

REPORT

Section 7.12A(4)(a) of the Local Government Act 1995

Shire of Cue

Report addressing any matters identified as significant by the auditor in the 2019-2020 Audit Report.

Background and Purpose of Report

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

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.

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 Shire's 2020 Audit Report dated 12 February 2021 (**Audit Report**) contains significant matters requiring the CEO to undertake the actions required by Section 7.12 of the Act.

The purpose of this report is to outline the actions the CEO has taken in relation to the significant matters raised in the 2020 Audit Report.

2020 Significant Matters

The Shire's 2019-20 Audit Report from the Auditor General dated 12 February 2021 (attached at Appendix A) identified the following significant matters:

In my opinion, the following material matters indicate significant adverse trends in the financial position of the Shire:

- a. *The Asset Sustainability Ratio and the Operating Surplus Ratio have been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past three years.*

Asset Sustainability Ratio

The Asset Sustainability Ratio (**ASR**) is calculated in accordance with *Local Government (Financial Management) Regulations 1996 R50(2)* as:

$$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation;}}$$

The ASR is reported in Note 34 of the Shire’s 2020 Annual Financial Report as follows:

2020	2019	2018
0.65	0.73	0.43

Local Government Operational Guidelines Number 18 – June 2013 (**Guidelines**) sets out standards for each of the ratios required to be calculated under *Local Government (Financial Management) Regulations 1996 R50(2)*. The basic standard for the ASR per the Guidelines is 0.90.

Implication

The Asset Sustainability 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. The 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.

Operating Surplus Ratio

The Operating Surplus Ratio (**OSR**) is calculated in accordance with *Local Government (Financial Management) Regulations 1996 R50(2)* as:

$$\frac{\text{operating revenue minus operating expense}}{\text{own source operating revenue}}$$

The OSR is reported in Note 34 of the Shire’s 2020 Annual Financial Report as follows:

2020	2019	2018
(0.23)	(0.20)	(0.20)

The basic standard for the OSR per the Guidelines is between 0.01 and 0.15.

Implication

The Operating Surplus 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.

The Guidelines are attached at [Appendix B](#).

Actions Taken to Address Ratios

The Shire has adopted the Strategic Resource Plan (**SRP**) at the 16 April 2019 Ordinary Council Meeting.

The SRP forecasts future financial ratios, including the ASR and OSR (See [Appendix C](#)).

For the ASR ratio identified in the 2020 Audit Report as falling below the Guidelines, the SRP forecasts the ratio to improve above the minimum level set in the Guidelines from the 2020 financial year onwards for the duration of the SRP. Please refer to the SRP for further detail.

Actual capital renewal and replacement expenditure for the 2020 financial year amounted to \$1,778,564 against depreciation expense of \$2,746,947.

It should be noted that actual depreciation was \$141,947 higher than forecast in the SRP, largely in relation to increased depreciation on the road network compared to the SRP.

Actual capital renewal and replacement expenditure for the 2020 financial year was \$782,436 lower than forecast in the SRP. The lower than forecast capital renewal and replacement expenditure should be viewed in light of significant expenditure on flood damage repairs undertaken on the Shire's road network in the 2020 financial year (\$1,586,422). Flood damage repair works are expensed and therefore not taken into account in the calculation of the ASR, however contribute significantly to maintaining the Shire's road assets. Other factors that have contributed to a lower than forecast capital renewal and replacement expenditure is due to delays in progressing projects which has led to the expenditure being carried forward into the following financial year.

Management will continue to monitor the ASR, along with the Shire's other key ratios to ensure the improving trend in the ratio continues. Capital expenditure will be closely scrutinised to ensure the Shire's spending on capital renewal and replacement is adequate to maintain the condition of the Shire's assets.

For the OSR ratio identified in the 2020 Audit Report as falling below the guidelines, the SRP shows the ratio continually improving but falling below the standard for the duration of the SRP. The operating costs are made up predominantly of employee costs, materials and contracts and depreciation. In order to lower any of these costs would require further scrutiny of the expenses to see what can be allocated to capital projects. The Shire does not currently allocate any administration staff costs to capital projects and this may need to be considered for the purpose of improving this ratio. Materials and contracts are usually for maintenance and operating costs but may need further scrutiny to determine if larger maintenance works should be capitalised. With depreciation being the largest of the Shire's operating expenses which accounts for over one third of operating expenses and being a non-cash expense, the Shire's operations provide a significant amount of revenues available for capital funding. The Shire is also active in seeking out additional grant funding to assist with capital renewals.

Completion or Proposed Completion Date

Management will monitor its operating expenses and capital expenditure on asset renewals against the projected outcomes of the SRP with the expectation that the ratios will continue to improve into the future.

Recommendation

That the audit committee recommend that Council receive this report and monitor future expenditure in line with the outcomes of the Strategic Resource Plan.

Appendix A:
2020 Audit Report

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Shire of Cue

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Shire of Cue which comprises the Statement of Financial Position as at 30 June 2020, and 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, as well as notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Shire of Cue:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 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 for the Audit of the Financial Report* section of my report. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual 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.

Emphasis of Matter – Basis of Accounting

I draw attention to Notes 1 and 9 to the annual financial report, which describe the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Shire's financial reporting responsibilities under the Act, including the Local Government (Financial Management) Regulations 1996 (Regulations). My opinion is not modified in respect of these matters:

- (i) Regulation 17A requires a local government to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 Leases which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.

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 annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of the annual financial report that is free from material misstatement, whether due to fraud or error.

In preparing the annual 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

The objectives of my audit are to obtain reasonable assurance about whether the annual 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 annual financial report.

A further description of my responsibilities for the audit of the annual financial report is located on the Auditing and Assurance Standards Board website at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This includes the identification and assessment of the risk of material misstatement due to fraud arising from management override of controls. This description forms part of my auditor's 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 matters indicate significant adverse trends in the financial position of the Shire:
 - a. The Asset Sustainability Ratio and the Operating Surplus Ratio have been below the Department of Local Government, Sport and Cultural Industries standard for the past three years.
The financial ratios are reported in Note 34 of the annual financial report.
- (ii) All required information and explanations were obtained by me.
- (iii) All audit procedures were satisfactorily completed.
- (iv) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire of Cue for the year ended 30 June 2020 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 annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual 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 annual financial report to confirm the information contained in this website version of the annual financial report.



SUBHA GUNALAN
ACTING SENIOR DIRECTOR FINANCIAL AUDIT
Delegate of the Auditor General for Western Australia
Perth, Western Australia
12 February 2021

Appendix B:

Local Government Operational Guidelines Number 18 – June 2013 Financial Ratios



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	$\frac{\text{(Current Assets MINUS Restricted Assets)}}{\text{(Current Liabilities MINUS Liabilities Associated with Restricted Assets)}}$
=	$\frac{\begin{matrix} \text{[1]} & \text{[2]} \\ \underline{(8,156,143 - 6,728,955)} \\ \text{[3]} & \text{[4]} \\ \underline{(2,033,690 - 644,160)} \end{matrix}}{\begin{matrix} \text{[5]} & \text{[6]} \\ \underline{1,427,188} \\ \text{[7]} & \text{[8]} \\ \underline{1,389,530} \end{matrix}} = \mathbf{1.03:1} \\ \mathbf{(or 103\%)}$

[Numbers taken from statement of financial position and cash and cash equivalents note]

b) Debt Service Cover Ratio	$\frac{\text{Annual Operating Surplus BEFORE Interest and Depreciation}}{\text{Principal and Interest}}$
=	$\frac{\begin{matrix} \text{[5]} & \text{[6]} & \text{[7]} & \text{[8]} \\ \underline{(20,707,319+44,048) - ((21,365,583+50,000} \\ \text{+98,325) - (6,907,407+96,257))} \\ \text{[9]} & \text{[10]} & \text{[11]} \\ \underline{(70,597 + 96,257)} \\ \text{[12]} & \text{[11]} \end{matrix}}{\begin{matrix} \text{[13]} & \text{[14]} \\ \underline{6,241,123} \\ \text{[15]} & \text{[16]} \\ \underline{166,854} \end{matrix}} = \mathbf{37.4}$

[Numbers taken from statement of comprehensive income by nature or type and rate setting statement]

c) Own Source Revenue Coverage Ratio	$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$
=	$\frac{\begin{matrix} \text{[13]} & \text{[14]} & \text{[15]} & \text{[16]} & \text{[6]} \\ \underline{(8,165,843+4,999,717+498,964+55,200+44,048)} \\ \text{[7]} & \text{[9]} & \text{[8]} \\ \underline{(21,365,583+98,325+50,000)} \end{matrix}}{\begin{matrix} \text{[17]} \\ \underline{13,763,772} \\ \text{[18]} \\ \underline{21,513,908} \\ \text{[17]} \end{matrix}} = \mathbf{0.64} \\ \mathbf{(or 64\%)}$

[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)
Depreciated 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.

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Appendix C:

Strategic Resource Plan 2018 – 2033 Ratios Extract

Appendix 4 – Financial Ratios

Financial Ratios 2018 – 2033

The following table displays the data used to calculate the financial ratios.

SHIRE OF CUE Asset Management Plan and Long Term Financial Plan 2018 to 2033 Financial Ratios

	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	
	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	
OPERATING SURPLUS RATIO																
Operating Revenue	5,156	5,408	5,564	5,724	5,890	6,061	6,237	6,419	6,607	6,801	7,001	7,208	7,422	7,642	7,869	
Less Operating Expenses	(7,022)	(6,429)	(6,612)	(6,773)	(6,900)	(7,040)	(7,203)	(7,321)	(7,424)	(7,535)	(7,647)	(7,764)	(7,875)	(7,983)	(8,096)	
Net Operating Surplus	(1,865)	(1,020)	(1,048)	(1,049)	(1,010)	(980)	(966)	(902)	(817)	(734)	(646)	(556)	(453)	(341)	(227)	
Own Source Revenue	2,974	2,980	3,187	3,296	3,409	3,526	3,646	3,771	3,901	4,035	4,173	4,317	4,466	4,620	4,779	
Ratio	(63%)	(34%)	(33%)	(32%)	(30%)	(28%)	(26%)	(24%)	(21%)	(18%)	(15%)	(13%)	(10%)	(7%)	(5%)	
OWN SOURCE REVENUE RATIO																
Own Source Operating Revenue	2,980	3,187	3,296	3,409	3,526	3,646	3,771	3,901	4,035	4,173	4,317	4,466	4,620	4,779	4,944	
Operating Expense	7,022	6,429	6,612	6,773	6,900	7,040	7,203	7,321	7,424	7,535	7,647	7,764	7,875	7,983	8,096	
Ratio	42%	50%	50%	50%	51%	52%	52%	53%	54%	55%	56%	58%	59%	60%	61%	
CURRENT RATIO																
Current Assets	6,240	5,619	5,061	4,497	4,446	3,823	3,684	3,749	3,765	3,650	3,882	3,816	4,575	5,328	6,249	
Less Restricted Assets	(5,568)	(4,948)	(4,389)	(3,826)	(3,775)	(3,152)	(3,013)	(3,078)	(3,094)	(2,979)	(3,211)	(3,145)	(3,904)	(4,657)	(5,578)	
Net Current Assets	671	671	671	671	671	671	671	671	671	671	671	671	671	671	671	
Current Liabilities	756	759	762	764	767	770	773	776	779	783	783	783	783	783	783	
Less Related Liabilities	(116)	(118)	(121)	(124)	(126)	(129)	(132)	(135)	(139)	(142)	(142)	(142)	(142)	(142)	(142)	
Net Current Liabilities	641	641	641	641	641	641	641	641	641	641	641	641	641	641	641	
Ratio	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	

SHIRE OF CUE
Asset Management Plan and Long Term Financial Plan
2018 to 2033
Financial Ratios (Continued)

	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s
DEBT SERVICE COVERAGE RATIO															
Operating Surplus	633	1,614	1,674	1,738	1,804	1,872	1,944	2,019	2,097	2,178	2,263	2,351	2,443	2,539	2,639
Principle and Interest	-	114	114	114	114	114	114	114	114	114	114	-	-	-	-
Ratio		14	15	15	16	16	17	18	18	19	20				
ASSET SUSTAINABILITY RATIO															
Capital Renewal Expenditure	2,875	2,561	2,298	2,081	2,333	3,846	2,434	2,417	2,643	3,253	2,712	2,894	2,512	2,878	2,689
Depreciation Expense	2,498	2,605	2,696	2,763	2,793	2,834	2,895	2,909	2,905	2,906	2,906	2,907	2,896	2,880	2,865
Ratio	115%	98%	85%	75%	84%	136%	84%	83%	91%	112%	93%	100%	87%	100%	94%
ASSET CONSUMPTION RATIO															
Depreciated Replacement Cost	56,829	59,548	62,304	64,339	63,957	65,125	65,327	65,018	64,843	64,847	64,667	64,937	64,499	64,194	63,851
Current Replacement Cost	77,099	82,528	87,996	92,900	95,369	99,456	102,634	105,383	108,238	111,615	114,516	118,031	120,743	123,577	126,290
Ratio	74%	72%	71%	69%	67%	65%	64%	62%	60%	58%	56%	55%	53%	52%	51%
ASSET RENEWAL FUNDING RATIO															
NPV of Planned Renewals	23,329	23,156	23,435	23,684	24,444	24,823									
NPV of Required Renewals	26,962	27,176	29,112	30,783	21,748	19,702									
Ratio	87%	85%	80%	77%	112%	126%									