



SHIRE OF CHRISTMAS ISLAND

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20 December 2018

Our Ref: 3.1.4

The Hon Sussan Ley MP
Assistant Minister for Regional Development and Territories
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

Via email: minister.ley@regional.gov.au

Dear Assistant Minister

In the 17/18 Audit Report the auditor made the following comments.

- a) *In our opining the following matters indicates a significant adverse trend in the financial position of the Shire:*
 - i. *The Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years; and*
 - ii. *The Asset Sustainability Ratio and Own Source Revenue Coverage Ratio for 2017/18 are below the DLGSCI standard, below both the ratios for the 2 prior years and are more that 10% below last year's ratios.*
- b) *All required information and explanations were obtained by us.*
- c) *All audit procedures were satisfactory completed in conducting our audit.*
- d) *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, a Special Meeting of Council held 20th December 2018 in considering the CEO's report on the 17/18 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

A handwritten signature in blue ink, appearing to read 'D. Price', with a long horizontal flourish extending to the right.

David Price
Chief Executive Officer

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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 main reason is the reduction of revenue to the Shire arrives from the decisions and actions of Commonwealth Government Departments.

In January 2015 the Department of Infrastructure and Regional Development tendered out the management of the Recreation Centre. The tender went to a private operator and the Shire of Christmas Island who had previously managed the Recreation Centre suffered a significant loss of revenue together with an increase in its expenditure ratio against reduced revenue.

This produced the ongoing negative Operating Surplus Ratio that the Shire has been dealing with since 2015. Exacerbating this was also the IOT Administration decision to remove the Motor Vehicle Registration and Licencing process from the Shire in October 2014.

The decision of the Government to move the Christmas Island Immigration Detention Centre into a dormant contingency mode will also have a negative impact on the Shire's revenue from 1 January 2019

Shire had obtained a range of additional heavy plant equipment in the early 2010s to deal with the additional waste needs of the Commonwealth for the Immigration Detention Centre. The waste audits by Murdoch University showed 90 tons of waste were produced a week in that period which was overwhelming for the usual two man team to handle with the light plant they had in that period. Commonwealth assisted Council with \$1m to obtain heavy plant equipment

to manage the additional waste needs of the at times 3000 strong Immigration Detention Centre and the additional 500 personnel on island associated with its management. As a result, this plant and equipment are still on our books with depreciation being calculated against them when they are now not required.

In discussions with the Commonwealth, they have asked Council to keep ourselves at a level of preparedness that would allow the Commonwealth to keep a '*hot contingency*' footing which operationally means a full scale re-establishing of the entire Immigration Detention Centre complex, its associated facilities and 400 plus accommodation units around the island. It is for this reason that we cannot pursue the position to sell off these assets which are now over-spec for the waste needs of the natural island population.

In the 13/14 financial year the Shire received \$3,218,000 from the Commonwealth for capital works on Link Water Road. Since then the Shire has received no road capital works funding from the Commonwealth outside of the \$600,000 the Shire receives yearly for maintenance work of Commonwealth roads.

The Shire had an increase of its depreciation cost from \$1,788,129 in 16/17 to \$2,252,144 in 17/18 due to revaluation of fair Value of infrastructure Assets (roads/drainage/ other in 17/18).

2. What the Shire has done

In relation to expenditure the Shire has been addressing that with the outsourcing of its Development and Building Application processes and reducing its managerial structure by 1 accordingly. The full effect of that decision will be in the 18/19 financial year.

It has also not replaced staff who have left through natural attrition, of which there have been 4.5 FTE in the last 5 year period.

On the income stream the Shire has been in real terms increasing rates by 5% each year over the past 2 financial years.

The Shire presented a submission to the Western Australian Local Government Grants Commission that the factoring back of the FAG payments was inappropriate for the IOT Local Governments for a range of reasons including the expectation to maintain ourselves at a level of preparedness to support the Commonwealth. The Western Australian Local Government Grants Commission agreed resulting in an extra \$1.34M in FAGs payments in the 18/19 financial year representing a 35% increase from the year previous.

It is anticipated the effect of those will have a positive application to our Operating Surplus Ratio in the 18/19 auditors report.

The Shire had adopted a position to use its own workforce in a more cost efficient manner to carry out work that would have previously gone to contractors.

Examples:

- Re decking of the George Fam veranda area.
- The installation of the disable access to the George Fam office area and Library

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

The Shire will continue to mitigate that trend by the following.

- Increasing the revenue by:
 - Tendering for the Recreation Centre when the tender process comes available.
 - Pursuing the IOT Administration for a more balanced cost recovery for work carried out on the Commonwealth's unsealed road network.
 - Pursuing other contract income streams that are in the interest of the Shire to perform.
- Reduction of expenditure by:
 - Minimising maintenance costs through the purchase of common machinery where possible. The recent purchases of 2 same model Kubota Bob Cats and the tendering out of 2 older different model Bob Cats has resulted in a more effect maintenance program.
 - Examination of our depreciation rates to ensure they are in line with real time asset replacement planning.
 - Examination for machinery linked to the Christmas Island Detention Centre and determine the necessity to retain or otherwise that machinery.
 - Ongoing review of management and staffing levels to ensure the most cost efficient levels apply.
- Discussions with the Commonwealth on a holistic model for the Shire's funding to maintain commonwealth infrastructure and expenditure associated to the Shire's machinery portfolio that is necessary for commonwealth requirements.

The Operating Surplus, Asset Stainability and Own Source Coverage Ratios are expected to improve over a period of time with the above actions being implemented.

The Audit Committee with monitor the implementation of the above measures.