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## FP031 – Current Ratio

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### 1. Intention

To meet the minimum levels for this ratio, as set by the Department of Local Government, Sport & Cultural Industries.

### 2. Scope

This policy applies to Elected Members and employees of the Shire of Waroona.

### 3. Statement

This ratio is calculated by dividing the total of the Current Assets, less Restricted Assets [generally Tied Grants received, and Reserves], less Self-Supporting Loans Owing, by the total of Current Liabilities less the Current Liabilities of Loan Repayments due during each 12 month period.

The Department of Local Government, Sport & Cultural Industries has regulated that all local government authorities will develop and implement an Integrated Planning & Reporting Framework (IP&RF) compliant with the standards set out in the 'Integrated Planning and Reporting Advisory Standards'. The standards require Council to have adopted a number of 'Financial Management Policies', and for details of these to be included in the narrative section of the 10 year Long Term Financial Plan, and references to such policies are expected to be made in the 4 year Corporate Business Plan.

#### Department of Local Government, Sport & Cultural Industries Guide

*The expectation is that "The Standard is not met if this ratio is any value lower than 1 as to 1. Basic Standard is met if the ratio is equal to an expression 1:1 or greater". (IP&RAS, 2011, p6).*

Council will ensure that it always has sufficient working capital/liquidity, so that it has a safeguard position, being that it has the ability to meet its short-term financial obligations out of unrestricted current assets. Generally this means that Council has sufficient funds in its Bank Account, or 'At Call' and Term Deposit Investments, to pay its Creditors, and other Current Liabilities, as they fall due.

A minimum current ratio of at least a factor of 1 should occur each year, so that Council will always have sufficient working capital/liquidity to meet its short-term financial obligations out of unrestricted current assets.

### 4. Legislative and Strategic Context

The *Local Government Act 1995* and the associated subsidiary legislation provide the broad framework within which this policy operates.

### 5. Review

This policy is to be reviewed triennially.

### 6. Associated Documents

Other documents that have an association to this policy and that may be useful reference material are:

- Department of Local Government, Sport and Cultural Industries: Operational Guidelines No. 18 – Financial Ratios.

<b>Division</b>		Finance			
<b>Policy Number</b>		FP031			
<b>Contact Officer</b>		Director Corporate Services			
<b>Related Legislation</b>		Local Government Act 1995 Local Government (Financial Management) Regulations 1996			
<b>Related Shire Documents</b>		Annual Report			
<b>Risk Rating</b>	Medium	<b>Review Frequency</b>	Triennially	<b>Next Review</b>	June 2027
<b>Date Adopted</b>		25/06/2013		OCM13/06/048	

Amendments		
Date	Details of Amendment	Reference
18/12/2018	Updated as part of major review.	OCM18/12/126
22/06/2021	Updated as part of major review and reformatted.	OCM21/06/071
25/06/2024	Reviewed without amendment	OCM24/06/090
Previous Policies		
FIN030 – Current Ratio		
1.34 – Current Ratio		