



**SHIRE OF IRWIN**  
DONGARA-PORT DENISON

---

A BRILLIANT BLEND

Shire of Irwin

**OAG Independent Audit 2020/21  
Significant Matters Report**

March 2022

## Document Control

Document No.	Date Originated	Previous Version	
Revision No.	Date Reviewed	Adopted by Council - Date	Adopted by Council – Minute Ref
DRAFT	30 March 2022		
Rev0	30 March 2022		

## Amendments

Details of amendments	Reviewed/Amended Date	Record No.	Council Minute Ref.

## Table of Contents

1	Purpose of Report	4
2	Significant Matters Identified by OAG	4
3	Implication	4
4	Management Comment	5
4.1	Operating Surplus Ratio	5
4.1.1	Operating grants increase	5
4.1.2	Rate revenue increase	5
4.1.3	Employee cost reduction	5
4.1.4	Materials & contracts cost reduction	5
4.1.5	Depreciation	6
4.2	Asset Sustainability Ratio	6
5	Action Taken	6
6	Action Intended to be Taken	6
7	Completion Date	7
8	Recommendation	7

## 1 Purpose of Report

---

Pitcher Partners on behalf of the Office of the Auditor General (OAG) completed an audit of the Shire of Irwin's financials for the year ended 30 June 2021. The purpose of this report is to comply with Section 7.12A(4) (5) of the *Local Government Act 1995* which 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.*

*(5) 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 is required to prepare a report for its Audit Committee and seek Council's endorsement before forwarding a copy to the Department.

## 2 Significant Matters Identified by OAG

---

Pitcher Partners on behalf of the Office of the Auditor General (OAG) reported on legal and regulatory requirements in accordance with the *Local Government (Audit) Regulations 1996* and identified the following significant matters:

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

- a. The Operating Surplus Ratio as reported in Note 32 of the annual financial report has been below the Department of Local Government, Sport and Cultural Industries' (DLGSCI's) standard of 0.01 for the last three financial years; and*
- b. The Asset Sustainability Ratio as reported in Note 32 of the annual financial report is below the DLGSCI's' standard of 0.90 for the last three financial years."*

## 3 Implication

---

The possible implications of the significant adverse trends in the financial position of the Shire:

- i) The Asset Sustainability Ratio below the DLGSCI's standard for the past three years;
  - Further deterioration of Shire infrastructure and assets
  - Limited opportunity to support community or infrastructure improvement projects
- ii) The Operating Surplus Ratio below the DLGSCI's standard for the last three years;
  - The Shire's operating result (ignoring non-operating grants, subsidies and contributions) for the year ended 30 June 2021 recorded a net deficit of \$3,251,025 (2020: \$3,478,007). Whilst there is a continuing slight improvement in the net deficit, the long term implication is that there is insufficient funding to maintain the Shire's infrastructure.

## 4 Management Comment

---

### 4.1 Operating Surplus Ratio

The Net Result deficit as reported in the Statement of Comprehensive Income of \$1,902,885 in 2019-20 significantly improved to a deficit in 2020-21 of \$468,418 when the non-operating grants, subsidies and contributions were included.

The key areas to improve the Operating Surplus Ratio include:

- Increase operating grants
- Increase rate revenue
- Reduce employee costs
- Reduce materials and contract expenditure
- Depreciation cost management

#### 4.1.1 Operating grants increase

The Shire is on a minimum Federal Assistance Grant (FAG) and comparatively, receives one of the lowest amounts in regional Western Australia. This has the single most dominant impact on the Shire's financial position.

Outside of FAG funding, the only other significant funding opportunities are the Main Roads WA (MRWA) Regional Road Group (RRG) and Roads to Recovery (RtR) grants. However, pursuing operating grant revenue where it is simply materials and contracts expenditure has no benefit in terms of improving operating surplus. Only grants that can be used to offset costs such as employee costs would have material benefit. An example would be rural road resheeting, but RRG funding is the only real opportunity for this type of funding support outside of RtR and FAG. However, RRG funding for rural road resheeting activities is not normally successful due to high competition for the regional pool of funds.

#### 4.1.2 Rate revenue increase

Rate revenue increase could be raised either:

- Directly – raise rates
- Indirectly – long-term growth of the ratepayer base through population growth

A significant rate increase, which is estimated to be well over 50%, would be required to achieve an on-target Operating Surplus Ratio, which is not feasible even if executed over a long period of time.

The long-term growth of the ratepayer base is probable given the large number of resource projects in development together with the attractiveness of Dongara-Port Denison as a tourist destination, but largely controlled by factors outside of the Shire's control.

#### 4.1.3 Employee cost reduction

The Shire conducted an organisational review in November 2018 resulting in a number of redundancies. Whilst achieving the desired reduction in operating expenditure, its influence on the Operating Surplus Ratio has been minimal plus the Shire is now operating at the bare minimum employee base to meet its core service delivery commitments.

#### 4.1.4 Materials & contracts cost reduction

The Shire is currently operating at the minimum materials and contracts expenditure necessary to meet its core service delivery commitments. There was a further reduction in

materials and contracts expenditure from a value of \$3,251,820 in 2019-20 to \$3,183,806 for 2020-21.

#### **4.1.5 Depreciation**

An independent valuation undertaken in 2016 of the Shire's road infrastructure significantly impacted the non-current asset depreciation data from \$2,251,478 in 2016-17 to \$4,152,634 in 2017-18. It is currently at \$4,485,327. The Shire reviewed the 2016 external valuation results thoroughly and is confident that it is transparent and accurate, but it resulted in a further \$2M deficit of the Net Operating result and a significant decline in the Operating Surplus Ratio.

#### **4.2 Asset Sustainability Ratio**

The Asset Sustainability Ratio (ASR) significantly improved from 0.26 in 2019-20 to 0.71 for 2020-21, but unfortunately is still below the DLGSCI's 0.90 target. The Shire is focused on using asset management principles to ensure the preservation and integrity for the majority of its infrastructure at a minimum cost when compared to non-current asset depreciation value.

In summary, smaller regional Shire's face similar dilemmas to Irwin by not having a sufficient ratepayer base as well as falling outside of the criteria for the appropriate operating grants whilst having significant infrastructure to maintain.

## **5 Action Taken**

---

The Shire has completed a review of its Strategic Community Plan (SCP) and developed its Long Term Financial Plan (LTFP). The LTFP forecasts the ASR sitting between 0.60 and 0.90 before reaching DLGSCI's 0.90 target in 2031-32.

A review of the Corporate Business Plan (CBP) is in progress plus Asset valuations have been ordered to review all depreciation values.

## **6 Action Intended to be Taken**

---

The Shire is keeping tight controls on expenditure and continuing to investigate ways to increase revenue.

Other immediate actions to be taken include:

- Operating Surplus Ratio
  - Continue to lobby the Grants Commission for a fairer share of the FAG given the detrimental impact the reduced funding is having on the Shire's financial position.
  - Raise rates.
- Asset Sustainability Ratio
  - Limit capital new projects unless fully funded until ASR recovered.
  - Further develop internal capacity for maintenance renewal works including financing to upgrade the current equipment together with the necessary staff.

## 7 Completion Date

---

- |  |           |
|--|-----------|
| • Upgrade the maintenance renewal program            | June 2023 |
| • Update Corporate Business Plan                     | June 2022 |
| • Further Development of the asset management system | Ongoing   |

## 8 Recommendation

---

In addition to keeping tight controls on expenditure, while investigating ways to increase revenue, it is recommended to:

- Upgrade the maintenance renewal program
- Update the Corporate Business Plan
- Continue lobbying the Grants Commission for a fairer share of the Federal Assistance Grant
- Continue the development of the asset management system