CHIEF EXECUTIVE OFFICERS REPORT RELATING TO THE AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2020

Pursuant to the Local Government Act 1995, Section 7.12A(4)(a), the following report is presented.

1. *INDEPENDENT AUDITOR'S REPORT TO THE ELECTORS OF THE SHIRE OF YILGARN*

1.1 *Auditor's Opinion*

The report records an opinion that the financial statements for the Shire of Yilgarn for the financial year ended 30 June 2020 give a true and fair view of the Shire's financial position and comply with Australian Accounting Standards and Interpretations. The opinion makes no qualifications.

1.2 *Report on other Legal and Regulatory requirements*

Operating Surplus Ratio

This ratio has been identified as showing a negative adverse trend as it has been below the DLGSCI standard for the past 3 years. It should be noted that, in its current form, this ratio is very misleading. It is calculated on all operating expenditure including depreciation which is a non-cash book value only, less operating income.

The inherent weakness of this ratio is that it is not limited to a cash only basis in its calculation. Depreciation accounts for approximately 45% of Councils operating expenditure and as such significantly overstates Councils actual operating expenditure. If depreciation was to be removed from the calculation of this ratio then a much truer reflection of Councils operating surplus or deficit would be revealed.

This "hidden" operating surplus or deficit is very misleading for the ratepayers of the Shire who get the impression that Council is mismanaging and losing money while the opposite is the actual fact. This can be borne out from Council receiving approximately $2.7m in capital grant funding but expending approximately $4.5m. If Council was actually unable to fund its operating commitments then finding the additional $1.8m to expend on capital works would not be possible

Asset Renewal Funding Ratio and Asset Sustainability Ratio

These ratios are also showing a negative adverse trend as they have been below the DLGSCI standard for the past 3 years. These ratios are also very misleading as, with the implementation of "Fair Value" valuations, Councils assets have almost quadrupled in value and despite significant work being carried out on adjusting the estimated useful life of Councils assets used in the calculation of depreciation, the value being applied has increased by over 200% (from approximately $2m to over $6.6m).

Currently Councils assets are valued at $257m with an estimated $223m of these being unrealisable, the majority of this being Councils road network. Council currently expends approximately $4.5m of its $12 - $14m budget (excluding depreciation) on capital works associated with is assets and does not have the capacity to expend more without a significant increase in non-operating grant allocations and manpower provisions.

With the implementation of fair value, Councils assets have increased from approx. $74m (based on cost) to $257m (based on FV) or a quarter billion dollars! what real-world for-profit organisation with a turnover of $12 - $14m would have an asset base of that value.

2. MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2020

No matters to report