



SHIRE OF CHRISTMAS ISLAND

PO Box 863, Christmas Island

Indian Ocean 6798, Australia

All correspondence should be addressed to the Chief Executive Officer

Telephone: 08 9164 8300

Facsimile: 08 9164 8304

Website: www.shire.gov.cx

11 December 2019

Our Ref: 3.1.4

Hon Nola Marino MP
Assistant Minister for Regional Development and Territories
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

By email: minister.marino@infrastructure.gov.au

Dear Assistant Minister

In the 18/19 Audit Report the auditor made the following comments.

- (i) *In my opinion the following matter indicates a significant adverse trend in the financial position of the Shire:*
 - a. *The Asset Sustainability Ratio for 2018/19 has been below the Department of Local Government Sport and Cultural Industries' standard for the past 3 years.*
- (ii) *All required information and explanations were obtained by me.*
- (iii) *All audit procedures were satisfactory completed.*
- (iv) *In my opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.*

The Local Government Act 1995 requires the Shire to report on the actions taken to address those issues e) 7.12A. Duties of local government with respect to audits

f) (4) A local government must —

g) (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

h) (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

i) (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.

Accordingly, at the Ordinary Meeting of Council held 10th December 2019 in considering the CEO's report on the 18/19 Auditors Report passed the following resolution.

Council endorses the CEO's Report and directs the CEO to forward a copy of the Report to the Minister and to place on the Shire's Web Site in accordance with the Act.

A copy of that report is attached.

Yours Sincerely



David Price
Chief Executive Officer

In the 18/19 Audit Report the auditor made the following comments.

- (v) *In my opinion the following matter indicates a significant adverse trend in the financial position of the Shire:*
 - b. *The Asset Sustainability Ratio for 2018/19 has been below the Department of Local Government Sport and Cultural Industries' standard for the past 3 years.*
- (vi) *All required information and explanations were obtained by me.*
- (vii) *All audit procedures were satisfactory completed.*
- (viii) *In my opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.*

The following Report outlines:

1. The reasons for the situation
2. What the Shire has done
3. What it intends to do to mitigate the adverse trend and when.

1. The reasons for the situation

The Asset Sustainability Ratio is a measure of Capital replacement against depreciation.

This indicates if the Shire is making the necessary capital replacement of the asset equal to the depreciation against the asset.

The 18/19 Asset Sustainability Ratio (Total) $1,219,222/2,265,996 = 0.54$

Depreciation: 2,265,996

Of the total depreciation amount the road amounts were

1. sealed roads	644,359
2. unsealed roads	<u>347,223</u>
Total	<u>991,582</u>

This represents 43.76% of the total depreciation amount

There are 4 primary reasons for the situation of the Asset Sustainability Ratio

- (1) The amount of CRA funding to the Shire in the last 7 financial years is as follows

CRA Road Funding 2013-2019:

1. 2018/19	\$600,000
2. 2017/18	\$600,000
3. 2016/17	\$600,000
4. 2015/16	\$660,000
5. 2014/15	Nil
6. 2013/14	\$3,218,000
7. 2012/13	\$1,056,000

Only \$400,000 of the \$600,000 CRA funding for the past 3 financial years is allocated to capital works with the other \$200,000 directed to unsealed road maintenance which is not included in the capital expenditure, however the unsealed road depreciation is included in the total depreciation ratio calculation.

Accordingly the \$400,000 only represents 32.81% of the total capital expenditure cost within the ratio.

If the unsealed roads depreciation was not included in the ratio and the CRA funding was at the depreciation level for sealed roads the ratio would be 0.76. marginally below the 0.8 accepted ratio level.

ie $1,463,581/1,918,773 = 0.76$

If the unsealed roads depreciation was left in the ratio calculation and the CRA funding for unsealed and sealed roads was at the depreciation level, the ratio would be 0.799.

ie $1,810,804/2,265,996 = 0.799$

The reduction of CRA funding to capital road works over the past 3 financial years had a significant negative effect on the Asset Sustainability Ratio over that period. This has been exacerbated by the inclusion of the depreciation of unsealed roads but the exclusion of maintenance expenditure in the ratio calculation.

(2) The MOU that was signed in July 1998 between the Commonwealth and the Shire regarding the responsibility for the public road network on Christmas Island identified a necessity for clear funding arrangements to be put into place. This has never been finalised, and in fact the Shire has had to incur an increasing funding onus with the reduction of the Commonwealth funding.

(3) The Shire within its FAG funding receives a portion allocated to roads.

In 16/17 \$447,007, 17/18 \$463,092 and 18/19 481,372 any portion of that allocation expended on unsealed road maintenance is not considered expenditure within the Asset Sustainability Ratio.

(4) The Asset Sustainability Ratio needs examination. The deprecation of unsealed roads is only on the top layer of the road, and grading of the top layer would be considered capital works if it occurred once a year but not if it was carried out twice or more a year which would be considered maintenance work and therefore expenditure not included within the Asset Sustainability Ratio .

2. What the Shire has done

The Shire has continued to raise the question of the level of CRA funding with the IOTA together with the necessity of resolving the full intent of the funding arrangements of the 1998 MOU.

The question of the funding arrangements has never been satisfactory resolved since 1998 despite ongoing representation from 1998 to now.

Together with Main Roads WA we are updating and refining our 10 year road capital works maintenance programs, which will form the basis of funding discussions with the Commonwealth and the IOTA.

The Shire in the financial year of 19/20 has decided to apply its entire FAG road allocation to road capital works to ensure it is within the Asset Sustainability Ratio calculations.

3. What it intends to do to mitigate the adverse trend and when

- (1) To renegotiate the MOU of 1998 with all the relevant parties collectively to ensure the questions of responsibility and resourcing is resolved that will enable the implementation of immediate, short-term and long-term maintenance and capital works to be carried out with the certainty of agreed funding arrangements in place.

This approach will resolve the current imbalance of funding to road maintenance and capital works and consequently will have a positive effect on the Asset Sustainability Ratio

- (2) The Shire will continue to apply its entire FAG road allocation to road capital works to ensure it is within the Asset Sustainability Ratio calculations.

- (3) Recommend to the Department of Local Government Western Australia a review of the Asset Sustainability Ratio.

That review to examine the depreciation percentage that should be attributed to unsealed roads. The recognition of expenditure on unsealed roads should be broader to distinguish clearer and more relevant activities that represent capital works against unsealed roads.

The Audit Committee will be advised of the implementation of the above measures.