

Special Council Meeting Minutes

For the Purpose of the Adoption of the
Statutory Budget 2019/20 and
Audit Committee Recommendations

Held on

Wednesday 21 August 2019

Commencing at 5.00pm

Shire of Donnybrook Balingup Council Chambers, Donnybrook.

Benjamin Rose
Chief Executive Officer

16 August 2019

Disclaimer

The advice and information contained herein is given by and to the Council without liability or responsibility for its accuracy. Before placing any reliance on this advice or information, a written inquiry should be made to the Council giving entire reasons for seeking the advice or information and how it is proposed to be used.

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Special Council Meeting Minutes

Held at the Shire of Donnybrook Balingup Council Chamber, Donnybrook
Wednesday 21 August 2019, commencing at 5.00pm

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

Shire President – Acknowledgment of Country

The Shire President acknowledged the traditional custodians of the land, the Noongar People, paying respects to Elders, past and present.

The Shire Present declared the meeting open and welcome the public gallery.

Shire President - Public Notification of Recording of Meetings

The Shire President advised that the meeting is being digitally recorded to assist with minute taking in accordance with Council Policy 1.25. The Shire President further stated the following:

If you do not give permission for your participation to be recorded, please indicate this at the meeting. Members are reminded that no other visual or audio recording of this meeting by any other means is allowed without the permission of the Chairperson.

Shire President – Advice of purpose of Special Meeting of Council

The Shire President advises that the purpose of this Special Meeting of Council is for the adoption of the Statutory Budget 2019/20, and consideration of the Audit and Risk Management Committees recommended actions. Public questions presented tonight are required to be related to the adoption of the Statutory Budget 2019/20 or the Audit and Risk Committee reports.

2 ATTENDANCE

COUNCILLORS	STAFF
Cr Piesse (President)	Ben Rose – Chief Executive Officer
Cr Atherton	Steve Potter – Executive Manager Operations
Cr Lindemann	Alan Thornton – Manager Corporate Services
Cr Mills	Damien Morgan – Manager Works and Services
Cr Mitchell	Bob Wallin – Manager Development Services
Cr Tan	Maureen Keegan – Manager Executive Services
Cr Wringe	
Cr King	

PUBLIC GALLERY

2.1 APOLOGIES

Cr Van Der Heide

2.2 APPROVED LEAVE OF ABSENCE

Nil

2.3 APPLICATION FOR LEAVE OF ABSENCE

Cr Van der Heide has requested a leave of absence for the period 21 August 2019 to 28 August 2019 inclusive.

COUNCIL DECISION 114/19

Moved Cr Atherton Seconded Cr Mills

That Cr Van der Heide be granted a leave of absence for the period 21 August 2019 to 28 August 2019 inclusive.

Carried 8/0

Cr King has requested a leave of absence from the 28 August 2019 to 7 September 2019 inclusive.

COUNCIL DECISION 115/19

Moved Cr Atherton Seconded Cr Tan

That Cr King be granted a leave of absence from the 28 August 2019 to 7 September 2019.

Carried 8/0

3 DECLARATION OF FINANCIAL/IMPARTIALITY INTEREST

Division 6: Sub-Division 1 of the Local Government Act 1995. Care should be taken by all Councillors to ensure that a financial/impartiality interest is declared and that they refrain from voting on any matter, which is considered to come within the ambit of the Act.

Nil

4 PUBLIC QUESTION TIME

Simon McInnes

The request for funding to be made available for a review of Local Planning Scheme No7 was knocked back, did that decision come from Council?

Executive Manager Operations

The Shire is required to undertake a review of the Scheme, however as LPS7 was only adopted in 2014 and there has been a relatively slow uptake of land, the Shire will be undertaken this internally rather than requiring the services of an external consultant as there not expected to be significant changes. This decision was made at a staff level.

Simon McInnes

Can I request an independent review be conducted rather than internal?

Executive Manager Operations

The Planning and Development (Local Planning Schemes) Regulations 2015 outline the Scheme review process which does not require an external consultant. An officer's report will be prepared prior to March 2020 for Council's consideration as required under the Regulations.

5 PETITIONS/DEPUTATIONS/PRESENTATIONS

Nil

6 PRESENTATIONS/DEPUTATIONS

Mr Richard Walker item 7.1.1

A property overlaps both the Boyup Brook and Donnybrook Balingup Shire boundaries and as a result incurs twice the rates levies. Can the Shire review this situation and remedy the situation. Perhaps a Shire-Shire boundary adjustment is the best long term sustainable solution.

7 CONFIRMATION OF MINUTES

7.1 *Special Meeting of Council – 22 July 2019*

Minutes of the Special Meeting of Council held 22 July 2019 are at *attachment 7.1 (1)*.

COUNCIL DECISION 116/19 (Executive Recommendation)

Moved Cr Tan Seconded Cr Lindemann

That the Minutes from the Special Meeting of Council held 22 July 2019 be confirmed as a true and accurate record.

Carried 8/0

7.2 *Minutes – Audit Committee 26 July 2019 (unconfirmed)*

Minutes of the Audit Committee Meeting held 26 July 2019 are presented for noting (*attachment 7.2 (1)*).

COUNCIL DECISION 117/19 (Executive Recommendation)

Moved Cr Tan Seconded Cr Atherton

That the unconfirmed Minutes of the Audit Committee Meeting held 26 July 2019 be accepted and noted.

Carried 8/0

8 REPORTS OF OFFICERS

8.1.1 Adoption of the Statutory Budget 2019/20

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 04/1
Author	Alan Thornton - Manager Corporate Services
Attachments	8.1.1 (1) 2019/20 Annual Budget 8.1.1 (2) 2019/20 Fees and Charges 8.1.1 (3) Budget comment
Voting Requirements	Absolute Majority
Executive Summary	<ul style="list-style-type: none"> Adoption of the 2019/20 Annual Budget. A proposed general rate increase of 1.95%.

Statutory Budget Changes

There has been two changes to the Budget Schedules.

- 1) An amount of \$900,000 has been allocated to the Preston Village Retirement Village, schedule 8. A funding amount of \$900,000 has also been recorded. Hence, the nett effect to the budget is zero.
- 2) Depreciation has changed by \$799.00 to match the depreciation schedule.

One requested change is for an expense of \$47,922 to be allocated to Bush Fire Brigades building modifications. DFES will match the \$47,922 expenditure with grant funding. Hence, the nett effect to the budget is zero.

STRATEGIC ALIGNMENT

The following outcomes from the Corporate Business Plan relate to this proposal:

Outcome	Strategy	Action
4.1 – A strategically focussed, open and accountable local government	4.1.2 – Continue to enhance communication and transparency	4.1.2.1 Ongoing meaningful communication and engagement with residents, ratepayers and stakeholders
4.2 – A respected, professional and trusted organisation	4.2.1 – Effective and efficient operations and service provisions	4.2.1.4 – Demonstrate sound financial planning and management, including revenue/expenditure review diversification strategies and long term financial planning.

BACKGROUND

On 22 July 2019 Council adopted the 2019/20 Draft Annual Budget. The 2019/20 Annual Budget has now been produced in accordance with provisions of the Local Government Act 1995 (with additional supplementary budget papers). The 2019/20 Annual Budget is provided under separate cover.

DETAILS

A proposed general rate increase of 1.95% is necessary to meet the operating and capital expenditure in the 2019/20 draft budget. The recommended resolutions are required to adopt the 2019/20 Annual Budget and associated fees and charges that are levied with annual rates.

At the Ordinary Meeting on 24 April 2019 Council endorsed changes to reserve accounts for consideration in the Annual Budget.

The *Local Government Act section 6.11* requires that where a local government wishes to set aside money for use for a purpose in a future financial year, it is to establish and maintain a reserve account for each such purpose.

Council maintains a number of cash reserves for a variety of purposes:

- a) to provide funds for future liabilities.
- b) to provide funds for future asset acquisitions / replacement.
- c) to hold unspent funds for specific projects.
- d) to reduce the reliance on borrowing by accumulating funds for specific projects.

Where relevant, reserves are (and will be) supported by comprehensive plans that detail future funding requirements and the necessary annual allocations to reserves.

All cash backed reserve accounts are supported by money held in financial institutions.

Cash backed reserves will play an increasingly important cash flow role within the Integrated Planning and Reporting Framework (IPRF). This has necessitated the need to review the current structure of the reserve accounts. The revised reserve account structure is intended to create greater accountability and transparency for funds set aside in reserve for specific purposes.

The changes have been included in the 2019/20 Annual Budget document.

CONSULTATION

A period of public comment on the draft 2019/20 Budget was undertaken between the 25 July and 16 August. One submission was received and is provided in Attachment 8.1.1 (1).

In responding to the submission, it is acknowledged the Local Planning Scheme is required to be reviewed in 2019/20 as suggested in the submission, however this will be undertaken in-house by Planning staff and therefore will not require an additional Budget allocation as proposed.

FINANCIAL IMPLICATIONS

This report will adopt the 2019/20 Annual Budget as required by the Local Government Act 1995.

POLICY COMPLIANCE

Not Applicable

STATUTORY COMPLIANCE

Section 6.2 of the Local Government Act requires that:

“Not later than 31st August in each financial year, or such extended time as the Minister allows, each local government is to prepare and adopt, in the form and manner prescribed, a budget for its municipal fund for the financial year ending on the next following 30 June.”

Note: The form and manner prescribed is detailed in Part 3 of the Local Government (Financial Management) Regulations 1996.

CONCLUSION

The recommended resolutions are required to adopt the 2019/20 Annual Budget and associated fees and charges that are levied with rates.

**COUNCIL DECISION 118/19
(Executive Recommendation)**

Moved Cr Tan Seconded Cr Mills

1. Pursuant to Section 6.2 of the Local Government Act 1995, Council adopts the 2019/20 Annual Budget, as attached.
2. Pursuant to Section 6.16 of the Local Government Act 1995, Council adopts the Schedule of Fees and Charges for 2019/20, as attached.
3. Pursuant to Section 6.32 of the Local Government Act 1995, Council adopts the following rates in the dollar and minimum payments for the 2019/20 financial year on all rateable land:

General Rate:

UV = \$0.005377

GRV = \$0.081773

Minimum Payment:

UV = \$1,104

GRV = \$1,104

4. Pursuant to Section 6.45 of the Local Government Act 1995, Council sets due dates for the payment of rates and charges as follows:

Payment in Full

Full Payment	15 October 2019
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Two Instalments

1st Instalment	15 October 2019
2nd Instalment	17 February 2020

Four Instalments

1st Instalment	15 October 2019
2nd Instalment	16 December 2019
3rd Instalment	17 February 2020
4th Instalment	20 April 2020

5. Pursuant to Section 6.51 of the Local Government Act 1995, Council adopts a 11% rate of penalty interest on overdue rates and charges that remain unpaid.

6. Pursuant to Section 6.45 of the Local Government Act 1995, Council adopts an interest rate of 5.5% where the owner has elected to pay rates and charges through an instalment option.
7. Pursuant to Section 6.45 of the Local Government Act 1995, Council adopts an instalment administration charge where the owner has elected to pay rates and charges through an instalment option being \$11.00 payable on the 2nd (and each subsequent) instalments; \$11.00 total fee for two (2) instalment option.
\$33.00 total fee for four (4) instalment option.
8. Pursuant to Regulation 34(5) of the Local Government (Financial Management) Regulations 1996, Council adopts a material variance for reporting of \$5,000 for 2019/20.
9. Pursuant to section 66 of the Waste Avoidance and Resource Recovery Act 2007, Council set the 2019/20 rate in the dollar for a Management Levy for the purposes of;
 - a) Provision of suitable places, buildings and appliances for the disposal of refuse.
 - b) Construction and installation of plant for the disposal of refuse.

General Rate

GRV	\$0.120000
UV	\$0.030000

Maximum Payment

GRV	\$152.00
UV	\$152.00

10. Pursuant to section 67 of the Waste Avoidance and Resource Recovery Act 2007, Council sets the 2019/20 Waste Receptacle Charges.

Bin Service - 3 Bin Service	\$265.00
Bin Service - 2 Bin Service	\$221.00
Optional Bin - Rubbish (Fortnightly)	\$81.00
Optional Bin - Rubbish (Weekly)	\$158.00
Optional Bin - Recycling	\$63.00
Optional Bin - Organics	\$122.00
Aged Care Bin Service - 3 Bin Service	\$89.00

11. Pursuant to regulation 53 of the Building Regulations 2012, Council adopts the annual Swimming Pool Barrier Inspection fee of \$14.61 per swimming pool.
12. Pursuant to Section 6.11 of the Local Government Act 1995, Council adopts the following changes to Reserve Accounts for the 2019/20 Annual Budget

Current Reserve Name	Current Reserve Purpose	New Name	New Reserve Purpose	Comments
Electronic Equipment Reserve	<i>To provide future funding for the purchase and upgrade of electronic equipment.</i>	Information Technology Reserve	<i>To accumulate funds for the acquisition and replacement of information technology equipment and software.</i>	<i>An asset management plan is identified to be developed for this asset class.</i>
N/A	N/A	Recreation Centre Equipment Reserve	<i>To accumulate funds for the acquisition and replacement of fitness equipment at the Recreation Centre.</i>	<i>New Reserve. An asset management plan is identified to be developed for this asset class.</i>
Plant Replacement Reserve	<i>To fund the Shire's plant replacement program.</i>	Vehicle and Plant Reserve	<i>To accumulate funds for the acquisition and replacement of Council's vehicle fleet.</i>	<i>Allocations to and from this fund are determined by Council's Asset Management Plan - Vehicles.</i>
Buildings Reserve	<i>To fund the purchase and upgrade of Shire buildings.</i>	Building Reserve	<i>To accumulate funds for the construction, renewal and major maintenance of Council buildings.</i>	<i>Allocations to and from this fund are determined by Council's Asset Management Plan - Buildings.</i>
Building Maintenance Reserve	<i>To set aside funds for the future maintenance of Shire owned buildings in accordance with Council's Asset Management Programs.</i>	N/A	N/A	<i>Close and amalgamate with Building Reserve</i>

<i>N/A</i>	<i>N/A</i>	<i>Pathway Reserve</i>	<i>To accumulate funds for the construction, renewal and major maintenance of pathways.</i>	<i>New Reserve. An asset management plan is identified to be developed for this asset class.</i>
<i>N/A</i>	<i>N/A</i>	<i>Small Plant & Equipment (Works) Reserve</i>	<i>Established to accumulate funds for the acquisition and replacement of Councils small works plant & equipment.</i>	<i>New Reserve. An asset management plan is identified to be developed for this asset class.</i>
<i>N/A</i>	<i>N/A</i>	<i>Drainage & Stormwater Reserve</i>	<i>Established to accumulate funds for the construction, renewal and major maintenance of drainage infrastructure.</i>	<i>New Reserve. An asset management plan is identified to be developed for this asset class.</i>
<i>N/A</i>	<i>N/A</i>	<i>Parks & Reserves Reserve</i>	<i>Established to accumulate funds for the construction, renewal and major maintenance of parks & reserves infrastructure.</i>	<i>Allocations to and from this fund are determined by Council's Asset Management Plan – Parks & Reserves.</i>
<i>Roadworks Reserve</i>	<i>To contribute to the funding of the Shire's roadworks programme.</i>	<i>Roadworks Reserve</i>	<i>Established to accumulate funds for the construction, renewal and major maintenance of road infrastructure.</i>	<i>An asset management plan is identified to be developed for this asset class.</i>
<i>N/A</i>	<i>N/A</i>	<i>Aged Care Equipment Reserve</i>	<i>Established to accumulate funds for the acquisition and replacement of furniture & equipment in Council's aged care facilities.</i>	<i>New Reserve. An asset management plan is identified to be developed for this asset class.</i>

<i>Aged Care Housing Reserve</i>	<i>To receive any surplus funds from aged housing operations to provide future funding for the upgrade of aged housing facilities.</i>	<i>Aged Care Housing Reserve</i>	<i>Established to manage funds from aged housing schemes for the upgrade of Council managed aged housing facilities.</i>	
<i>Employee Leave & Gratuity Reserve</i>	<i>To fund the payment of annual leave, long service leave and gratuity payments to employees.</i>	<i>Employee Entitlements Reserve</i>	<i>Established to provide funds for the payment of long service leave and grandfathered gratuity scheme entitlements.</i>	<i>Past employees are entitled to transport their accrued Long Service Leave within Local Government. As such Council remains liable for Long Service Leave for the period of employment with Council.</i>
<i>N/A</i>	<i>N/A</i>	<i>27 Pay Period Reserve</i>	<i>Established to provide funds for the additional cash outlay in each eleventh year when 27 pay fortnights occur instead of the normal 26.</i>	<i>New Reserve</i>

Valuation Reserve	To assist in funding the cost of periodic revaluations of Unimproved and Gross Rental Valuations for rating purposes	Revaluation Reserve	Established to accumulate funds for; a) Asset Revaluations b) Rates Gross Rental Valuation - General Revaluation	
Town Planning Reserve	To fund future Town Planning projects including Town Planning Scheme Reserves, Rural Strategy, Municipal Inventory and Environmental plan.	Strategic Planning Studies Reserve	Established to accumulate funds for engaging strategic studies / reports.	
N/A	N/A	Council Election Reserve	This Reserve is established to accumulate funds for Council postal elections.	To annualise the cost of biennial Council election
N/A	N/A	Unspent Grants Reserve	To hold unexpended grants to be utilised in future financial periods.	New Reserve
Waste Management Reserve	To receive funds collected from the Shire's Waste Management levy for the purpose of providing waste management facilities.	Waste Management Reserve	To receive funds collected from the Shire's Waste Management levy for the purpose of providing waste management facilities	No Change

Bushfire Control & Management Reserve	To receive funds collected from the Shire's Fire Protection Levy for the purpose of providing fire fighting equipment to meet the needs of the district.	Bushfire Control & Management Reserve	To receive funds collected from the Shire's Fire Protection Levy for the purpose of providing fire fighting equipment to meet the needs of the district.	This levy no longer raised. Replaced by the Emergency Services Levy (ESL). A small balance remains in this reserve (\$2,282) as at 30 June 2018. Recommend closure of this reserve as no longer required. Balance allocated to firefighting equipment purchased in excess of ESL funding.
Arbuthnott Memorial Scholarship	To fund the payment of the Arbuthnott Scholarship.	Arbuthnott Memorial Scholarship Reserve	To fund the payment of the Arbuthnott Scholarship.	No Change
Land Development Reserve Fund	To fund the purchase of land for future community purposes.	Land Development Reserve Fund	To fund the purchase of land for future community purposes.	No Change
Central Business District Reserve	To fund future Central Business District projects.	Central Business District Reserve	To fund future Central Business District projects.	No Change Only minimal funds in the Reserve, \$3,058 as a 30 June 2018.

Apple Funpark Reserve	To receive donations and to provide for the future capital upgrade and maintenance of equipment and facilities at the Apple Funpark in Collins Street, Donnybrook.	Apple Funpark Reserve	To receive donations and to provide for the future capital upgrade and maintenance of equipment and facilities at the Apple Funpark in Collins Street, Donnybrook.	No Change
N/A	N/A	Contribution To Works Reserve	To hold contributions for future works.	New Reserve
N/A	N/A	Carried Forward Projects Reserve	To hold unspent project funds.	New Reserve

Carried by absolute majority 8/0

**Note: Councillors will be informed of the 2018/19 year end position (surplus/profit).*

9 REPORTS OF COMMITTEES

9.1 AUDIT COMMITTEE

9.1.1 Change of name to the Audit Committee

CEO Comments

Discussion was held at the Audit Committee regarding changing the name of the Audit Committee to “Audit and Risk Management Committee”

No formal recommendation was made by the committee however the CEO deems it appropriate to change the name to better reflect the committee’s broader role.

COUNCIL DECISION 119/19 (Officer Recommendation)

Moved Cr Mills Seconded Cr King

That Council change the name of the Audit Committee to “Audit and Risk Management Committee”

Carried 8/0

9.1.2 Operating Surplus Report

Location	Shire of Donnybrook Balingup
Applicant	Not Applicable
File Reference	FNC02
Author	Stuart Eaton – Finance Office (Special Projects)
Attachments	Attachments 9.1.2a and 9.1.2b
Voting Requirements	Simple Majority
Executive Summary	Report relating a matter of significance raised in the 2017/18 Audit Report

STRATEGIC ALIGNMENT

The recommendation aligns with the following objectives within the Corporate Business Plan:

Outcome	Strategy	Actions
4.2 A respected, professional and trusted organisation	Effective and efficient operations and service provision	4.2.1.1 Maintain effective and efficient policies, planning, operating procedures and practices. 4.2.1.2 Seek a high level of legislative compliance and effective internal controls 4.2.1.3 Monitor and measure organisational performance 4.2.1.4 Demonstrate sound financial planning and management, including revenue/ expenditure review and revenue diversification strategies and long term financial planning

BACKGROUND

The independent audit report of the 2017/18 Annual Financial Report (Attachment 8.1.1a) identified the following:

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 we report that:

- (i) In our opinion, the following matter indicate a significant adverse trend in the financial position of the Shire of Donnybrook-Balingup:*
 - a. Operating surplus ratio as reported in Note 19 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2016: -0.57, 2017: -0.39 and 2018: -0.49).*

S7.12A of the Local Government Act 1995 (the Act) requires the following relating to significant matters raised in the audit report (Attachment 8.1.1b).

- (4) 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.*

DETAILS

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.

Ratios may be disclosed as a percentage or a factor of one.

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.

Under regulation 50 of the Local Government (Financial Management) Regulations 1996, the Annual Financial Report is to include 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
- g) Own Source Revenue Coverage Ratio

The Shire’s ratio performance since 2013/14 is tabled below

	Standard	2017/18	2016/17	2015/16	2014/15	2013/14	5 Year Average
Current Ratio	1.00	✓ 1.96	✓ 2.65	✗ 0.71	✓ 1.35	✗ 0.77	✓ 1.49
Asset Consumption Ratio	0.50	✓ 0.65	✓ 0.65	✓ 0.59	✓ 0.69	✓ 0.64	✓ 0.64
Asset Renewal Ratio	0.75	✓ 0.87	✓ 1.15	✗ 0.31	✗ 0.61	✗ 0.42	✗ 0.67
Asset Sustainability Ratio	0.90	✗ 0.55	✗ 0.54	✓ 0.93	✗ 0.62	✗ 0.60	✗ 0.65
Debt Service Cover Ratio	2.00	✓ 15.81	✓ 4.01	✓ 2.47	✓ 14.17	✓ 2.68	✓ 7.83
Operating Surplus Ratio	0.01	✗ (0.49)	✗ (0.38)	✗ (0.57)	✗ (0.23)	✗ (0.38)	✗ (0.41)
Own Source Revenue Coverage Ratio	0.40	✓ 0.49	✓ 0.48	✓ 0.52	✓ 0.54	✓ 0.58	✓ 0.52
	Standard	2017/18	2016/17	2015/16	2014/15	2013/14	5 Year Average
Financial Health Indicator (max = 100)	70.00	✗ 65.00	✗ 64.00	✗ 36.00	✗ 60.00	✗ 33.00	✗ 51.60

source: mycouncil.wa.gov.au

The audit report for 2017/18 details auditor’s concerns with the trend of the Shire’s ‘Operating Surplus Ratio’.

The Shire Operating Surplus Ratio for the past 5 years

	Standard	2017/18	2016/17	2015/16	2014/15	2013/14	5 Year Average
Operating Surplus Ratio	0.01	✗ (0.49)	✗ (0.38)	✗ (0.57)	✗ (0.23)	✗ (0.38)	✗ (0.41)

The Operating Surplus Ratio is explained in Local Government Operational Guidelines Number 18 – June 2013 (Financial Ratios) p6.

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.

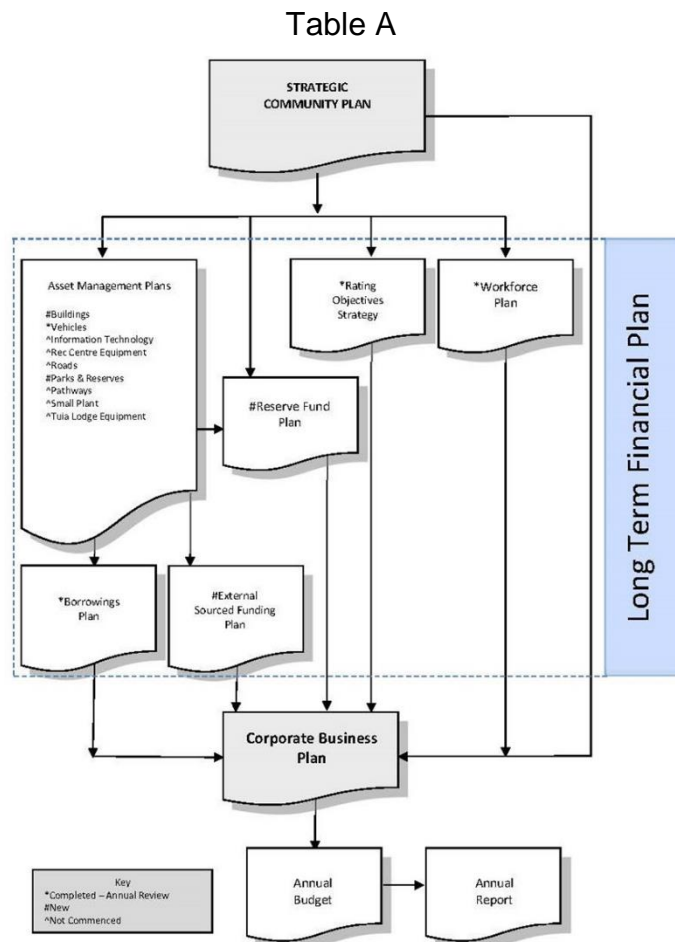
Operating Surplus Ratio	
Operating Surplus Ratio =	(Operating Revenue MINUS Operating Expense) Own Source Operating Revenue
Purpose:	This ratio is a measure of a local government’s ability to cover its operational costs and have revenues available for capital funding or other purposes.
Standards:	Basic Standard between 1% and 15% (0.01 and 0.15) Advanced Standard > 15% (>0.15).
Definitions:	

<i>'Operating Revenue'</i>	<i>Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.</i>
<i>'Operating Expense'</i>	<i>Means the expense that is operating expense for the purposes of the AAS.</i>
<i>'Own Source Operating Revenue'</i>	<i>Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.</i>

Officer's briefed Elected Members in February 2018 relating to the Shire's financial ratios and performance against the Financial Health Indicator.

Officers identified a historical absence of robust long term asset management planning and a corresponding absence of sustainable 'own source' asset renewal funding within the budgetary framework. This was highlighted as an inhibitor towards improving sustainable financial health of the Shire.

In response to transitioning the organisation towards improved long term financial sustainability, an Integrated Financial Planning Framework was developed in 2018 (Table A)



Since introducing the Integrated Planning Framework in 2018 the following documents and long term financial plans have been developed and presented to Council.

	Introduced
Workforce Plan	2018
Borrowings Plan	2018
Rating Objectives Strategy	2018
Asset Management Plan – Vehicles	2018
Asset Management Plan – Buildings	2019
Asset Management Plan – Parks & Reserves	2019
Reserves Fund Plan	2019
External Sourced Funding Plan	2019

The following plans have been identified as required and are planned for future development

Asset Management Plan – Information Technology
Asset Management Plan – Recreation Centre Equipment
Asset Management Plan – Roads
Asset Management Plan – Pathways
Asset Management Plan – Small Plant
Asset Management Plan – Tuia Lodge Equipment

At the ordinary meeting of Council on 24 April 2019 officers reported the following when seeking Council to endorse the annual (2019/20) review of Integrated Planning and Financial Reporting Framework.

Officers are progressing the development of an Integrated Planning and Reporting Framework for the Shire (Table 1) that will improve the long term financial sustainability of the Shire of Donnybrook Balingup.

This corporate planning framework will provide greater integration of plans and become the driver for the Annual Budget.

A suite of financial planning systems are being developed and implemented that will;

- a) Accurately demonstrate the Shire’s capability to deliver services and manage its asset portfolio that can sustain our community into the future.*
- b) Accurately determine the real cost of managing the Shire’s asset portfolio.*
- c) Accurately determine the real cost of delivering services to the community.*
- d) Accurately determine the real contribution residents and users should make to the cost of services & facilities.*

One aspect of the financial planning framework is realigning the underlying foundation of the Annual Budget to respond to the aforementioned points in order to improve the long term financial sustainability for the Shire.

It is advised that Council has careful regard to longer-term considerations in making annual budget decisions. If they do not, they may find that the Shire is faced with future financial challenges. These long-term financial plans let Council see what its future financial obligations are. The plans help Council assess the need for early intervention to reduce future risks and associated revenue raising requirements of future generations.

If a Local Government runs ongoing under-lying operating deficits, it needs to recognise the longer-term implications. Not addressing this deficit is likely to mean that future Councils will struggle to be able to accommodate asset renewal needs and that service levels will decline over time.

CONSULTATION

Not Applicable

POLICY COMPLIANCE

Not Applicable

STATUTORY COMPLIANCE

s7.12A of the Local Government Act 1995 (the act) requires the following relating to significant matters raised in the audit report

- (4) *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.*

Department of Local Government, Sport and Cultural Industries (the Department) has advised Local Governments of the requirement in Department Circular 05-2009

LOCAL GOVERNMENT AUDITING

Local governments are reminded of their audit reporting obligations under section 7.12A(4)(a) of the Local Government Act 1995.

To assist, the department has prepared a template for use by local governments.

While the template is not in a prescribed form it is suggested that it is used by local governments to standardise the report format and support a uniform process.

Reporting requirements

In November 2017 the proclamation of the Local Government Amendment (Auditing) Act 2017 introduced a number of reforms to auditing laws.

These were outlined in Circular 16-2017 and the accompanying Guide to Local Government Auditing.

This included the introduction of a new category of audits called Performance Audits.

Legislation also now requires local governments to examine an audit report it receives and implement appropriate action in respect to the significant matters raised.

Local governments must prepare a report addressing the significant matters identified in the audit report.

The report should then be considered by the local government's audit committee before being adopted by council.

This report is to be provided to the Minister within three months of receiving the audit report and within 14 days after the local government gives the report to the Minister, the CEO must publish a copy of the report on the local government's official website.

This requirement applies to both a local government's financial audit as well as any Performance Audits undertaken by the Auditor General.

To date the Auditor General has undertaken a number of Performance Audits of selected local governments that include Records Management, Local Government Procurement, Timely Payment of Suppliers and Controls Over Corporate Credit Cards.

Section 7.12A(4)(a) of the Local Government Act 1995 (the Act) refers to the preparation of a report by a local government.

The report is to address any matters identified as significant by the auditor in the audit report, the report is to also state what action the local government has or intends to take in respect to each of those matters.

The Department proposes to maintain the ongoing process of examining audit reports to ensure compliance and monitoring the actions that local governments take or intend to take in addressing any significant matters identified in the audit reports.

If you have any questions regarding this information, please contact the Department on (08) 6551 8700 or via email audits@dlgsc.wa.gov.au.

The Department has advised the reporting to be in the following format

***TEMPLATE
REPORT***

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

Office of the Auditor General (OAG) – Performance Audit

Purpose of Report

Significant Matter Identified by OAG

Implication

Management Comment

Action Taken or Intended to be Taken

Completion or Proposed Completion Date

Recommendation

CONCLUSION

Officers reiterate previous advice that the Shire's Integrated Financial Planning Framework will provide greater integration of plans and become the driver for the Annual Budget.

A suite of financial planning systems are being developed and implemented that will;

- a) Accurately demonstrate the Shire's capability to deliver services and manage its asset portfolio that can sustain our community into the future.
- b) Accurately determine the real cost of managing the Shire's asset portfolio.
- c) Accurately determine the real cost of delivering services to the community.
- d) Accurately determine the real contribution residents and users should make to the cost of services & facilities.

One aspect of the financial planning framework is realigning the underlying foundation of the Annual Budget to respond to the aforementioned points in order to improve the long term financial sustainability for the Shire.

It is advised that Council has careful regard to longer-term considerations in making annual budget decisions. If it does not, it may find that the Shire is faced with future financial challenges. These long-term financial plans let Council see what its future financial obligations are. The plans help Council assess the need for early intervention to reduce future risks and associated revenue raising requirements of future generations.

If a Local Government runs ongoing under-lying operating deficits, it needs to recognise the longer-term implications. Not addressing this deficit is likely to mean that future Councils will struggle to be able to accommodate asset renewal needs and that service levels will decline over time

All things being equal, an operating deficit / surplus will trend higher over time when increased sustainable 'own source' operating revenue sources are committed annually towards meeting the asset renewal requirements identified in the current and proposed, asset plans.

COUNCIL DECISION 120/19 (Committee Recommendation – 1)

Moved Cr Tan Seconded Cr Wringe

That the Audit Committee recommend the Council submit the following response in compliance of S7.12A of the Local Government Act 1995 relating to significant matter raised in the 2017/18 audit report.

1.1 Purpose of Report

To respond the Department of Local Government, Sport and Cultural Industries in compliance of S7.12A of the Local Government Act 1995 relating to significant matter raised in the 2017/18 audit report.

1.2 Significant Matter Identified by OAG

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 we report that:

(ii) In our opinion, the following matter indicate a significant adverse trend in the financial position of the Shire of Donnybrook-Balingup:

a. Operating surplus ratio as reported in Note 19 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2016: -0.57, 2017: -0.39 and 2018: -0.49).

1.3 Implication

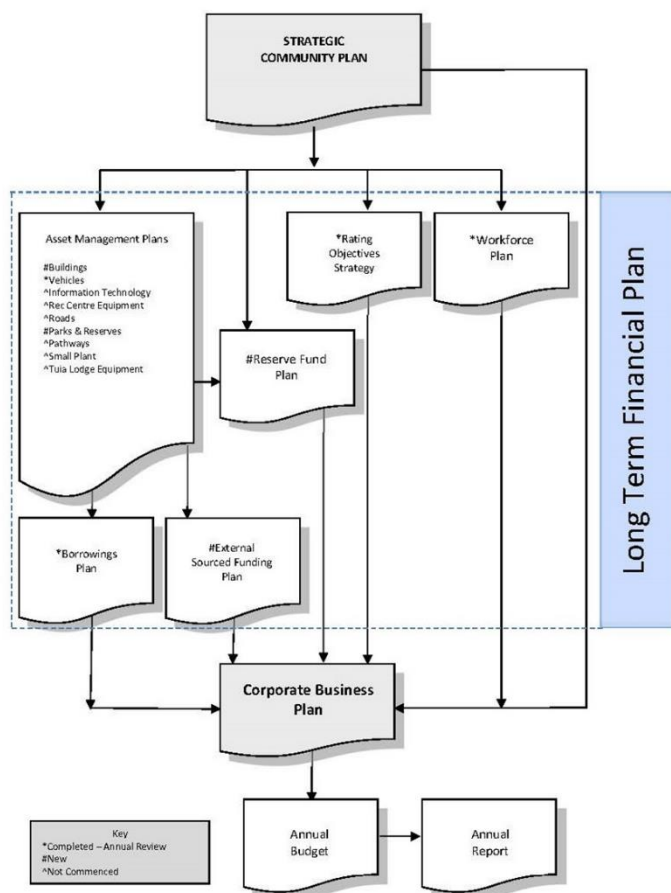
If a Local Government runs ongoing under-lying operating deficits, it needs to recognise the longer-term implications. Not addressing ongoing deficits is likely to mean that future Councils will struggle to be able to accommodate asset renewal needs and that service levels will decline over time. It is acknowledged that a trending reduction in the operating deficit is necessary for improved sustainable financial health of the Shire.

1.4 Management Comment

Historically, the Shire has had no robust integrated financial planning framework that incorporates sustainable 'own source' funded long term asset management plans. It is the opinion of CEO that this has resulted in a more adverse financial position of the Shire that would ordinary be the case under a fully developed Integrated Financial Planning Framework.

The Shire of Donnybrook Balingup is transitioning towards improved long term financial sustainability, an Integrated Financial Planning Framework was developed in 2018 (Table A).

Table A



1.5 Action Taken or Intended to be Taken

A suite of financial planning systems are being developed and implemented that will;

- a) Accurately demonstrate the Shire’s capability to deliver services and manage its asset portfolio that can sustain our community into the future.***
- b) Accurately determine the real cost of managing the Shire’s asset portfolio.***
- c) Accurately determine the real cost of delivering services to the community.***
- d) Accurately determine the real contribution residents and users should make to the cost of services & facilities.***

Since introducing the Integrated Financial Planning Framework in 2018 the following documents and long term financial plans have been developed and presented to Council.

	Introduced
Workforce Plan	2018
Borrowings Plan	2018
Rating Objectives Strategy	2018
Asset Management Plan – Vehicles	2018
Asset Management Plan – Buildings	2019
Asset Management Plan – Parks & Reserves	2019
Reserves Fund Plan	2019
External Sourced Funding Plan	2019

The following plans have been identified as required and are planned for future development.

Asset Management Plan – Information Technology
Asset Management Plan – Recreation Centre Equipment
Asset Management Plan – Roads
Asset Management Plan – Pathways
Asset Management Plan – Small Plant
Asset Management Plan – Tuia Lodge Equipment

This Integrated Financial Planning Framework and is reliant upon the developed sustainable ‘own source’ funding model being embedded within the annual budgetary process.

1.6 Completion or Proposed Completion Date

Council is committed to reduce the Operating Deficit and improving the Operating Surplus Ratio.

Since introducing the Integrated Financial Planning Framework in 2018 the following documents and long term financial plans have been developed and presented to Council.

	Introduced
Workforce Plan	2018
Borrowings Plan	2018
Rating Objectives Strategy	2018
Asset Management Plan – Vehicles	2018
Asset Management Plan – Buildings	2019
Asset Management Plan – Parks & Reserves	2019
Reserves Fund Plan	2019
External Sourced Funding Plan	2019

The following plans have been identified as required and are planned for future development across the next 5 years.

<i>Asset Management Plan – Information Technology</i>
<i>Asset Management Plan – Recreation Centre Equipment</i>
<i>Asset Management Plan – Roads</i>
<i>Asset Management Plan – Pathways</i>
<i>Asset Management Plan – Small Plant</i>
<i>Asset Management Plan – Tuia Lodge Equipment</i>

It is expected that the ongoing development of the Integrated Financial Planning Framework will lead to a trending improvement in the Operating Surplus Ratio and overall financial health of the Shire of Donnybrook Balingup.

Carried 7/1

Cr Mitchell is recorded as voting against the recommendation

**COUNCIL DECISION 121/19
(Committee Recommendation – 2)**

Moved Cr Tan Seconded Cr Atherton

That the Audit Committee recommend that Council commit to a trending improvement in the Operating Surplus Ratio and long term sustainable financial health of the Shire of Donnybrook Balingup through continued implementation and funding of its Integrated Financial Planning Framework.

Carried 7/1

Cr Mitchell is recorded as voting against the recommendation.

9.1.3 May 2019 Interim Audit

Location	Shire of Donnybrook-Balingup
Applicant	Not Applicable
File Reference	FNC02
Author	Alan Thornton – Manager Corporate Services
Attachments	Attachment 9.1.3 (1)
Voting Requirements	Simple Majority
Executive Summary	Report relating to findings identified during the May 2019 Interim Audit

STRATEGIC ALIGNMENT

The recommendation aligns with the following objectives within the Corporate Business Plan:

Outcome	Strategy	Action No.	Actions
4.2 A respected, professional and trusted organisation	Effective and efficient operations and service provision	4.2.1.1	Maintain effective and efficient policies, planning, operating procedures and practices.
		4.2.1.2	Seek a high level of legislative compliance and effective internal controls
		4.2.1.3	Monitor and measure organisational performance
		4.2.1.4	Demonstrate sound financial planning and management, including revenue/ expenditure review and revenue diversification strategies and long term financial planning

BACKGROUND

The financial year audit process for the 2018/19 financial year commences with an interim audit. The Office of the Auditor General (OAG) will be directing the 2018/19 financial year audit.

AMD Chartered Accountants have been engaged by the Office of the Auditor General

to conduct the financial year audit on behalf of the OAG.

AMD Chartered Accountants conducted an onsite interim audit review on 9th and 10th May 2019.

DETAILS

From the May 2019 interim audit AMD identified four items of risk and concerns with respect to the probability and/or consequences of adverse outcomes if action is not taken. These items are detailed in Attachment 8.1.2.

CONSULTATION

Not applicable

POLICY COMPLIANCE

Not applicable

STATUTORY COMPLIANCE

- *Local Government Act 1995(ACT).*
- Regulation 51(2) of the Local Government (Financial Management) Regulations 1996.
- Audit Regulation 17 review
- Financial Management System Review Report

COMMITTEE RECOMMENDATION

That the Audit Committee recommend the Auditor's Interim Audit Management Report for the year ended 30 June 2019 be received by Council and the recommendations of the auditor be noted.

COUNCIL DECISION 122/19

Moved Cr Mills Seconded Cr Tan

That the Auditor's Interim Audit Management Report for the year ended 30 June 2019 be received by Council and the recommendations of the auditor be noted.

Carried 8/0

6 CLOSURE OF MEETING

The Shire President to declare the meeting closed at 6:12pm.

Consultation

Extensive internal consultation has occurred between all divisions and through draft budget meetings conducted with Elected Members.

Policy/Statutory Implications

Voting: Simple Majority

Financial Implications

This 2019/20 Draft Budget will be used to develop the 2019/20 Annual Budget in the format required under Local Government Act 1995



Strategic Implications

The 2019/20 Draft Budget has been developed with consideration of existing strategic planning documents adopted by Council.

8 CLOSURE OF MEETING

Next Ordinary Council Meeting will be held on Wednesday 24 July 2019.

The meeting was closed at 7:15pm

These Minutes were confirmed by the Council as a true and accurate record at the Ordinary Council Meeting held on 21 August 2019	
	
Shire President	Presiding Member