Our Ref: IM.PUB.19/LT22255043
Enquiries: Steve Van Nierop

24 February 2022

Hon John Carey
Minister for Local Government
Level 7, Dumas House
2 Havelock Street,
WEST PERTH WA 6005

Dear Minister

Significant Matter Reported by the Auditor in 2020-21 Audit Report

The Auditor General in the City of Albany's ("the City's") Auditor's Report for the 2020/21 financial year has identified that the City's Asset Sustainability Ratio was below the Department of Local Government, Sport and Cultural Industries' standard for the last three financial years. The Auditor General's opinion was that this material matter is a *significant* adverse trend.

In accordance with Section 7.12A(4) of the Local Government Act 1995 ("the Act"), the City must prepare a report addressing any matters identified as significant by the auditor in the audit report, and state what action the City has taken or intends to take with respect to each of the matters. A copy of this report is to be provided to the Minister within three months of the City receiving the audit report (received 3 December 2021).

Please find attached to this letter the report prepared by the City addressing the City's Asset Sustainability Ratio.

The City will ensure that a copy of this report is published on the City's website within 14 days of providing it to you, in accordance with Section 7.12A(5) of the Act.

Yours faithfully

Andrew Sharpe
Chief Executive Officer

CCS411: ASSET SUSTAINABILITY RATIO

Business Entity Name	:	City of Albany
Report Prepared By	:	Manager Finance (S van Nierop)
Authorising Officer:	:	Executive Director Corporate & Commercial Services (D Olde)

STRATEGIC IMPLICATIONS

1. This item relates to the following elements of the City of Albany Strategic Community Plan or Corporate Business Plan informing plans or strategies**:**
   - **Pillar**: Leadership.
   - **Outcomes**: A well-informed and engaged community.

In Brief:

- The Auditor General has identified that the City's asset sustainability ratio is below the benchmark set by the Department of Local Government, Sport and Cultural Industries' ("DLGSCI"), and considers this a significant issue.
- Under the Local Government Act, significant issues raised in an audit report need to be addressed.

RECOMMENDATION

CCS411: RESOLUTION (AMENDED MOTION BY COUNCILLOR STOCKS)
VOTING REQUIREMENT: SIMPLE MAJORITY

MOVED: COUNCILLOR STOCKS
SECONDED: COUNCILLOR THOMSON

THAT Council:

1. **NOTE that the City's Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the 2018/19, 2019/20 and 2020/21 financial years.**
2. **NOTE the impact of reduced working hours for all staff and council for June to November 2020/21 as a response to the financial impacts of the COVID-19 pandemic. This limited the ability of City staff to undertake a significant portion of the asset renewal and replacement program, and negatively impacted this ratio.**
3. **NOTE that the Asset Sustainability Ratio <u>excludes</u> significant expenditure on asset maintenance and upgrades to existing assets, both of which contribute to sustainability and functionality of non-financial assets.**

CARRIED 12-0

Councillor Reason:

While it may appear that the City of Albany has not met it requirements, it is the ratio that is the issue and not the City of Albany practices. This ratio does not reflect the reality of the maintenance and asset management costs. Some $5 million was spent last year on roads and this is not taken into consideration.

Officer Comment (Executive Director Corporate and Commercial Services):
:

Officers support the amended motion. The City is measured against 7 ratios, including this ratio, and exceeds the basic or advanced standard for all but this ratio. The two other ratios that measure asset management performance, being Asset Consumption Ratio and Asset Renewal Funding Ratio, are both well above the Department of Local Government, Sport and Cultural Industries 'basic' benchmark.

Councillor Stocks then proposed an amendment to the committee recommendation.

CCS411: COMMITTEE RECOMMENDATION

MOVED: COUNCILLOR STOCKS
SECONDED: COUNCILLOR THOMSON

THAT Council NOTE that the City's Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the 2018/19, 2019/20 and 2020/21 financial years.

CCS411: COMMITTEE RECOMMENDATION

MOVED: COUNCILLOR STOCKS
SECONDED: COUNCILLOR BROUGH

THAT the Authorising Officer Recommendation be ADOPTED.

CARRIED 13-0

CCS411: AUTHORISING OFFICER RECOMMENDATION

THAT Council NOTE that the City's Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the 2018/19, 2019/20 and 2020/21 financial years.

BACKGROUND

2. The Auditor General in the City of Albany's ("the City's") Auditor's Report for the 2020/21 financial year identified that the City's Asset Sustainability Ratio was below the DLGSCI standard for the prior three financial years.
3. The Auditor General's opinion was that this adverse trend is a significant matter.
4. In accordance with Section 7.12A(4) of the *Local Government Act 1995* ("the Act"), the City must prepare a report addressing any matters identified as significant by the auditor in the audit report, and state what action the City has taken or intends to take with respect to each of the matters.

DISCUSSION

5. The purpose of the asset sustainability ratio is to indicate whether a Local Government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
6. The ratio is calculated by dividing the Capital Renewal and Replacement spend by the Depreciation Expense incurred by the City in a particular year.
7. The City's Asset Sustainability Ratio has declined over the past three financial years:

Financial Year	FY2018-19	FY2019-20	FY2021-22
Asset Sustainability Ratio	0.85	0.77	0.71

8. These ratios sit below the DLGSCI benchmark of 0.90.
9. The primary reason behind the decline in the ratio is a reduced level of renewal/replacement capital expenditure, combined with an increase in depreciation as a result of the City investing in its infrastructure and plant & equipment assets.
10. A one off factor affecting capital expenditure in the 2020/21 financial year was the decision made by the City's staff and council to reduce working hours across the City. This decision was made in order to offset the financial impacts of closed income generating business units as a result of enforced COVID lockdowns. The reduction in work hours limited the administration's ability to complete the budgeted capital program in the 2020/21 financial year, with many projects carried forward into the following financial year (FY2021/22).

11. The City anticipates that the level of renewal capital expenditure will increase over the coming financial years (relative to the prior three financial years), due to an increase in contract prices resultant from supply and contractor shortages, as well as an increased capital works program as a consequence of carried forward projects.

12. The City also notes that it can only complete a finite number of capital projects each year, and needs to balance the budgeted quantity and value of new/upgrade capital projects with replacement/renewal projects. A greater focus on new/upgrade capital projects is to the detriment of replacement/renewal projects and therefore the Asset Sustainability Ratio.

13. A pitfall of the asset sustainability ratio is that it does not take into account maintenance expenditure. The City spends a considerable amount on the maintenance of its assets, classified as operational and not capital. Maintenance expenditure prolongs the life of the asset and reduces the frequency of capital expenditure required to maintain the said assets.

14. In the current financial year (2021/22), the City's infrastructure and buildings asset classes are due to be re-valued. The revaluation will assess the useful lives of these assets and as such, may result in changes to depreciation rates. The City will closely monitor any changes to depreciation as a result of the revaluation and any associated impact to ratios.

15. Overall, the City does not intend to change its approach to its asset management plans due to the results of the asset sustainability ratio over the past three financial years. The City has well developed asset management plans that determine the optimal timing for renewal spending, and the City is confident that its financial planning strategies are appropriate for sustaining the City's assets into the future.

GOVERNMENT & PUBLIC CONSULTATION

16. Nil.

STATUTORY IMPLICATIONS

17. Section 7.12A of the *Local Government Act 1995* states:

(1) A local government is to do everything in its power to —

(a) assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and

(b) ensure that audits are conducted successfully and expeditiously.

(2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.

A local government must —

(aa) examine an audit report received by the local government; and

(b) determine if any matters raised by the audit report, require action to be taken by the local government; and

(c) ensure that appropriate action is taken in respect of those matters.

(3) 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.

(4) 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.

POLICY IMPLICATIONS

18. Nil.

RISK IDENTIFICATION & MITIGATION

19. The risk identification and categorisation relies on the City's Enterprise Risk and Opportunity Management Framework.

Risk	Likelihood	Consequence	Risk Analysis	Mitigation
Compliance Risk: *There is a risk that by not reporting on the significant matter identified by the City's auditor, the City would be in breach of the Local Government Act.*	*Almost Certain*	*Moderate*	*High*	*Report on the significant matter identified and provide a copy to the Minister.*

FINANCIAL IMPLICATIONS

20. It is advised that the City does not spend on replacement/renewal capital projects at a certain level/amount for the sole purpose of achieving the DLGSCI's recommend ratio. Instead, the City will continue to invest in line with its well-developed asset management plans that determine the optimal timing for renewal spending.

LEGAL IMPLICATIONS

21. Nil

ENVIRONMENTAL CONSIDERATIONS

22. Nil.

ALTERNATE OPTIONS

23. The City is required to report on a significant matter under section 7.12A of the *Local Government Act.*

CONCLUSION

24. The Authorising Officer's recommendation be adopted

Consulted References	**:**	*Local Government Act 1995*
File Number (Name of Ward)	**:**	FM.FIR.7 - All Wards
Previous Reference	**:**	N/A