



Shire of
Wongan-Ballidu

Minutes (Confirmed)

Finance, Audit and Review
Committee Meeting
Tuesday, 01 March 2022



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Item 1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

The Chairperson declared the meeting opened at 4.02 pm.

Item 2. ATTENDANCE AND APOLOGIES

Attendees:

Cr K Anspach	Chairperson
Cr M Stephenson	Member
Cr B West	Member

Apologies:

Nil

Staff:

Alan Hart	Deputy Chief Executive Officer
Elizabeth (Liddy) Pudwell	Executive Assistant – Minutes

Item 3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

3.1 CONFIRMATION OF THE MINUTES OF THE FINANCE, AUDIT AND REVIEW COMMITTEE MEETING HELD ON 24 FEBRUARY 2021.

Moved: Cr West

Seconded: Cr Stephenson

That the Minutes of the Finance, Audit and Review Committee Meeting held on Wednesday, 24 February 2021 be CONFIRMED as a true and correct record of the proceedings.

**CARRIED 3/0
RESOLUTION: 010322 FARC**

3.2 CONFIRMATION OF THE MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING HELD ON 20 DECEMBER 2021.

Moved: Cr West

Seconded: Cr Stephenson

That the Minutes of the Finance and Audit Committee Meeting held on Wednesday, 20 December 2021 be CONFIRMED as a true and correct record of the proceedings.

**CARRIED 3/0
RESOLUTION: 020322 FARC**

Item 4. STAFF REPORTS

4.1 COMPLIANCE AUDIT RETURN 2021 (CAR)

FILE REFERENCE:	F1.7.1
REPORT DATE:	14 February 2022
APPLICANT/PROPONENT:	N/A
OFFICER DISCLOSURE OF INTEREST	Nil
PREVIOUS MEETING REFERENCES:	N/A
AUTHOR:	Alan Hart – Deputy Chief Executive Officer
ATTACHMENTS:	2021 Compliance Audit Return

PURPOSE OF REPORT:

To consider and adopt the 2021 Compliance Audit Return ('CAR').

BACKGROUND:

Council is required to carry out a Compliance Audit Return for the period 01 January 2022 to 31 December 2022 against the requirements included in the 2021 Compliance Audit Return.

The Compliance Audit Return is to be: -

- a) presented to Council at a meeting of the Council.
- b) adopted by the Council; and
- c) the adoption recorded in the Minutes of the meeting at which it is adopted.

The adopted Compliance Audit Return is to be submitted to the Director General, Department of Local Government and Communities by 31 March 2022.

COMMENT:

Regulation 14 requires that the local government's Audit Committee review the CAR and reports the results of that review to the Council prior to adoption by Council and the March submission to the Department.

POLICY REQUIREMENTS:

There are no known legislative requirements related to this item.

LEGISLATIVE REQUIREMENTS:

Local Government Act 1995 Section 7.13(i).

Local Government (Audit) Regulations Regulation 13, 14 and 15.

STRATEGIC IMPLICATIONS:

There are no strategic implications in relation to this item.

SUSTAINABILITY IMPLICATIONS:

➤ **Environment**

There are no known environmental impacts associated with this proposal.

➤ **Economic**

There are no known economic impacts associated with this proposal.

➤ **Social**

There are no known social implications associated with this proposal.

➤ **Financial Implications:**

There are no financial implications in relation to this item.

VOTING REQUIREMENTS:

ABSOLUTE MAJORITY REQUIRED: Yes

Moved: Cr West

Seconded: Cr Stephenson

That Finance and Audit Committee

1. ENDORSE the 2021 Compliance Audit Return as presented.
2. REFER the 2021 Compliance Audit Return to Council for adoption.

**CARRIED 3/0
RESOLUTION: 030322 FARC**



Wongan-Ballidu - Compliance Audit Return 2021

Certified Copy of Return

Please submit a signed copy to the Director General of the Department of Local Government, Sport and Cultural Industries together with a copy of the relevant minutes.

Commercial Enterprises by Local Governments					
No	Reference	Question	Response	Comments	Respondent
1	s3.59(2)(a) F&G Regs 7,9,10	Has the local government prepared a business plan for each major trading undertaking that was not exempt in 2021?	N/A	The shire has not undertaken any major trading transactions in 2021	Alan Hart
2	s3.59(2)(b) F&G Regs 7,8A, 8, 10	Has the local government prepared a business plan for each major land transaction that was not exempt in 2021?	N/A	The shire has not undertaken any major land transactions in 2021	Alan Hart
3	s3.59(2)(c) F&G Regs 7,8A, 8,10	Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2021?	N/A	The shire has not undertaken any major land transactions in 2021	Alan Hart
4	s3.59(4)	Has the local government complied with public notice and publishing requirements for each proposal to commence a major trading undertaking or enter into a major land transaction or a land transaction that is preparatory to a major land transaction for 2021?	N/A	The shire has not undertaken any major trading or major land transactions in 2021	Alan Hart
5	s3.59(5)	During 2021, did the council resolve to proceed with each major land transaction or trading undertaking by absolute majority?	No		Alan Hart



Delegation of Power/Duty					
No	Reference	Question	Response	Comments	Respondent
1	s5.16	Were all delegations to committees resolved by absolute majority?	N/A	The Shire has no delegations to committees	Alan Hart
2	s5.16	Were all delegations to committees in writing?	N/A	The Shire has no delegations to committees	Alan Hart
3	s5.17	Were all delegations to committees within the limits specified in section 5.17?	N/A	The Shire has no delegations to committees	Alan Hart
4	s5.18	Were all delegations to committees recorded in a register of delegations?	N/A	The Shire has no delegations to committees	Alan Hart
5	s5.18	Has council reviewed delegations to its committees in the 2020/2021 financial year?	N/A	The Shire has no delegations to committees	Alan Hart
6	s5.42(1) & s5.43 Admin Reg 18G	Did the powers and duties delegated to the CEO exclude those listed in section 5.43 of the Act?	Yes		Alan Hart
7	s5.42(1)	Were all delegations to the CEO resolved by an absolute majority?	Yes	Resolution 040221 OCM 24/02/21	Alan Hart
8	s5.42(2)	Were all delegations to the CEO in writing?	Yes	Resolution 040221 OCM 24/02/21	Alan Hart
9	s5.44(2)	Were all delegations by the CEO to any employee in writing?	Yes		Alan Hart
10	s5.16(3)(b) & s5.45(1)(b)	Were all decisions by the council to amend or revoke a delegation made by absolute majority?	N/A		Alan Hart
11	s5.46(1)	Has the CEO kept a register of all delegations made under Division 4 of the Act to the CEO and to employees?	Yes		Alan Hart
12	s5.46(2)	Were all delegations made under Division 4 of the Act reviewed by the delegator at least once during the 2020/2021 financial year?	Yes	OCM 24/2/21 RES 040221	Alan Hart
13	s5.46(3) Admin Reg 19	Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record in accordance with Admin Reg 19?	Yes		Alan Hart

Disclosure of Interest					
No	Reference	Question	Response	Comments	Respondent
1	s5.67	Where a council member disclosed an interest in a matter and did not have participation approval under sections 5.68 or 5.69, did the council member ensure that they did not remain present to participate in discussion or decision making relating to the matter?	Yes	OCM 26/05/21 Resolution 070521	Alan Hart



No	Reference	Question	Response	Comments	Respondent
2	s5.68(2) & s5.69 (5) Admin Reg 21A	Were all decisions regarding participation approval, including the extent of participation allowed and, where relevant, the information required by Admin Reg 21A, recorded in the minutes of the relevant council or committee meeting?	N/A		Alan Hart
3	s5.73	Were disclosures under section sections 5.65, 5.70 or 5.71A(3) recorded in the minutes of the meeting at which the disclosures were made?	Yes	OCM 28/04/21 Resolution 070421 OCM 6/05/21 Resolution 070521	Alan Hart
4	s5.75 Admin Reg 22, Form 2	Was a primary return in the prescribed form lodged by all relevant persons within three months of their start day?	Yes		Alan Hart
5	s5.76 Admin Reg 23, Form 3	Was an annual return in the prescribed form lodged by all relevant persons by 31 August 2021?	Yes		Alan Hart
6	s5.77	On receipt of a primary or annual return, did the CEO, or the mayor/president, give written acknowledgment of having received the return?	Yes		Alan Hart
7	s5.88(1) & (2)(a)	Did the CEO keep a register of financial interests which contained the returns lodged under sections 5.75 and 5.76?	Yes		Alan Hart
8	s5.88(1) & (2)(b) Admin Reg 28	Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70, 5.71 and 5.71A, in the form prescribed in Admin Reg 28?	Yes		Alan Hart
9	s5.88(3)	When a person ceased to be a person required to lodge a return under sections 5.75 and 5.76, did the CEO remove from the register all returns relating to that person?	Yes		Alan Hart
10	s5.88(4)	Have all returns removed from the register in accordance with section 5.88(3) been kept for a period of at least five years after the person who lodged the return(s) ceased to be a person required to lodge a return?	Yes		Alan Hart
11	s5.89A(1), (2) & (3) Admin Reg 28A	Did the CEO keep a register of gifts which contained a record of disclosures made under sections 5.87A and 5.87B, in the form prescribed in Admin Reg 28A?	Yes		Alan Hart
12	s5.89A(5) & (5A)	Did the CEO publish an up-to-date version of the gift register on the local government's website?	Yes		Alan Hart
13	s5.89A(6)	When a person ceases to be a person who is required to make a disclosure under section 5.87A or 5.87B, did the CEO remove from the register all records relating to that person?	Yes		Alan Hart



Department of
**Local Government, Sport
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No	Reference	Question	Response	Comments	Respondent
14	s5.89A(7)	Have copies of all records removed from the register under section 5.89A (6) been kept for a period of at least five years after the person ceases to be a person required to make a disclosure?	Yes		Alan Hart
15	Rules of Conduct Reg 11(1), (2) & (4)	Where a council member had an interest that could, or could reasonably be perceived to, adversely affect the impartiality of the person, did they disclose the interest in accordance with Rules of Conduct Reg 11(2)?* *Question not applicable after 2 Feb 2021	N/A		Alan Hart
16	Rules of Conduct Reg 11(6)	Where a council member disclosed an interest under Rules of Conduct Reg 11(2) was the nature of the interest recorded in the minutes?*	N/A		Alan Hart
		*Question not applicable after 2 Feb 2021			
17	s5.70(2) & (3)	Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to council or a committee, did that person disclose the nature and extent of that interest when giving the advice or report?	Yes	OCM 28/04/21 RES 060421 OCM 16/09/21 RES 150921	Alan Hart
18	s5.71A & s5.71B (5)	Where council applied to the Minister to allow the CEO to provide advice or a report to which a disclosure under s5.71A(1) relates, did the application include details of the nature of the interest disclosed and any other information required by the Minister for the purposes of the application?	N/A		Alan Hart
19	s5.71B(6) & s5.71B(7)	Was any decision made by the Minister under subsection 5.71B(6) recorded in the minutes of the council meeting at which the decision was considered?	N/A		Alan Hart
20	s5.103 Admin Regs 34B & 34C	Has the local government adopted a code of conduct in accordance with Admin Regs 34B and 34C to be observed by council members, committee members and employees?*	Yes		Alan Hart
		*Question not applicable after 2 Feb 2021			
21	Admin Reg 34B(5)	Has the CEO kept a register of notifiable gifts in accordance with Admin Reg 34B(5)?*	Yes		Alan Hart
		*Question not applicable after 2 Feb 2021			



Department of
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and Cultural Industries**

No	Reference	Question	Response	Comments	Respondent
22	s5.104(1)	Did the local government prepare and adopt, by absolute majority, a code of conduct to be observed by council members, committee members and candidates within 3 months of the prescribed model code of conduct coming into operation (3 February 2021)?	Yes	OCM 28/4/21 Resolution 050421	Alan Hart
23	s5.104(3) & (4)	Did the local government adopt additional requirements in addition to the model code of conduct? If yes, does it comply with section 5.104(3) and (4)?	No		Alan Hart
24	s5.104(7)	Did the CEO publish an up-to-date version of the adopted code of conduct on the local government's website?	Yes		Alan Hart
25	s5.51A(1) & (3)	Did the CEO prepare, and implement and publish an up-to-date version on the local government's website, a code of conduct to be observed by employees of the local government?	Yes	Updated May 2021	Alan Hart

Disposal of Property

No	Reference	Question	Response	Comments	Respondent
1	s3.58(3)	Where the local government disposed of property other than by public auction or tender, did it dispose of the property in accordance with section 3.58(3) (unless section 3.58(5) applies)?	Yes		Alan Hart
2	s3.58(4)	Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property?	Yes		Alan Hart



Elections					
No	Reference	Question	Response	Comments	Respondent
1	Elect Regs 30G(1) & (2)	Did the CEO establish and maintain an electoral gift register and ensure that all disclosure of gifts forms completed by candidates and donors and received by the CEO were placed on the electoral gift register at the time of receipt by the CEO and in a manner that clearly identifies and distinguishes the forms relating to each candidate?	Yes		Alan Hart
2	Elect Regs 30G(3) & (4)	Did the CEO remove any disclosure of gifts forms relating to an unsuccessful candidate, or a successful candidate that completed their term of office, from the electoral gift register, and retain those forms separately for a period of at least two years?	N/A	There were no gifts disclosed during the 2021 Election	Alan Hart
3	Elect Regs 30G(5) & (6)	Did the CEO publish an up-to-date version of the electoral gift register on the local government's official website in accordance with Elect Reg 30G(6)?	Yes		Alan Hart



Finance					
No	Reference	Question	Response	Comments	Respondent
1	s7.1A	Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act?	Yes		Alan Hart
2	s7.1B	Where the council delegated to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority?	N/A	The shire has not delegated any powers to the Audit and Risk Committee	Alan Hart
3	s7.9(1)	Was the auditor's report for the financial year ended 30 June 2021 received by the local government by 31 December 2021?	Yes	Received on the 21/12/21	Alan Hart
4	s7.12A(3)	Where the local government determined that matters raised in the auditor's report prepared under s7.9 (1) of the Act required action to be taken, did the local government ensure that appropriate action was undertaken in respect of those matters?	N/A	The Shire received an Unqualified Audit for the 2020/21 year	Alan Hart
5	s7.12A(4)(a) & (4)(b)	Where matters identified as significant were reported in the auditor's report, did the local government prepare a report that stated what action the local government had taken or intended to take with respect to each of those matters? Was a copy of the report given to the Minister within three months of the audit report being received by the local government?	N/A		Alan Hart
6	s7.12A(5)	Within 14 days after the local government gave a report to the Minister under s7.12A(4)(b), did the CEO publish a copy of the report on the local government's official website?	N/A		Alan Hart
7	Audit Reg 10(1)	Was the auditor's report for the financial year ending 30 June received by the local government within 30 days of completion of the audit?	Yes	Audit Report and Financial Statements submitted to the Department on 13/01/21	Alan Hart



Integrated Planning and Reporting					
No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 19C	Has the local government adopted by absolute majority a strategic community plan? If Yes, please provide the adoption date or the date of the most recent review in the Comments section?	Yes	OCM 15 December 2021. Review and community consultation undertaken in 2021.	Alan Hart
2	Admin Reg 19DA (1) & (4)	Has the local government adopted by absolute majority a corporate business plan? If Yes, please provide the adoption date or the date of the most recent review in the Comments section?	Yes	OCM 26/06/17 RES 090617	Alan Hart
3	Admin Reg 19DA (2) & (3)	Does the corporate business plan comply with the requirements of Admin Reg 19DA(2) & (3)?	Yes		Alan Hart

Local Government Employees					
No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 18C	Did the local government approve a process to be used for the selection and appointment of the CEO before the position of CEO was advertised?	N/A		Alan Hart
2	s5.36(4) & s5.37 (3) Admin Reg 18A	Were all CEO and/or senior employee vacancies advertised in accordance with Admin Reg 18A?	N/A		Alan Hart
3	Admin Reg 18E	Was all information provided in applications for the position of CEO true and accurate?	N/A		Alan Hart
4	Admin Reg 18F	Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position under section 5.36(4)?	N/A		Alan Hart
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss senior employee?	N/A		Alan Hart
6	s5.37(2)	Where council rejected a CEO's recommendation to employ or dismiss a senior employee, did it inform the CEO of the reasons for doing so?	N/A		Alan Hart



Official Conduct					
No	Reference	Question	Response	Comments	Respondent
1	s5.120	Has the local government designated a senior employee as defined by section 5.37 to be its complaints officer?	Yes	CEO	Alan Hart
2	s5.121(1) & (2)	Has the complaints officer for the local government maintained a register of complaints which records all complaints that resulted in a finding under section 5.110(2)(a)? Does the complaints register include all information required by section 5.121 (2)?	Yes	No complaints were received in 2021	Alan Hart
3	s5.121(3)	Has the CEO published an up-to-date version of the register of the complaints on the local government's official website?	Yes		Alan Hart

Optional Questions					
No	Reference	Question	Response	Comments	Respondent
1	Financial Management Reg 5 (2)(c)	Did the CEO review the appropriateness and effectiveness of the local government's financial management systems and procedures in accordance with Financial Management Reg 5(2)(c) within the three years prior to 31 December 2021? If yes, please provide the date of council's resolution to accept the report.	Yes	OCM 27/08/19 RES 010819	Alan Hart
2	Audit Reg 17	Did the CEO review the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislative compliance in accordance with Audit Reg 17 within the three years prior to 31 December 2021? If yes, please provide date of council's resolution to accept the report.	No	Review to be undertaken in 2022	Alan Hart
3	s5.87C	Where a disclosure was made under sections 5.87A or 5.87B, was the disclosure made within 10 days after receipt of the gift? Did the disclosure include the information required by section 5.87C?	N/A	No gifts were declared in 2021	Alan Hart
4	s5.90A(2) & (5)	Did the local government prepare, adopt by absolute majority and publish an up-to-date version on the local government's website, a policy dealing with the attendance of council members and the CEO at events ?	Yes	Council Policy 5.22 Resolution 020820 OCM 26 August 2020	Alan Hart



No	Reference	Question	Response	Comments	Respondent
5	s5.96A(1), (2), (3) & (4)	Did the CEO publish information on the local government's website in accordance with sections 5.96A(1), (2), (3), and (4)?	Yes		Alan Hart
6	s5.128(1)	Did the local government prepare and adopt (by absolute majority) a policy in relation to the continuing professional development of council members?	Yes	Council Policy 5.23 Resolution 020920 OCM 23 September 2020	Alan Hart
7	s5.127	Did the local government prepare a report on the training completed by council members in the 2020/2021 financial year and publish it on the local government's official website by 31 July 2021?	Yes		Alan Hart
8	s6.4(3)	By 30 September 2021, did the local government submit to its auditor the balanced accounts and annual financial report for the year ending 30 June 2021?	Yes		Alan Hart
9	s.6.2(3)	When adopting the annual budget, did the local government take into account all its expenditure, revenue and income?	Yes		Alan Hart

Tenders for Providing Goods and Services

No	Reference	Question	Response	Comments	Respondent
1	F&G Reg 11A(1) & (3)	Did the local government comply with its current purchasing policy [adopted under F&G Reg 11A(1) & (3)] in relation to the supply of goods or services where the consideration under the contract was, or was expected to be, \$250,000 or less or worth \$250,000 or less?	Yes		Alan Hart
2	s3.57 F&G Reg 11	Subject to F&G Reg 11(2), did the local government invite tenders for all contracts for the supply of goods or services where the consideration under the contract was, or was expected to be, worth more than the consideration stated in F&G Reg 11(1)?	N/A		Alan Hart
3	F&G Regs 11(1), 12(2), 13, & 14(1), (3), and (4)	When regulations 11(1), 12(2) or 13 required tenders to be publicly invited, did the local government invite tenders via Statewide public notice in accordance with F&G Reg 14(3) and (4)?	Yes		Alan Hart
4	F&G Reg 12	Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than a single contract?	N/A		Alan Hart



No	Reference	Question	Response	Comments	Respondent
5	F&G Reg 14(5)	If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer notice of the variation?	N/A		Alan Hart
6	F&G Regs 15 & 16	Did the local government's procedure for receiving and opening tenders comply with the requirements of F&G Regs 15 and 16?	Yes		Alan Hart
7	F&G Reg 17	Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17 and did the CEO make the tenders register available for public inspection and publish it on the local government's official website?	Yes		Alan Hart
8	F&G Reg 18(1)	Did the local government reject any tenders that were not submitted at the place, and within the time, specified in the invitation to tender?	No		Alan Hart
9	F&G Reg 18(4)	Were all tenders that were not rejected assessed by the local government via a written evaluation of the extent to which each tender satisfies the criteria for deciding which tender to accept?	N/A		Alan Hart
10	F&G Reg 19	Did the CEO give each tenderer written notice containing particulars of the successful tender or advising that no tender was accepted?	Yes		Alan Hart
11	F&G Regs 21 & 22	Did the local government's advertising and expression of interest processes comply with the requirements of F&G Regs 21 and 22?	N/A		Alan Hart
12	F&G Reg 23(1) & (2)	Did the local government reject any expressions of interest that were not submitted at the place, and within the time, specified in the notice or that failed to comply with any other requirement specified in the notice?	N/A		Alan Hart
13	F&G Reg 23(3) & (4)	Were all expressions of interest that were not rejected under F&G Reg 23 (1) & (2) assessed by the local government? Did the CEO list each person as an acceptable tenderer?	N/A		Alan Hart
14	F&G Reg 24	Did the CEO give each person who submitted an expression of interest a notice in writing of the outcome in accordance with F&G Reg 24?	N/A		Alan Hart
15	F&G Regs 24AD(2) & (4) and 24AE	Did the local government invite applicants for a panel of pre-qualified suppliers via Statewide public notice in accordance with F&G Reg 24AD(4) and 24AE?	N/A		Alan Hart



No	Reference	Question	Response	Comments	Respondent
16	F&G Reg 24AD(6)	If the local government sought to vary the information supplied to the panel, was every reasonable step taken to give each person who sought detailed information about the proposed panel or each person who submitted an application notice of the variation?	N/A		Alan Hart
17	F&G Reg 24AF	Did the local government's procedure for receiving and opening applications to join a panel of pre-qualified suppliers comply with the requirements of F&G Reg 16, as if the reference in that regulation to a tender were a reference to a pre-qualified supplier panel application?	N/A		Alan Hart
18	F&G Reg 24AG	Did the information recorded in the local government's tender register about panels of pre-qualified suppliers comply with the requirements of F&G Reg 24AG?	N/A		Alan Hart
19	F&G Reg 24AH(1)	Did the local government reject any applications to join a panel of pre-qualified suppliers that were not submitted at the place, and within the time, specified in the invitation for applications?	N/A		Alan Hart
20	F&G Reg 24AH(3)	Were all applications that were not rejected assessed by the local government via a written evaluation of the extent to which each application satisfies the criteria for deciding which application to accept?	N/A		Alan Hart
21	F&G Reg 24AI	Did the CEO send each applicant written notice advising them of the outcome of their application?	N/A		Alan Hart
22	F&G Regs 24E & 24F	Where the local government gave regional price preference, did the local government comply with the requirements of F&G Regs 24E and 24F?	N/A		Alan Hart

I certify this Compliance Audit Return has been adopted by council at its meeting on _____

Signed Mayor/President, Wongan-Ballidu

Signed CEO, Wongan-Ballidu

4.2 2020/21 AUDIT REPORT- MATERIAL MATTERS

FILE REFERENCE:	F1.3.2
REPORT DATE:	16 February 2022
APPLICANT/PROPONENT:	N/A
OFFICER DISCLOSURE OF INTEREST	NIL
PREVIOUS MEETING REFERENCES:	SCM 07 February 2022
AUTHOR:	Alan Hart-Deputy Chief Executive Officer
ATTACHMENTS:	Independent Audit Report Local Government Operation Guideline 18 – June 2013.

PURPOSE OF REPORT:

To for the committee to consider the 2020/21 Auditors finding of an adverse trend in relation to the Operating Surplus which is below the Department of Local Government, Heritage, Culture and the Arts (DLGSC) benchmark and other matters raised in the annual audit and the timeframes for implementation of the recommended actions.

BACKGROUND:

Section 7.12A of the Local Government Act requires Local Governments to consider any matters identified as significant by the Auditors and what action the Local Government has taken or intends to take in respect of these matters. In the Auditors report, a significant adverse trend in the financial position of the Shire was identified in relation to the Operating Surplus of the Shire.

COMMENT:

Operating Surplus Ratio

The benchmark for this ratio as set by the DLGSCI is between 0.01-0.15, the ratio for the Shire in 2020/21 was (0.27), which is below the minimum standard.

This ratio indicates an ability to cover operational costs and have revenues available for capital funding or other purposes.

The Shire's 2020/21 result is (0.27), in comparison, in 2019/20 it was (0.05) and in 2018/19 (0.20). This is well below the minimum standard set by the Department of 0.01.

Accounting standard guidelines indicate that a sustained period of deficits will erode the local governments ability to maintain its both operational service level and asset base. The consistent negative values are mainly due to asset depreciation, which the shire increased significantly with the introduction of fair value accounting.

To some degree this ratio does not accurately represent the Shire's scenario, where a significant proportion of infrastructure renewal (expensed through depreciation) is met by capital grant income. This capital grant income is excluded from the operational revenue and is therefore not included in calculating this ratio.

To address this adverse ratio, it is necessary to re-evaluate the estimated useful lives of the Shire's assets and if necessary, amend the depreciation rates that are applied. This is currently being undertaken through the development of the Shire's Asset Management Plans. A large part of the preparation of these plans are to verify depreciation values and assessments of useful live. It is possible that once this is complete, depreciation expense can decrease if the current values are overstated.

It is also noted that the current ratio benchmarks are a 'one size fits all' approach. It is understood that many rural local governments have not had an Operating Surplus Ratio that met the standards. The Department and the Office of Auditor General have been working on this issue and it is expected that changes will occur this financial year to address this issue.

Recommended Action

The Operating Surplus ratio requires Council to ensure that its own revenue source grow at the same or greater rate than operating expenditure. The shire is currently preparing Asset Management Plans and once complete and adopted by Council, depreciation rates will be reviewed based on their estimated useful life.

It has to be noted that specifically in relation to depreciation expense, like many country local governments, the Shire will struggle to fully fund asset depreciation via its own revenue sources as there is a reliance on grant funding such as Regional Road Group and Roads to Recovery to assist with asset renewal expenditure.

Other Non-Compliance Issues

The audit report did also note some non-compliance issues. They were in relation to non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any relevant written law.

These issues are currently being addressed by the administration and the following table details the findings and the action currently being undertaken by administration to address them.

Audit Finding	Administration Recommended Action
No reporting of Asset Renewal Funding Ratio	The Long-Term Financial Plan (10-year plan) is currently in draft format. With the Strategic Community Plan now adopted by Council, the Corporate Business plan needs to be prepared and the actions in the plan need to be captured in the Long-Term Financial plan.
4 yearly Risk Management Review of the Shire's systems and procedures.	This review is currently in draft form and will be presented to the Audit Committee for their consideration at a future meeting.
Approval of Invoices and purchase orders outside delegated authority.	Purchase limits have been reviewed and are now in-line with the delegated authority
Verbal Quotes not obtained for purchase orders up to \$10,000	The Shire's purchasing system has been modified to allow the capture of a verbal quote to comply with this requirement.

In accordance with the Local Government Act, a report must be forwarded to the Minister within 3 months after the audit report is received by the Local Government and a copy of the report must be published on the Shire's website within 14 days of the report being received by the Council. This report is currently being prepared and will be posted on the website and sent to the minister this week.

POLICY REQUIREMENTS:

There are no policy requirements in relation to this item

LEGISLATIVE REQUIREMENTS:

Section 7.12A of the Local Government Act

STRATEGIC IMPLICATIONS:

An adverse Operating Surplus ratio indicates that a local government has a limited ability to maintain its asset base.

SUSTAINABILITY IMPLICATIONS:

➤ ***Environment***

There are no known significant environmental implications associated with this item

➤ ***Economic***

There are no known significant Economic implications associated with this item

➤ ***Social***

There are no known social implications associated with this item.

FINANCIAL IMPLICATIONS:

There are no financial implications in relation to this matter.

VOTING REQUIREMENTS:

ABSOLUTE MAJORITY REQUIRED: No

MOVED: Cr Stephenson

SECONDED: Cr West

That the Audit Committee endorse the officer's recommendations as detailed in the report.

CARRIED 3/0

RESOLUTION: 040322FARC



Auditor General

INDEPENDENT AUDITOR'S REPORT 2021 Shire of Wongan-Ballidu

To the Councillors of the Shire of Wongan-Ballidu

Report on the audit of the annual financial report

Opinion

I have audited the financial report of the Shire of Wongan-Ballidu (Shire) which comprises:

- the Statement of Financial Position at 30 June 2021, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended
- Notes comprising a summary of significant accounting policies and other explanatory information
- the Statement by the Chief Executive Officer.

In my opinion the financial report of the Shire of Wongan-Ballidu:

- is based on proper accounts and records
- fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2021 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities section below. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive Officer and Council for the financial report

The Chief Executive Officer (CEO) of the Shire is responsible for the preparation and fair presentation of the financial report in accordance with the requirements of the Act, the Regulations and Australian Accounting Standards. The CEO is also responsible for managing internal control (as required by the CEO) to ensure the financial report is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

Auditor's responsibility for the audit of the financial report

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial report. The objectives of my audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

A further description of my responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website. This description forms part of my auditor's report and can be found at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

Report on other legal and regulatory requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:
 - a) The Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries standard for the past 3 years. The financial ratios are reported at Note 33 of the annual financial report.
- (ii) The following material matters indicating non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any other relevant written law were identified during the course of my audit:
 - a) The Shire has not reported the Asset Renewal Funding Ratio for 2021, 2020 and 2019 in the annual financial report as required by section 50(1)(c) of the Local Government (Financial Management) Regulations 1996, as management has not updated the asset management plan and long term financial plan.
 - b) A review of the appropriateness and effectiveness of the Shire's system and procedures in relation to risk management, internal control and legislative compliance was not completed by the CEO at least once every three financial years, as required by paragraph 17 of the Local Government (Audit) Regulations 1996. The last review took place in 2017.
 - c) Approval of invoices and purchase orders occurred above the delegated authority limit of senior management staff members of the Shire.
 - d) Verbal quotes were not obtained for purchase orders of up to \$10,000 in 78% of our samples. In addition, the Shire's purchasing system does not make provision for the verbal quotation to be documented on the purchase order.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the financial report were supported by verifiable information and reasonable assumptions.

Other matter

The financial ratios for 2019 and 2020 in Note 33 of the financial report were audited by another auditor when performing their audit of the Shire for the years ending 30 June 2019 and 30 June 2020. The auditor expressed an unmodified opinion on the financial report for those years.

Other information

The other information is the information in the entity's annual report for the year ended 30 June 2021, but not the financial report and my auditor's report. The CEO is responsible for the preparation and the Council for overseeing the other information.

My opinion does not cover the other information and, accordingly, I do not express any form of assurance conclusion thereon.

Matters relating to the electronic publication of the audited financial report

This auditor's report relates to the financial report of the Shire of Wongan-Ballidu for the year ended 30 June 2021 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Grant Robinson
Assistant Auditor General Financial Audit
Delegate of the Auditor General for Western Australia
Perth, Western Australia
21 December 2021



Government of **Western Australia**
Department of **Local Government and Communities**

Local Government Operational Guidelines

Number 18 – June 2013

Financial Ratios



1. Introduction

This guideline is intended to provide a clear explanation of each ratio required to be included in the annual financial report under section 6.4(2) of the *Local Government Act 1995* and Regulation 50 of the *Local Government (Financial Management) Regulations 1996*.

An explanation of the purpose of each ratio is included to ensure staff and elected members are able to interpret what the ratio result means for the local government.

Definitions are included to fully describe what is meant by the terms used in the ratios.

2. Purpose

The guideline is designed to assist local government officers in preparing financial ratios, and provide elected members and officers with an understanding of each ratio.

Financial ratios are designed to provide users of annual financial reports with a clearer interpretation of the performance and financial results of a local government and a comparison of trends over a number of years.

On occasions, there have been inconsistencies in the calculation and interpretation of financial ratios. If information is to be meaningful, it should be prepared accurately and consistently. Ratios may be disclosed as a percentage or a factor of one.

These indicators provide a short term measure of the financial sustainability of local governments and complement the national criteria endorsed by the Local Government and Planning Ministers' Council. They provide for a comprehensive

tool for monitoring the financial sustainability of local governments.

3. Legislation

Financial ratios are included in the notes to the annual financial report. These ratios provide users with key indicators of the financial performance of a local government and include comparisons with two prior years.

Under regulation 50 of the *Local Government (Financial Management) Regulations 1996*, the annual financial report is to include, for the financial year covered by the annual financial report and the two preceding financial years, the following:

- a) current ratio;
- b) asset consumption ratio;
- c) asset renewal funding ratio;
- d) asset sustainability ratio;
- e) debt service cover ratio;
- f) operating surplus ratio; and
- g) own source revenue coverage ratio.

As several of the ratios are to be reported for the first time in the 2012/13 financial year, local governments are expected to make reasonable efforts to calculate the ratios for the two prior years. However comparatives for 2010/11 and 2011/12 are not required for the assets consumption ratio or asset renewal funding ratio.

This guideline analyses each of these ratios according to the information they provide. The ratios are classified under the following headings:

- (i) liquidity ratio;
- (ii) debt ratio;
- (iii) coverage ratio;
- (iv) financial performance ratio; and
- (v) asset management ratios.

4. Ratios

4.1 Liquidity Ratio

Liquidity refers to how quickly and cheaply an asset can be converted into cash. A local government's liquidity is measured by the 'Current Ratio'. This ratio provides information on the ability

of a local government to meet its short-term financial obligations out of unrestricted current assets. The calculation of this ratio is explained as follows:

Current Ratio	
Current Ratio =	$\frac{(\text{Current Assets MINUS Restricted Assets})}{(\text{Current Liabilities MINUS Liabilities Associated with Restricted Assets})}$
Purpose:	This is a modified commercial ratio designed to focus on the liquidity position of a local government that has arisen from past year's transactions.
Standards	The standard is not met if the ratio is lower than 1:1 (less than 100%) The standard is met if the ratio is greater than 1:1 (100% or greater) A ratio less than 1:1 means that a local government does not have sufficient assets that can be quickly converted into cash to meet its immediate cash commitments. This may arise from a budget deficit from the past year, a Council decision to operate an overdraft or a decision to fund leave entitlements from next year's revenues.
Definitions:	
'Current Assets'	Means the total current assets as shown in the balance sheet.
'Current Liabilities'	Means the total current liabilities as shown in the balance sheet.
'Restricted Asset'	Means an asset the use of which is restricted, wholly or partly, by a law made or a requirement imposed outside of the control of the local government, where the restriction is relevant to assessing the performance, financial position or financing and investment of the local government. This includes all section 6.11 cash reserves as these are restricted by the Act '... by a law made ...', unspent specific grants and other restricted cash identified by the local government, as these are restricted by '... a requirement imposed outside of the control of the local government ...'
'Liabilities Associated with Restricted Assets'	Means the lesser value of a current liability or the cash component of restricted assets held to fund that liability. Commonly this is the cash reserve for long service leave, annual leave and other employee entitlements. Ideally the cash reserve amount should be the same as the provision amount but this is rarely the case. <ul style="list-style-type: none"> • Only make a deduction if there is a cash reserve. • If the cash reserve is greater than the provision amount, only deduct the amount of the provision. • If the provision amount is greater than the cash reserve, only deduct the amount of the cash reserve. • If the cash reserve is for the purpose of long service leave (or other specific leave) then only adjust for that specific leave provision and not the total of all leave provisions.

4.2 Debt Ratio

A local government's ability to service debt is measured by the 'Debt Service Cover Ratio'. This is the measurement of a local government's ability to produce enough cash to cover its debt payments.

Debt Service Cover Ratio	
Debt Service Cover Ratio =	$\frac{\text{Annual Operating Surplus BEFORE Interest and Depreciation}}{\text{Principal and Interest}}$
Purpose:	This ratio is the measurement of a local government's ability to repay its debt including lease payments. The higher the ratio is, the easier it is for a local government to obtain a loan.
Standards	A Basic standard is achieved if the ratio is greater than or equal to two. An Advanced standard is achieved if the ratio is greater than five.
Definitions:	
'Annual Operating Surplus Before Interest and Depreciation'	Means operating revenue minus net operating expense.
'Operating Revenue'	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
'Net Operating Expense'	Means operating expense excluding interest and depreciation.
'Interest'	Means interest expense for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.
'Depreciation'	Has the meaning given in the AAS.
'Principal and Interest'	Means all principal and interest for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.

4.3 Coverage Ratio

A local government's ability to cover its costs through its own taxing and revenue efforts is measured by the 'Own Source Revenue Coverage Ratio'.

Own Source Revenue Coverage Ratio	
Own Source Revenue Coverage Ratio =	$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$
Purpose:	<p>This ratio is the measurement of a local government's ability to cover its costs through its own revenue efforts.</p> <p>Different standards have been established to recognise the varying revenue raising capacities across the sector, where some rural and remote local governments have limited rate bases and revenue raising capacity, whereas others such as major metropolitan and regional local governments have significant rate bases and other own source revenues.</p>
Standards	<p>A Basic standard is achieved if the ratio is between 40% and 60% (or 0.4 and 0.6).</p> <p>An Intermediate standard is achieved if the ratio is between 60% and 90% (or 0.6 and 0.9).</p> <p>An Advanced standard is achieved if the ratio is greater than 90% (or > 0.9).</p>
Definitions:	
'Own Source Operating Revenue'	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.

***Note:** Typically local governments disclose, in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

4.4 Financial Performance Ratio

A key indicator of a local government's financial performance is measured by the 'Operating Surplus Ratio'. If a local government consistently achieves a positive operating surplus ratio and has soundly based long term financial plans showing that it can continue to do so in future, having regard to asset management and the community's service level needs, then it is considered financially sustainable.

A positive ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt.

A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

Operating Surplus Ratio	
Operating Surplus Ratio =	$\frac{(\text{Operating Revenue MINUS Operating Expense})}{\text{Own Source Operating Revenue}}$
Purpose:	This ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes.
Standards:	Basic Standard between 1% and 15% (0.01 and 0.15) Advanced Standard > 15% (>0.15).
Definitions:	
'Operating Revenue'	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.
'Own Source Operating Revenue'	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.

*Note: Typically local governments disclose in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

4.5 Asset Consumption Ratio

This ratio seeks to highlight the aged condition of a local government's stock of physical assets.

If a local government is responsibly maintaining and renewing / replacing its assets in accordance with a well prepared

asset management plan, then the fact that its Asset Consumption Ratio may be relatively low and/or declining should not be cause for concern – providing it is operating sustainably.

Asset Consumption Ratio	
Asset Consumption Ratio=	$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$
Purpose:	This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
Standards:	Standard is met if the ratio can be measured and is 50% or greater (0.50 or >). Standard is improving if the ratio is between 60% and 75% (0.60 and 0.75).
Definitions:	
'Depreciated Replacement Cost of Assets'	Has the meaning given in the AAS. AASB 136 paragraph Aus 6.2 defines depreciated replacement cost as '... 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.'
'Current Replacement Cost'	In AASB 136 paragraph Aus 32.2 'The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.' In addition, AASB 13 paragraph B8 provides 'The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).' More detailed explanation is included in AASB 13 paragraph B9.
'Current Replacement Cost of Depreciable Assets'	Means the cost of replacing assets at current prices.

Note that the values for depreciated replacement cost of depreciable assets and the current replacement cost of depreciable assets are not amounts disclosed in the annual financial statements and the calculations involved should be discussed with auditors.

4.6 Asset Sustainability Ratio

This ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on **renewal** or **replacement** of assets, relative to depreciation expense. Expenditure on new or additional assets is excluded.

Depreciation expense represents an estimate of the extent to which the assets have been consumed during that period. Measuring assets at fair value is critical to the calculation of a valid depreciation expense value.

Asset Sustainability Ratio	
Asset Sustainability Ratio =	$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$
Purpose:	This ratio indicates whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
Standards:	Standard is met if the ratio can be measured and is 90% (or 0.90) Standard is improving if this ratio is between 90% and 110% (or 0.90 and 1.10).
Definitions:	
'Capital Renewal and Replacement Expenditure'	Means expenditure to renew or replace existing assets. In other words, it is expenditure on an existing asset to return the service potential or the life of the asset up to that which it had originally. It is periodically required expenditure. As it reinstates existing service potential it may reduce operating and maintenance costs.
'Depreciation'	Has the meaning given in the AAS. Under AASB 116 paragraph 6, ' Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.' In other words, depreciation represents the allocation of the value of an asset (its cost less its residual value) over its estimated useful life to the local government. Depreciation expense can be sourced from the audited annual financial report.
'Depreciable Amount'	Under AASB 116 paragraph 6, 'Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.'
'Residual Value'	Under AASB 116 paragraph 6, 'The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.'
'Useful Life'	Under AASB 116 paragraph 6, 'Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.'

4.7 Asset Renewal Funding Ratio

This ratio indicates whether the local government has the financial capacity to fund asset renewal as required, and can continue to provide existing levels of services in future, without additional operating income; or reductions in operating expenses.

The ratio is calculated from information included in the local government's Long Term Financial Plan and Asset Management Plan; **not** the Annual Financial Report. For the ratio to be meaningful, a consistent discount rate should generally be applied in Net Present Value (NPV) calculations.

Asset Renewal Funding Ratio	
Asset Renewal Funding Ratio =	$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$
Purpose:	This ratio is a measure of the ability of a local government to fund its projected asset renewal / replacements in the future.
Standards:	Standard is met if the ratio is between 75% and 95% (or 0.75 and 0.95). Standard is improving if the ratio is between 95% and 105% (or 0.95 and 1.05), and the ASR falls within the range 90% to 110%, and ACR falls within the range 50% to 75%.
Definitions:	
'NPV'	Means Net Present Value.
'Planned Capital Renewals'	Means capital renewal and replacement expenditure as estimated in the long-term financial plan.
'NPV of Planned Capital Renewals' is therefore	The total of all capital expenditures on renewals and replacement included in the 10-year long term financial plan, expressed in current year values.
'Required Capital Expenditure'	Means capital renewal and replacement expenditure as estimated in the asset management plan.
'NPV of Required Capital Expenditure' is therefore	The total of all required capital expenditures on renewals in the 10-year forecast period as indicated in the asset management plans or asset forecasts, expressed in current year values.

5. Ratio Calculations

Detailed calculations of each of the seven ratios are included in this section. The calculations are based on the extracts of financial information from annual financial statements or long-term and asset management plans included at section six (6) of this guideline.

Ratio Calculations are for the year 200Y				
a) Current Ratio	(Current Assets MINUS Restricted Assets)			
	(Current Liabilities MINUS Liabilities Associated with Restricted Assets)			
=	(1) <u>(8,156,143 – 6,728,955)</u>	(2) <u>(2,033,690 – 644,160)</u>	=	(3) <u>1,427,188</u> 1,389,530 = 1.03:1 (or 103%)
	(3)	(4)		
[Numbers taken from statement of financial position and cash and cash equivalents note]				

b) Debt Service Cover Ratio	Annual Operating Surplus BEFORE Interest and Depreciation			
	Principal and Interest			
=	(5) <u>(20,707,319+44,048) -((21,365,583+50,000</u>	(6) <u>+98,325) -(6,907,407+96,257))</u>	(7) <u>6,241,123</u>	(8) <u>166,854</u> = 37.4
	(9)	(10)	(11)	(12)
	(12)	(11)		
[Numbers taken from statement of comprehensive income by nature or type and rate setting statement]				

c) Own Source Revenue Coverage Ratio	Own Source Operating Revenue			
	Operating Expense			
=	(13) <u>(8,165,843+4,999,717+498,964+55,200+44,048)</u>	(14) <u>(21,365,583+98,325+50,000)</u>	(15) <u>13,763,772</u>	(16) <u>21,513,908</u> = 0.64 (or 64%)
	(17)	(18)	(17)	
[Numbers drawn from statement of comprehensive income by nature or type]				

Ratio Calculations are for the year 200Y

d) Operating Surplus Ratio	$\frac{\text{(Operating Revenue MINUS Operating Expense)}}{\text{Own Source Operating Revenue}}$				
=	$\frac{\overset{[5]}{(20,707,319+44,048)} - \overset{[6]}{(21,513,908)}}{\underset{[18]}{13,763,772}}$	=	$\frac{-762,541}{13,763,772}$	=	-5.5% (or -0.055)

[Numbers drawn from statement of comprehensive income by nature or type and Own Source Operating Revenue same as in c) above]

e) Asset Consumption Ratio	$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$				
=	$\frac{\overset{[19]}{(18,847,904+183,226,214)}}{\underset{[21]}{(29,284,194+283,543,863)}}$	=	$\frac{202,074,118}{312,828,057}$	=	64.6% (or 0.646)

[Numbers drawn from notes 7a. and 8a.]

f) Asset Sustainability Ratio	$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation Expense}}$				
=	$\frac{\overset{[23]}{660,185^*} + \overset{[24]}{2,031,457} + \overset{[25]}{46,798} + \overset{[26]}{2,976,240}}{\underset{[10]}{6,907,407}}$	=	$\frac{5,714,680}{6,907,407}$	=	82.7% (or 0.827)

*Note: while described as land and building in the rate setting statement, for the purpose of this example the expenditure is assumed to all relate to buildings.

[Numbers drawn from rate setting statement]

g) Asset Renewal Funding Ratio	$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$			
NPV Planned from LTF Plan NRV Required from AM Plan	=	$\frac{\overset{[27]}{67,398}}{\underset{[28]}{73,099}}$	=	92.2% (or 0.922)

[Numbers drawn from Long Term Financial Plan (planned renewals) and Asset Management Plan (required renewals)]

6. Extracts of Financial Information from which ratios are calculated

6.1 Annual Financial Statements Extracts

Statement Of Financial Position For The Year Ended 30 June 201Y			
	NOTE	Current Actual \$	Prior Actual \$
Current Assets			
Cash and Cash Equivalents	3	6,781,850	6,005,704
Investments	4	190,000	0
Trade and Other Receivables		527,980	594,914
Inventories		656,313	590,852
Total Current Assets		8,156,143 (1)	7,191,470
Non-Current Assets			
Receivables		475,355	461,669
Inventories		2,878,873	2,000,000
Property, Plant and Equipment		31,578,071	31,445,812
Infrastructure		183,226,214 (20)	181,334,195
Total Non-Current Assets		218,158,483	215,241,676
Total Assets		226,314,626	222,433,146
Current Liabilities			
Trade and Other Payables		1,126,295	893,304
Long Term Borrowings		83,612	64,886
Provisions	11	823,783	924,356
Total Current Liabilities		2,033,690 (3)	1,882,546
Non-Current Liabilities			
Long Term Borrowings		2,358,215	419,894
Provisions	11	459,277	648,258
Total Non-Current Liabilities		2,817,492	1,068,152
Total Liabilities		4,851,182	2,950,698
Net Assets		221,463,444	219,482,448
Equity			
Retained Surplus		113,817,172	112,717,798
Reserves - Cash/Investment Backed	12	5,162,318	3,530,196
Reserves - Asset Revaluation		102,483,954	103,234,454
Total Equity		221,463,444	219,482,448

Statement Of Comprehensive Income By Nature Or Type For The Period Ended 30 June 201Y							
	NOTE	201Y Actual \$		201Y Budget \$		201X Actual \$	
Revenue							
Rates	24	8,165,843	(13)	8,074,469		7,633,920	
Operating Grants, Subsidies and Contributions	30	6,987,595		5,548,348		5,609,425	
Fees and Charges	29	4,999,717	(14)	4,253,486		4,165,652	
Service Charges	26	0		0		0	
Interest Earnings	2(a)	498,964	(15)	385,100		413,708	
Other Revenue		55,200	(16)	27,304		30,435	
		20,707,319	(5)	18,288,707		17,853,140	
Expenses							
Employee Costs		(8,896,802)		(8,772,958)		(7,826,475)	
Materials and Contracts		(4,120,422)		(3,926,230)		(3,064,784)	
Utilities		(443,972)		(435,600)		(404,245)	
Depreciation	2(a)	(6,907,407)	(10)	(7,100,000)		(7,435,789)	
Interest Expenses	2(a)	(96,257)	(11)	(399,441)		(37,753)	
Insurance		(336,390)		(333,163)		(326,578)	
Other Expenditure		(564,333)		(828,951)		(512,377)	
		(21,365,583)	(7)	(21,796,343)		(19,608,001)	
		(658,264)		(3,507,636)		(1,754,861)	
Non-Operating Grants, Subsidies and Contributions	30	3,494,037		5,856,328		4,933,510	
Fair Value Adjustments to financial assets at fair value through profit and loss	2(a)	(50,000)	(8)	0		0	
Profit on Asset Disposals	21	44,048	(6)	2,333,736		96,518	
Loss on Asset Disposal	21	(98,325)	(9)	(49,155)		(43,985)	
		3,389,760		8,140,909		4,986,043	
Net Result		2,731,496		4,633,273		3,231,182	
Other Comprehensive Income							
Changes on revaluation of non-current assets	13	(750,500)		0		0	
Total Other Comprehensive Income		(750,500)		0		0	
Total Comprehensive Income		1,980,996		4,633,273		3,231,182	

Rate Setting Statement For The Period Ended 30 June 201Y

	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
Revenue				
Governance		108,566	93,221	81,376
General Purpose Funding (Excl Rates)		4,104,679	3,970,416	3,855,332
Law, Order, Public Safety		686,829	556,802	864,126
Health		262,378	176,240	175,879
Education and Welfare		1,660,935	1,416,806	1,291,279
Housing		520	600	460
Community Amenities		1,688,168	1,803,650	1,324,894
Recreation and Culture		1,328,903	2,171,562	1,403,700
Transport		4,783,531	3,960,367	5,365,366
Economic Services		503,702	387,060	385,897
Other Property and Services		1,000,611	3,916,478	499,839
		16,128,822	18,453,202	15,248,148
Expenses				
Governance		(826,169)	(908,185)	(763,010)
General Purpose Funding		(171,816)	(158,077)	(154,898)
Law, Order, Public Safety		(1,137,630)	(1,349,794)	(928,250)
Health		(356,604)	(331,717)	(296,011)
Education and Welfare		(1,743,528)	(1,682,025)	(1,495,536)
Housing		(1,657)	(1,500)	(1,432)
Community Amenities		(2,859,238)	(3,057,906)	(2,755,017)
Recreation and Culture		(4,259,938)	(4,243,523)	(3,800,603)
Transport		(8,641,626)	(8,380,666)	(8,156,823)
Economic Services		(616,182)	(598,183)	(469,186)
Other Property and Services		(899,520)	(1,133,922)	(831,220)
		(21,513,908)	(21,845,498)	(19,651,986)
Net Result Excluding Rates		(5,385,086)	(3,392,296)	(4,403,838)
Adjustments for Cash Budget Requirements: Non-Cash Expenditure and Revenue				
(Profit)/Loss on Asset Disposals	21	54,277	(2,284,581)	(52,533)
Movements in Assets/Liabilities		2,077	0	104,502
Depreciation on Assets	2(a)	6,907,407	7,100,000	7,435,789
Net Non-Cash Expenditure/Revenue		6,963,761	4,815,419	7,487,758

Rate Setting Statement For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
Capital Expenditure/Revenue				
Purchase of Land Held for Resale		(2,056,759)	(4,076,189)	(702,227)
Purchase Land and Buildings	20	(660,185)	(1,787,479)	(957,226)
Purchase Plant and Equipment	20	(2,031,457)	(2,686,903)	(2,165,913)
Purchase Furniture and Equipment	20	(46,798)	0	0
Infrastructure Assets	20	(2,976,240)	(3,704,824)	(6,319,171)
Infrastructure Assets – New		(3,710,100)	(7,500,000)	0
Repayment of Debentures	23(a)	(70,597)	(70,597)	(68,526)
Proceeds from Disposal of Assets	21	759,429	5,904,712	655,232
Proceeds from New Debentures	23	2,027,644	2,188,452	350,000
SS Loan Principal Income	23	24,393	24,393	48,098
Transfers to Reserves	12	(3,376,061)	(1,478,584)	(2,952,482)
Transfers from Reserves	12	1,743,939	2,447,854	1,883,320
ADD Surplus/(Deficit) July 1 B/F	24(b)	1,841,049	1,290,473	1,351,004
LESS Surplus/(Deficit) June 30 C/F	24(b)	1,163,514	0	1,841,049
Amount Required to be Raised from Rates	24(a)	(8,116,582)	(8,025,569)	(7,635,020)

3 Cash And Cash Equivalents				
	NOTE	201Y \$	201X \$	
Cash - Unrestricted Muni		52,895	850,416	
Cash - Restricted		6,728,955	(2) 5,155,288	
	14(a)	6,781,850	6,005,704	
The following restrictions have been imposed by regulations or other externally imposed requirements:				
Land Purchase and Development Reserve	12	941,906	434,375	
Plant Reserve	12	1,175,544	806,956	
Building Reserve	12	1,777,669	1,224,785	
Sanitation Services Reserve	12	623,039	406,750	
Employee Entitlements	12	644,160	(4) 657,330	
Total Reserves		5,162,318	3,530,196	
Unspent Grants	2(d)	1,566,637	1,625,092	
Total Unspent Grants and Loans		1,566,637	1,625,092	
Total Restricted Cash		6,728,955	5,155,288	

7a	Property, Plant and Equipment (PP&E)	
	201Y \$	201X \$
Land – Fair Value	12,730,167	12,457,362
Less Accumulated Depreciation	0	0
	12,730,167	12,457,362
Buildings – Fair Value	15,081,793	14,694,413
Less Accumulated Depreciation	(3,746,056)	(3,379,285)
	11,335,737	11,315,128
Furniture and Equipment – Fair Value	895,174	1,426,495
Less Accumulated Depreciation	(638,235)	(1,115,109)
	256,939	311,386
Plant and Equipment – Fair Value	2,865,445	2,814,165
Less Accumulated Depreciation	(2,123,703)	(1,950,728)
	741,742	863,437
Plant and Equipment Under Lease	2,270,110	2,037,911
Less Accumulated Depreciation	(595,703)	(401,210)
	1,674,407	1,636,701
Road Construction Plant – Fair Value	8,171,672	7,920,130
Less Accumulated Amortisation	(3,332,593)	(3,058,332)
	4,839,079	4,861,798
Depreciated Cost of PP&E at Fair Value	31,578,071	31,445,812
Current Replacement Cost of Depreciated PP&E at Fair Value	29,284,194 (21)	28,893,114
Less Accumulated Depreciation	(10,436,290)	(9,904,664)
Depreciated Replacement Cost of Depreciated PP&E at Fair Value	18,847,904 (19)	18,988,450
Land (Non-Depreciable)	12,730,167	12,457,362
Depreciated Cost of PP&E at Fair Value	31,578,071	31,445,812

8a	Infrastructure	
	201Y \$	201X \$
Roads – Fair Value	260,058,298	253,772,740
Less Accumulated Depreciation	(88,538,837)	(83,677,423)
	171,519,461	170,095,317
Drainage – Fair Value	2,832,873	2,711,180
Less Accumulated Depreciation	(1,044,492)	(976,459)
	1,788,381	1,734,721
Bridges – Fair Value	861,642	811,414
Less Accumulated Depreciation	(285,302)	(244,299)
	576,340	567,115
Footpaths and Cycleways – Fair Value	4,701,608	4,305,552
Less Accumulated Depreciation	(1,352,095)	(1,207,616)
	3,349,513	3,097,936
Parks and Gardens – Fair Value	6,518,991	6,258,991
Less Accumulated Depreciation	(5,009,798)	(4,696,849)
	1,509,193	1,562,142
Airports – Fair Value	2,398,359	2,178,649
Less Accumulated Depreciation	(483,853)	(422,827)
	1,914,506	1,755,822
Sewerage – Fair Value	4,576,113	4,506,113
Less Accumulated Depreciation	(3,388,338)	(3,275,685)
	1,187,775	1,230,428
Other – Fair Value	1,595,979	1,461,034
Less Accumulated Depreciation	(214,934)	(170,320)
	1,381,045	1,290,714
	183,226,214	181,334,195
Current Replacement Cost of Infrastructure at Fair Value	283,543,863	(22) 276,005,673
Less Accumulated Depreciation	(100,317,649)	(94,671,478)
Depeiciated Replacement Cost of Infrastructure	183,226,214	(20) 181,334,195

11		Provisions	
	201Y	201X	
	\$	\$	
Current			
Provision for Annual Leave	668,540	756,421	
Provision for Long Service Leave	155,243	167,935	
	823,783	924,356	
Non-Current			
Provision for Long Service Leave	459,277	648,258	
	459,277	648,258	

12f		Reserves – Cash/Investment Backed	
	201Y	201X	
	\$	\$	
Employee Entitlements			
Purpose: To be used to fund Annual and Long Service Leave			
Opening Balance	657,330	427,366	
Amount Set Aside / Transfer to Reserve	171,082	260,529	
Amount Used / Transfer from Reserve	(184,252)	(30,565)	
	644,160	657,330	

6.2 Long-term Financial Plan and Asset Management Plan Extracts

Renewals / Upgrades	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Long Term Financial Plan										
Buildings	570	600	700	750	800	850	1,500	1,500	1,500	1,500
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,184	6,359	6,728	7,100	4,744	5,084	5,426	5,772	6,119	6,221
Infrastructure Other	1,235	250	350	400	750	750	800	800	850	850
Total Planned Renewals	10,056	7,794	8,283	9,400	7,334	7,309	9,031	9,132	9,284	9,901
Asset Management Plan										
Buildings	600	650	750	800	850	875	1,700	1,700	1,800	1,800
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,500	7,700	7,900	8,000	5,200	5,400	5,700	6,000	6,400	6,500
Infrastructure Other	1,250	250	380	420	800	800	850	850	900	900
Total Required Renewals	10,417	9,185	9,535	10,370	7,890	7,700	9,555	9,610	9,915	10,530

Discount Rate = 0.05
 NPV Planned Renewals 67,398 (27)
 NPV Required Renewals 73,099 (28)
 Ratio = 67,398/73,099 92.2%

These guidelines are also available on the Department's website at www.dlgc.wa.gov.au



About the Guideline series

This document and others in the series are intended as a guide to good practice and should not be taken as a compliance requirement. The content is based on Department officer knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation.

All guidelines are subject to review, amendment and re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.

For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

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Item 5. CLOSURE

There being no further business, the Chairperson, Cr Anspach, declared the meeting closed at 4.30pm.

These minutes are to be confirmed at the next Finance, Audit Review Committee Meeting.

Signed: _____

Date: _____

Cr K Anspach
Chairperson