

Our Ref: F160193
Your Ref:
Enquiries: Greg Lockwood



3 August 2021

Ms Lanie Chopping
Director General
Department of Local Government, Sport and Cultural Industries
GPO Box 8349
PERTH BC WA 6849

Dear Ms Chopping,

SIGNIFICANT AUDIT MATTERS AS PER SECTION 7.12A(4) OF THE LOCAL GOVERNMENT ACT 1995

Please find enclosed as per Section 7.12A(4) of the Local Government Act 1995 a copy of the minutes from the Shire's council meeting held 29 July 2021 as well as the 2019/20 Audit Report. The Act requires that a copy of the Shire's Audit Report is given to the Minister, along with a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken, or intends to take with respect to each of those matters.

The Shire of Manjimup's 2019/20 Audit Report identified a significant adverse trend related to the Shire's Operating Surplus Ratio being:

- o *The Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the past 3 years.*

As per Section 7.12A(4) a report relating to the significant adverse trend was presented to the Shire of Manjimup's Audit Committee 8 July 2021 and then endorsed at the Shire's council meeting on 29 July 2021.

A copy of this report has been published on the Shire's official website in accordance with Section 7.12A(5).

Yours sincerely,

Andrew Campbell
CHIEF EXECUTIVE OFFICER



To : Audit Committee

RE: Significant Matter Raised in Audit Report

Background

As part of the 2019/20 Audit Report the Shire of Manjimup's Auditors, being the Office of Auditor General deemed a matter to be significant in nature. The following comment was included in the Shire's Audit Report:

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 indicate a significant adverse trend in the financial position of the Shire:
 - a. The Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the past 3 years. The financial ratios are reported in Note 33 of the annual financial report.

Due to the Auditor highlighting a matter that they deem to be significant in the 2019/20 Audit Report, the Shire is statutorily required to follow the process set out in the section below:

Section 7.12A(4) of the Local Government Act 1995 states that a local government must:

- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
- (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*

Section 7.12A(5) of the Local Government Act 1995 also states:

Within 14 days after a local government gives a report to the Minister under subsection(4)(b), the CEO must publish a copy of the report on the local government's official website.

The Operating Surplus Ratio in Detail (extracted from DLGSCI guidelines)

Calculation:
$$\frac{\text{(Operating Revenue MINUS Operating Expense)}}{\text{Own Source Operating Revenue}}$$

Purpose: This ratio is a measure of a Local Government's ability to cover its operational costs and have revenues available for capital funding of other purposes.

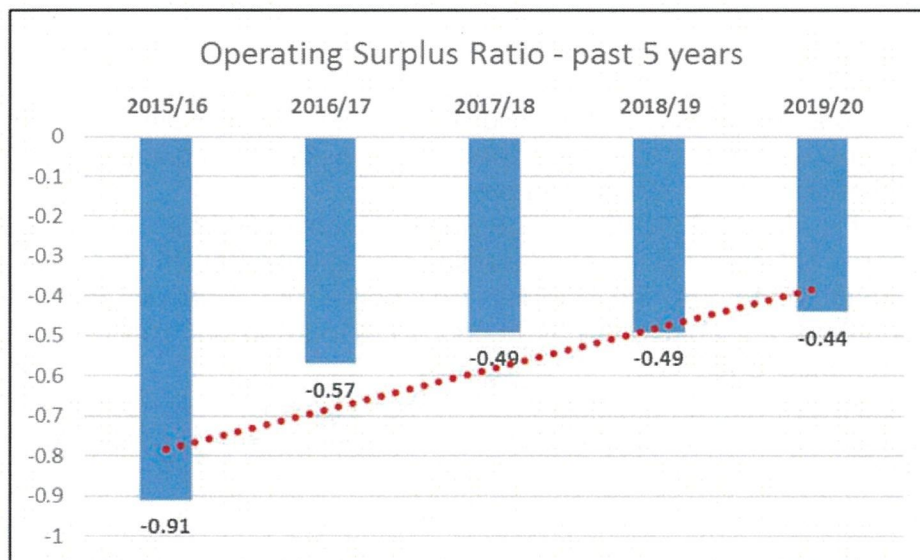
Standard: **Basic** standard (0.01 and 0.15) **Advanced** standard (>0.15)

The Operating Surplus ratio for the Shire of Manjimup in the last 4 years is:

- 2015/16: -0.91
- 2016/17: -0.57
- 2017/18: -0.49
- 2018/19: -0.49
- 2019/20: -0.44

Comment

The Shire of Manjimup's Operating Surplus Ratio has been under the DLGCI's standards since the ratio was introduced in the 2013/14 financial year. The Operating Surplus Ratio for any Local Government that heavily relies on grant funding would always be below the DLGCI's standard for this ratio, as it assesses own source revenue against operating expenditure (inclusive of depreciation and grant funded expenditure). It is acknowledged that the Auditor General believed the ratio indicated a "significant adverse trend" due only to the fact that it was not within the DLGCI's benchmarks, as the trend for the previous 5 years shows an improving trend rather than an adverse trend.



Like several of the ratios specifically applied to Local Government in Western Australia by DLGCI, there are considerable anomalies that arise during the calculation of the Operating Surplus Ratio that significantly weaken the interpretive usefulness of the outcome when judging the sustainability of a Local Government. Specific issues that affect the Shire of Manjimup when calculating this ratio are:


- The Shire is very grant reliant and receives substantial financial assistance grants each year. Unless significant population growth, economic growth, significant increases (70%+) in existing rates or the ability to rate additional land occurs, the Shire will continue to be heavily reliant on grant funding into the future;

- The Shire has a 1,358km road asset base arising from being the largest Local Government district land mass in the South West. This means that a substantial non-cash depreciation expense forms a significant part of the base calculation. The depreciation expense of road infrastructure is highly subjective that is open to manipulation and as it exists as a non-cash item should be reconsidered for its worth in contributing the Operating Surplus Ratio;
- The Shire auspices many operating grant programs like the Commonwealth Home Care Programs, NDIS services etc. As these programs are grant related the grant is removed from the Operating Surplus calculation, however the expenditure must remain in the operating expense portion. In most cases if this grant money was not received the programs would not go ahead which equates to approximately \$4.5M per year in Shire expenses and therefore should not be included in the Operating Surplus Ratio calculation; and
- When Council has any form of a carry forward, the carried forward expense from a previous year affects the ratio, however the funding for that expense is not recognised.

The Shire of Manjimup look forward to the outcomes from the Local Government Financial Ratios Sector Working Group's findings and recommendations which should see a significant improvement in the calculation of the financial ratios taking into account the differences experienced from one Local Government to another.

Proposed Action

1. The Operating Surplus Ratio trend at the Shire is continuing to improve. This should be continued to be monitored and consideration given to further action if required if declines occur in future years;
2. Due to the effects of COVID-19 the Shire's income has been impacted reducing the ability of Council to increase funding for capital renewal. Once the economy has restabilised the Shire of Manjimup's Long Term Financial Plan initiative of contributing an additional \$100,000 to \$150,000 in capital renewal will recommence; and
3. The Shire will continue to review operating costs as part of regular reviews and budget processes to control costs, but maintain levels of service expected by ratepayers.



Greg Lockwood
Director of Business
Shire of Manjimup