

TOWN OF PORT HEDLAND
PERIOD OF AUDIT: 30 JUNE 2018 FINAL
RESPONSE TO OPEN FINDING

1. Ratio's

Local Government Operational Guideline Number 18 – June 2013 (the Guideline), provides benchmark standards for the ratios required to be reported under regulation 50 of the Local Government (Financial Management) Regulations 1996.

The following table summarises the Town's ratios in relation to the standard

	Target Ratio ¹	Council's Actual Ratios		
		2018	2017	2016
Current Ratio	≥ 1	1.94	1.26	1.44
Asset Sustainability Ratio	≥ 0.90	1.02	0.83	0.37
Debt Service Cover Ratio	≥ 2	(2.34)	1.84	9.68
Operating Surplus Ratio	≥ 0.01	(0.42)	(0.21)	0.51
Own Source Revenue Coverage Ratio	≥ 0.40	0.64	0.76	0.71
Asset Consumption Ratio	≥ 0.50	0.94	0.82	0.74
Asset Renewal Funding Ratio	≥ 0.75	0.91	1.04	1.07
Key				
		Above target as per guidelines	Below acceptable banding as per guidelines	
¹ Local Government Operational Guidelines Number 18 – June 2013 sets out standards for each ratio.				

Implication:

Ratios below the benchmark standard could indicate adverse trends in the short term financial sustainability of the Town in accordance with the Guideline.

Recommendation:

The Town needs to consider the impact of the above ratios on the short term financial sustainability of the Town and any actions required to be incorporated into budgets and the long term financial plan to address this.

Management Comment:

Since the 2017/2018 financial report the Town has increased the Asset Sustainability ratio to a level within the standard.

The Town was below the acceptable banding for the Debt Service Cover Ratio and Operating Surplus Ratio for the 2017/2018 due to the loss on revaluation of \$12.71m relating to infrastructure assets. This revaluation contributed to the net operating deficit of \$15.78m. Without this non-cash expense

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the Town would have been above the acceptable target for the ratios. The Town does not expect a revaluation expense as large in the 2018/2019 financial year.

In relation to the Debt Service Cover Ratio the Town has paid out all loans as at 17 June 2019. The Town is now above the standards required by the Local Government Operational Guidelines and will be compliant in the 2018/2019 financial year.

Responsible Person:

Manager Financial Services

Completion Date:

30 June 2020