

Our Ref: 1.1.3

Hon John Carey  
Minister for Housing; Lands; Homelessness; Local Government  
Department of Local Government, Sport and Cultural Industries  
PO Box 8349  
PERTH BUSINESS CENTRE WA 6849

Dear Mr Carey

### Significant Adverse Trend – Operating Surplus Ratio

We have recently completed our audit process for the 2020/2021 financial year whereby the Independent Auditors Report identified a significant adverse trend in relation to the Operating Surplus Ratio.

This situation was reported and discussed with our Audit Committee and subsequently presented at our Council meeting held on 18<sup>th</sup> February 2022. I have attached a copy of the Independent Auditors Report and our Audit Committee agenda and meeting minutes for your information.

As detailed in the Audit Committee agenda the Operating Surplus Ratio has been below the recommended threshold of 0.15 for the past 6 years. The ratio has improved significantly from 2017/2018 with the total value of infrastructure road assets being reduced by approximately 58 million dollars as part of the asset revaluation process. Whilst the subsequent reduction in infrastructure road asset depreciation has had a positive impact on this ratio for 2018/2019 and 2019/2020 we continue to reside below the target set by the Department. The 2020/2021 decline in our Operating Surplus Ratio is due to write off totalling \$1,143,442 associated with assets destroyed by cyclone Seroja that has impacted on our Statement of Comprehensive Income.

The table below illustrates our ratio result from 2015/2016 to 2020/2021.

Operating Surplus Ratio					
2020/2021	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016
(0.24)	(0.09)	(0.02)	(0.35)	(0.54)	(0.56)

Achieving a positive ratio is difficult due to the composition of our financial model, the impact of depreciation will continue to skewer the operating surplus result as this non-cash expense is included in the calculations and generally accounts for approximately 25% of our total operating expenditure.

The Shire of Northampton will continue to address our financial performance to ensure the Shire is financially viable while continuing to address asset management replacement and renewal and satisfy community service requirements. However, there are limited strategies that can be employed to address the adverse trend associated with the ratio as it is currently calculated.

The flaws in the current methodology used to calculate the Operating Surplus Ratio have been highlighted by the WALGA “Financial Ratios Working Group” and identified as an area that needs to be addressed under the “Local Government Reform” process.

Should you require additional information or wish to discuss this matter further, please contact me on 9934 1202.

Yours faithfully



**GARRY L KEEFFE**  
**CHIEF EXECUTIVE OFFICER**

18 February 2022