



Report on Significant Findings 2018-19 Final Audit

Finding 1- Significant adverse trend in Operating Surplus Ratio.

Management Comment

The statement of comprehensive income shows that the main reason the ratio is below the target range is due to the operating income being less than operating expense.

A significant contributor to the negative Operating Surplus Ratio in 2017/18 and 2018/19 was the flood damage repairs which were shown in the Statement of Comprehensive Income as an operating maintenance expense but funded externally. The grant funding from WA Natural Disaster Relief and Recovery Arrangements (WANDRRA) was received to cover the cost of road repairs which would not be required in a normal year. This revenue is excluded from the ratio calculation.

The following actions have been taken, or are intended to be taken, to address the adverse trend in the Operating Surplus Ratio.

Long Term Asset and Financial Planning

Council has adopted a 10 year Strategic Resource Plan which encompasses the Asset Management and Long Term Financial Plans. This plan provides the Shire of Corrigin with a management tool to consider and analyse the impact of decision making on the overall financial position of the local government over time.

As part of the long term financial strategy the Shire of Corrigin will continue to maximise use of operating and non-operating funding opportunities as they become available.

Operating Income Rates

The ability of the Shire of Corrigin to increase revenue from rates is limited due to the relatively low number of rateable properties and a limited scope for increased Unimproved Value (UV), Gross Rental Value (GRV), commercial or mining rates to generate additional income. The long term financial plan includes planned rates increases slightly higher than the anticipated rise in the Consumer Price Index (CPI) to address backlog of renewals and assist in the financial stability of the shire while maintaining the level of service to the community. Rate revenue of approximately \$2.5m was raised 2018-19 and are expected to increase to \$4.4m in 2032-33.

Fees and Charges

With a projected relatively stable population of 1150 people, the Shire of Corrigin has a limited ability to generate additional income from fees and charges. The fees and charges were reviewed as part of the 2018/19 budget deliberations and items that had not been increased for some years were increased including: annual rental charges, cemetery fees and recreation usage fees. There is no real opportunity to generate additional income from commercial rents, parking etc.

Investment income

Investment income was increased by \$18,000 during the 2018/19 financial year by investing municipal funds in a term deposit and overnight cash deposit facility with WA Treasury.

Proceeds

Additional income was received from profit on disposal of assets. A reduction in the number of plant items is expected to reduce overall expenditure over ten year period.

Expenditure

The Shire of Corrigin is responsible for assets valued at approximately \$150million, of which roads and buildings make up the largest component. The Long Term Financial Plan forecasts the operating expenditure to remain relatively stable over the next ten years with depreciation and materials and contracts being the dominant operating expenditure items.

During 2018/19 Management and Council reviewed and analysed several large expenditure areas and have developed the following ten year plans:

- Capital and operations plan for Corrigin outdoor and indoor heated pools.
- Buildings capital and maintenance plans.
- Plant replacement plan.
- Road capital and maintenance plan

Reduced Operating Expenditure

Rationalised plant and equipment items to reduce ongoing cost of replacement program. The fair value and useful lives of assets were reviewed in an effort to reduce depreciation over the next 10 years.

Management will continue to identify savings on operating expenditure wherever possible.

No Forecast Borrowings

The Shire has not forecast the need for any additional borrowings over the next ten years to allow flexibility to respond to sudden or unexpected expenditure requirements or the loss of anticipated external grant funding.

Reserves

In order to remain financially sustainable the Shire of Corrigin long term financial plan includes the use of cash backed reserves to accumulate funds for significant future renewals of key assets.

Conclusion

The operating ratio highlights the Shire of Corrigin's reliance on external funding to fund renewals of assets. An analysis of neighbouring shires indicates that this is a common issue in the Wheatbelt region.

Council and management will continue to monitor income and expenditure as well as identifying ways to improve the operating position to increase the ratio above the acceptable target of 0.01. However this ratio is likely to remain below the benchmark in the coming years.

Finding 2 – Significant Adverse Trend in Asset Sustainability Ratio

A significant adverse trend was noted in the Asset Sustainability Ratio which measures capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. The ratio indicates that assets may be deteriorating at a greater rate than spending on renewal or replacement.

Considered together with Asset Consumption Ratio which measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost. The Shire of Corrigin Asset Consumption Ratio is 0.97 which is above the benchmark since 2015.

Over the past decade the Shire of Corrigin has invested capital funds into several new building and infrastructure assets including the Corrigin Recreation and Events Centre, Hydrotherapy pool and Adventure Playground. There are several building assets that have come to the end of their useful life and Council will consider replacing or rationalising the number of older buildings in the next decade.

Depreciation

Management has spent considerable time reviewing the fair value, depreciation rates and useful lives of assets in order to reduce the depreciation expense. It is anticipated that recent adjustments to depreciation combined with additional investment in asset renewal and upgrades will improve the Asset Sustainability Ratio over time.

Roads

The maintenance and renewal of the road network is a key priority for the Shire of Corrigin and one of the major expenditure items. The renewal of strategic grain haulage roads to a standard capable of carrying the forecast traffic loads is expected to be a significant financial challenge and well beyond the Shire's capacity if external renewal funding is not received.

The 10 year road program was recently adopted by Council and includes an average annual investment of \$1m for renewal of rural roads and town streets, \$800,000 on upgrades and \$625,000 maintenance expenditure. The Shire of Corrigin will continue to rely on grant funding to support this investment in road assets.

Finding 3 – Timecard entry into payroll software

During the audit it was found that labour and plant hours were entered into the payroll software using the pay-run date instead of the actual days worked.

Management Comment

Timecards are now entered into the payroll software with the actual date and not the pay run date.