TAMALA PARK REGIONAL COUNCIL
Building a sustainable community

REPORT ON SIGNIFICANT ADVERSE TREND

Pursuant to Section 7.12A(4) of the *Local Government Act 1995*

November 2021

Tamala Park Regional Council are in receipt of the audit report dated 14 October 2021 from the Office of the Auditor General and note the following statement within the audit report:

(i) In my opinion, the following material matters indicate a significant adverse trend in the financial position of the Council:
a) The Asset Sustainability and Operating Surplus Ratios are below the Department of Local Government, Sport and Cultural Industries standard for the financial years 2020-21 and 2019-20. The financial ratios are reported at Note 26 to the financial report.

The asset sustainability ratio within the 2020-21 Annual Financial Report was as follows:

- 2021 – 0.34
- 2020 – 0.00
- 2019 – 2.10

The departmental guide states the basic minimum for this ratio is 0.90.

The operating surplus ratio within the 2020-21 Annual Financial Report was as follows:

- 2021 – (1.20)
- 2020 – (0.21)
- 2019 – 0.02

The departmental guide states the basic minimum for this ratio is 0.00.

The asset sustainability ratio is heavily impacted by the timing of asset renewals and is subject to significant variation due to assets not being required to be renewed or replaced annually given the low number of assets the TPRC owns. The small asset base results in the significant fluctuations over time with only a single vehicle being renewed every couple of years.

Tamala Park Regional Council had property, plant and equipment with a total cost of $102,610 at 30 June 2021, $45,866 of this amount was classified as improvements to leasehold property which would not be expected to be renewed at any stage. Furniture and Equipment is also unlikely to require renewal during the life of the TPRC.

At 30 June 2021 the TPRC had cash of $16,472,144 and net assets of $54,969,292 with a current ratio of 127.67. Given this financial position the TPRC had the capacity to spend $54,672 renewing assets which was the total depreciation for the year ended 30 June 2018. TPRC does not see the need to renew assets which did not require renewal simply to meet an arbitrary short term ratio target and as such Council will take no action in regard to addressing this ratio.

The operating surplus was negative in 2020 and 2021 due to low interest rates prevalent at the time combined with relatively low sales activity. A recent turn around in the property market has resulted in an increase in sales receipts and any improvement in interest rates will also result in increases in revenue. Given the TPRC may request member local governments to contribute to the operation of the TPRC in the event of operating losses the operating surplus ratio is of limited relevance to the TPRC. Given the financial position of the TPRC highlighted in the previous paragraph no further action is planned beyond the examination of operating revenues and costs which does and will continue to occur in order to maximise the return to member local governments.