DLGSCI minimum standard of 0.01.

## Final Approach

The following alternatives have been considered:

a) A publicly unacceptable fees and charges and/or rates increase.

and/or

b) An unworkable decrease in service and compliance levels to reduce operating expenditure.

or

c) Accepting that the in the foreseeable future Operating Surplus Ratio will be reported as having a significant adverse trend.

After considering these options it is considered that the best way council can serve its community and visitors is to accept that in the foreseeable future Operating Surplus Ratio will be reported as having a significant adverse trend.

## Asset Sustainability Ratio

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

The Shire of Wickepin's Asset Sustainability Ratio for the last 4 years has been:

- 2016 – 0.44
- 2017 – 0.33
- 2018 – 0.53
- 2019 – 0.23

The purpose of this ratio is to measure if the Local Government is replacing or renewing existing non-financial assets at the same rate at which these assets are wearing out. As per the Department's guidelines: standard is met if the ratio is 90% or higher.

The Asset Management plans for the Shire of Wickepin need to be updated to reflect the ongoing commitment to asset renewal and replacement.

The Shire of Wickepin would need to increase expenditure on capital renewal and replacement.

Further to this:

- a) The depreciation on each non-current asset is provided on a straight line basis, whereas the renewal expenditure on the asset is only incurred when an asset or component thereof reaches the end of its useful life. Accordingly, the rate of renewal does not always match with the rate of depreciation each year.
- b) The Shire of Wickepin's Asset Consumption Ratio has been greater than 90% for past three years compared to the Department's standard ratio of 50%. This ratio indicates aged condition of the local government's non-current assets. Based on the asset replacement undertaken by the Shire on an annual basis, the non-current assets are 10% consumed; indicating that sufficient amount of replacement expenditure is incurred to keep these assets in relatively good condition

## The Future

Although the Shire of Wickepin has control over rates and fees charged and most cash expenses incurred there are practical limits imposed in making Wickepin an affordable and friendly place to live whilst maintaining service levels to the community.

Other factors beyond the Shire of Wickepin's control can play a much more significant part in determining ratios. The most significant items are:

- Depreciation – This will change due to revaluations and changes in accounting standards.
- External grants – These may change in value or timing. Over the recent years a significant proportion of our operating grants have been prepaid. Should this not occur it would have a very significant adverse impact on the ratios in that year.

Although there limitations in what the Shire of Wickepin can do, an optimum outcome can be achieved for the Wickepin community by:

- Implementing rate rises as per the LTFP including the correction between GRV and UV and have no rate increases less than the LTFP.
- Monitoring service levels to ensure they are not higher than required.
- Monitoring and reviewing the implemented depreciation rates so that they accurately effect the decrease in value of each asset.

### **Conclusion**

Although the Operating Surplus Ratio is, and will almost certainly continue to be below the OAG standard it is not currently a significant concern.

The Own Source Revenue will continue to be below the OAG Standard.

In foreseeable future the Operating Surplus Ratio and the Own Source Revenue Ratio will be reported as having a significant adverse trend.

The Asset Sustainability Ratio, with completed Asset Management plans and updated Long term Financial Plan will be able to be reported in the Annual Financial Report 2019/2020.

Financial Year	Name	Current Ratio	Asset Consumption Ratio	Asset Renewal Ratio	Asset Sustainability Ratio	Debt Service Cover Ratio	Operating Surplus Ratio	Own Source Revenue Coverage Ratio
2012/2013	Wickepin	3.39	0.04	0.01	3.42	8.46	0.06	0.59
2012/2013	Standard	≥ 1.00	≥ 0.50	≥ 0.75	≥ 0.90	≥ 2.00	≥ 0.01	≥ 0.40
2012/2013	Standards Met	Yes	No	No	Yes	Yes	Yes	Yes
2013/2014	Wickepin	2.22	4.90	1.40	1.47	3.93	-0.86	0.41
2013/2014	Standard	≥ 1.00	≥ 0.50	≥ 0.75	≥ 0.90	≥ 2.00	≥ 0.01	≥ 0.40
2013/2014	Standards Met	Yes	Yes	Yes	Yes	Yes	No	Yes
2014/2015	Wickepin	7.23	0.98	1.04	1.06	15.34	-0.18	0.41
2014/2015	Standard	≥ 1.00	≥ 0.50	≥ 0.75	≥ 0.90	≥ 2.00	≥ 0.01	≥ 0.40
2014/2015	Standards Met	Yes	Yes	Yes	Yes	Yes	No	Yes
2015/2016	Wickepin	4.59	0.95	1.00	0.44	3.45	-2.30	0.28
2015/2016	Standard	≥ 1.00	≥ 0.50	≥ 0.75	≥ 0.90	≥ 2.00	≥ 0.01	≥ 0.40
2015/2016	Standards Met	Yes	Yes	Yes	No	Yes	No	No
2016/2017	Wickepin	6.62	0.94	1.00	0.33	50.25	-1.52	0.26
2016/2017	Standard	≥ 1.00	≥ 0.50	≥ 0.75	≥ 0.90	≥ 2.00	≥ 0.01	≥ 0.40
2016/2017	Standards Met	Yes	Yes	Yes	No	Yes	No	No
2017/2018	Wickepin	9.57	0.99	1.00	0.53	36.75	-1.60	0.29
2017/2018	Standard	≥ 1.00	≥ 0.50	≥ 0.75	≥ 0.90	≥ 2.00	≥ 0.01	≥ 0.40
2017/2018	Standards Met	Yes	Yes	Yes	No	Yes	No	No
2018/2019	Wickepin	5.05	0.96	n/a	0.23	28.3	-1.91	0.26
2018/2019	Standard	≥ 1.00	≥ 0.50	≥ 0.75	≥ 0.90	≥ 2.00	≥ 0.01	≥ 0.40
2018/2019	Standards Met	Yes	Yes	No	No	Yes	No	No