



ACTION REPORT – 2017-18 Significant Adverse Trend – Operating Surplus Ratio

Section 7.12A (4) of the Local Government Act 1995 requires a local government to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report. The Shire of Leonora's 2017-18 Audit Report from Butler Settineri (Audit) Pty Ltd noted a significant adverse trend for the operating surplus ratio.

Shire of Leonora -Operating Surplus Ratio 2015/16, 2016/17 & 2017/18

The operating surplus ratio demonstrates the extent to which operating revenues cover operating expenses (including depreciation), with a positive operating surplus ratio considered by the Department an indicator of long-term financial sustainability. The Shire's operating surplus ratio has experienced movement over the previous three years in relation to the 2017-18 audit report, with a reported ratio of 0.05 in 2015/16, (0.03) in 2016/17 and (0.11) in 2017/18.

The basic benchmark set by the Department of Local Government, Sport and Cultural Industries (the Department) for the operating surplus ratio is 0.01 -0.15. Ratios higher than 0.15 are considered to be in the desirable benchmark range set by the Department. The Shire of Leonora has been experiencing a downward trend with its operating surplus ratio which does not meet the benchmark set by the Department, resulting in the 'significant adverse trend' finding on the Shire's audit report.

Explanation for Operating Surplus Ratio Not Meeting Benchmarks

A number of factors contribute to the fluctuation of this ratio, including reimbursement of WANDRRA funds, which have been noted to result in delays of reimbursement of large recoups. These funding claims cannot be recognised as revenue until it is virtually certain to be received (i.e. once the claim is approved). As the processes to receive WANDRRA funds are onerous with significant periods of time being required to receive approval, the operating surplus ratio can be somewhat manipulated given the timing of revenue and expenses relating to WANDRRA works (AASB 116 provides direction in relation to the treatment of revenue of expenses).

The Shire has also considered within its Long Term Financial Plan (LTFP) the impact of ongoing capital road funds such as Roads to Recovery (R2R) and Regional Road Group (RRG) -neither of which are included in the calculation of the operating surplus ratio. Depreciation expense, which is included within the calculation of the operating surplus ratio, is rarely funded in full by rural local governments such as the Shire of Leonora, with grant funds such as the R2R and RRG contributing to asset renewals and compensating for operating losses.

Actions Proposed to Address the Operating Surplus Ratio

To ensure the operating surplus ratio would meet the benchmark set by the Department, the Shire could consider increasing rates, however this would effectively result in over rating the community when also considering the ongoing road grants received by the Shire. As a result, the Shire considers the benchmark for the operating surplus ratio to be flawed for a Shire receiving non-operating grants for the renewal of assets, and it does not intend to take action to increase revenue above a level which will result in the community being overrated when considering expected and ongoing non-operating grants for asset renewals.

The operating surplus ratio and the financial performance of the Shire of Leonora will continue to be reviewed through ongoing monitoring of depreciation expense and financial reports which are reported to Council, including required budget reviews and monthly statements of financial activity.

Disclaimer

This Report has been prepared for the exclusive use by the Shire of Leonora.

This report contains quantitative and qualitative statements, including projections, estimates, opinions and forecasts concerning the anticipated future performance of the Shire of Leonora, based on a large number of assumptions, and will be, subject to significant uncertainties and contingencies many, if not all, of which are outside the control of the Shire of Leonora.

This report is supplied in good faith for public information purposes and the Shire accepts no responsibility for any loss occasioned by any person acting or refraining from action as a result of reliance on the Plan.