



Report Addressing the 2020/21 Annual Financial Report Audit Findings

Summary

The Auditor General in the Auditor's Report for the 2020/21 financial year has identified that the Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past 3 years.

The Local Government Act, Section 7.12A(4) requires local governments to examine the audit report it receives and implement appropriate action in respect to the significant matters raised. A report addressing the significant matters identified in the audit report must be prepared and then considered by the Audit Committee before being adopted by Council.

This report has been prepared to meet the above requirements of the Local Government Act.

Requirement to Report on Significant Audit Findings

Section 7.12A(4) of the Local Government Act 1995 requires 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.*

Significant Matters Identified by the Auditor General

The Audit Report prepared by the Auditor General on the 2020/21 Annual Financial Statements identified the following significant adverse trend:

- (a) *The Operating Surplus Ratio as reported in Note 24 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries standard of zero for the past 3 financial years*

Implications

The implications to the Council's financial position are:

Operating Surplus Ratio:

$$\text{Operating Surplus Ratio} = \frac{\text{Operating Revenue} - \text{Operating Expenditure}}{\text{Own Source Revenue}}$$

This ratio measures the local government's ability to cover its operational costs and have revenues available for capital funding and other purposes.



As the Council's operational costs (including depreciation) are greater than the operating revenues, the ratio is below zero and does not achieve the Department's benchmark. In the long term an ongoing operating deficit negatively impacts the Council's funding capacity for capital expenditure and being able to set aside funds into reserves.

Officer Comments

The Auditor General's Report has not identified any non-compliance with the Local Government Act or Australian Accounting Standards in the 2020/21 Annual Financial Report; but does identify one ratio that is below a benchmark used as a guide by the Department of Local Government, Sport and Cultural Industries.

The following is the trend on the Operating Surplus ratio from 2019/20 to the 2021/22 Budget:

Ratio	DLGSCI Target	2022 Budget	2021	2020	2019
Operating Surplus	Greater than Zero	0.09	(0.15)	(0.16)	(0.16)

Note:

Operating Surplus Ratio

Expenditure on site rehabilitation for the last 3 years has been funded from reserves which were built up in previous years by Council and can distort the Operating Surplus Ratio. Site rehabilitation expenditure is not a cost directly related to the current year only and reflects the cost of operations over many years. It is noted that if this site rehabilitation expenditure is removed from operating expenses, the operating surplus is above the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years.

When site rehabilitation expenditure is excluded from the ratio calculation the above ratio would meet the DLGSCI standard of greater than zero:

Adjusted Ratio	2022 Budget	2021	2020	2019
Operating Surplus	0.15	0.12	1.07	0.94



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Action Taken or Intended to be Taken

To improve these ratio's the Council needs to:

Annual Operating Surplus Ratio - Either reduce operating expenditure and/or increase operating revenue.

With careful financial management, relying on modest and affordable fee increases, management's continuous review of operational expenditure to ensure value for money and achieving savings through operational efficiencies and investing into the renewal and/or upgrade of assets, these ratio's will in the long term forecasts either match or exceed the Department's benchmarks.