



BUSINESS PAPER

Extra Ordinary Meeting of Council

to be held at

Council Administration Centre

180 Mort Street, Lithgow

on

Monday 18 January 2021

at 4:30 PM

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1. Acknowledgement of Country

Acknowledgement of Country

I would like to acknowledge the traditional custodians of this land we are on here today, and pay respect to their elders both past, present and emerging.

Declaration of Webcasting

I inform all those in attendance at this meeting, that the meeting is being webcast and that those in attendance should refrain from making any defamatory statements concerning any person, Councillor or employee, and refrain from discussing those matters subject to Closed Council proceedings as indicated in clause 14.1 of the code of meeting practice.

2. Present

3. Apologies

4. Declaration of Interest

5. Commemorations and Announcements

6. Presentations

Auditor Presentation – Crowe Australasia – Financial Statements for the Year ended 30 June 2020

7. Mayoral Minutes

8. Staff Reports

8.2. Finance and Assets Reports

8.2.1. Financial Statements for the Year Ended 30 June 2020

Report by Chief Financial & Information Officer

Reference

Min No 20-249: Ordinary Meeting of Council held on 26 October 2020.

Summary

At the 26 October 2020 meeting, Council resolved to:

1. Note that the audit of the 2019/20 financial statements has been completed.
2. Authorise the signing of the statement on the 2019/20 General Purpose Financial Reports.
3. Authorise the signing of the statement on the 2019/20 Special Purpose Financial Reports.
4. Invite a representative of the Audit Office of NSW, Council's Auditors, to present a report to Council on the 2019/20 Financial Statements at the Ordinary Council meeting scheduled for 23 November 2020 via virtual attendance.

The purpose of this report is to present to the Council the audited Financial Statements for the year ended 30 June 2020, as required by Section 419 of the Local Government Act 1993.

The 2019-2020 Financial Statements are included as an attachment to this report.

Commentary

2019/20 Financial Statements – Executive Summary

Council experienced an unusually challenging operating environment throughout the 2019/20 year. Similar to other Councils, costs have been rising faster than revenue in recent years, making it increasingly difficult to deliver a balanced operating result. In 2019/20, Council also incurred costs relating to natural disasters, particularly bushfires and floods. In addition, Council's income was impacted by the COVID-19 pandemic (mainly commercial rent and user fees). The broader economic environment resulting from the COVID-19 pandemic and delays to water billing also had an impact on Council's cash receipts, resulting in higher debtor balances and the utilisation of internal reserves to meet cash needs.

With the exception of the 2016/17 year, Council has not recently achieved the key Office of Local Government (OLG) financial performance measure of a balanced operating result (before capital grants). In 2019/20, Council's operating deficit (before capital grants) was (\$2.6M) deficit compared with (\$1.78M) deficit in the prior year. The recently updated Long Term Financial Plan sets out a pathway to achieving this key measure of financial sustainability in coming years.

In the 2019/20 year, Council achieved seven of ten OLG financial and asset performance ratio benchmarks. Council met the infrastructure backlog ratio benchmark for the first time and the buildings and infrastructure renewal ratio benchmark for the first time in four years.

External Audit

The Council's Financial Statements for the year ended 30 June 2020 were completed by the Council Finance team and have now been reviewed and returned by the Audit Office of NSW, in accordance with legislative requirements. A representative of the contract auditor (Crowe Australasia), will provide a pre-recorded presentation to the meeting. The auditor will:

- deliver a brief presentation to the Council on the end of year result and the conduct of the audit; and
- review the Council's key financial indicators contained within the Financial Statements.

Annual Financial Statements Reporting Process

The Council's Annual Financial Statements are required to be audited by the Audit Office of NSW, and copies of the financial reports and the Auditor's report submitted to the Office of Local Government (OLG). Council was granted an extension to lodge the financial statements by 18 December 2020, which included an extension allowed to all Councils due to COVID-19. **Both the auditing and lodgement requirements have been met within the prescribed timeframes.**

Report on Financial Statement Audit Results

The 2019-2020 audit resulted in the issuing of an unmodified audit report on both the General Purpose and Specific Purpose Financial Statements. An unmodified audit report is an expression used by auditors to confirm that the Financial Statements are presented, in all material respects, in accordance with applicable financial reporting requirements.

The Financial Statements confirm the operating result and financial position of the Council for the year ended 30 June 2020 and the statements are in accordance with Australian Accounting Standards, the Local Government Act 1993 and the NSW Local Government Code of Accounting Practice and Financial Reporting.

The auditors have formed an opinion that Council's financial statements fairly present the result of its financial operations and its financial position as of 30th June 2020 and that the Council has complied with requirements of the Local Government Act 1993.

Movements in Major Revenue and Expense Items During the Reporting Period

The Income Statement summarises the Council's financial performance for the 2019-2020 year, listing all income and expenses. The table below gives a snapshot of the key movements compared to the prior year.

OPERATING REVENUE (\$'000)	2019/20	2018/19	Increase (decrease)
Rates and Annual Charges	27,903	27,420	483
User Charges and Fees	6,854	6,976	(122)
Interest & Investment Revenue	632	953	(321)
Grants & Contributions - Operating	10,051	7,367	2,684
Grants & Contributions - Capital	1,739	3,489	(1750)
All Other Revenue	2,020	1,573	447
TOTAL	49,199	47,778	1,421
OPERATING EXPENSE ITEMS (\$'000)			
Employee Benefits and On-costs	18,383	17,227	1,156
Materials and Contracts	12,936	10,208	2,728
Borrowing Costs	1,493	1,030	463
Depreciation and Amortisation	12,420	12,099	321
All Other Expenses	4,819	5,508	(689)
TOTAL	50,051	46,072	3,979

Changes in Income:

- Ordinary rates income increased by \$449K (3.4%) due to the rate peg and some growth in the rating base.
- Annual charges income was stable with an increase of only \$20K with no increase in water, sewerage or waste charges in the 2019/20 Operational Plan.
- Water supply user charges decreased by \$82K, reflecting relatively steady water usage.
- Revenue from private works increased by \$146K, mainly due to NBN related works.
- Leaseback fees for Council vehicles (\$107K in 2018/19) were moved from user charges and fees due to a change in accounting treatment which is the main reason for the decrease in total user charges and fees.

- Income and investment revenue decreased by \$321K due to record low interest rates and lower reserve balances.
- 2019/20 operating grants increased by \$2.684M, with the Financial Assistance grant increasing by \$119K and Council received \$2.567M of disaster relief grants.
- 2019/20 capital grants were lower as there were fewer grant funded capital projects in 2019/20 compared with the prior year, e.g. 2018/19 included the Adventure Playground project and \$569K for sewer works.
- Other revenues included a RFS Section 44 claim of \$513K for the Gospers Mountain fire.
- **Total income increased by \$1.42M from 2018/19 (3% higher).**

Impacts of natural disasters on revenue and cash inflows:

- \$513K was received for the RFS Section 44 claim which was offset by related expenditure.
- Council received \$2.567M in bushfire relief and recovery operating grants which was offset by related expenditure.
- The estimated loss of income from COVID-19 was \$112K, mainly from commercial rent waivers and loss of income from closed facilities.
- Rates and annual charges receivables increased by \$482K to \$1.737M. The rates and annual charges outstanding ratio increased from 4.8% to 6.12% which is still within the OLG benchmark of 10%.
- User charges and fees outstanding increased by \$2.067M to \$3.231M. Water accounts to 30 June 2020 had extended payments dates to September / October 2020.

Changes in Expenditure:

- Employee benefits and on-costs increased by \$1.156M (6.7%). Part of the increase in salaries and wages is due to expected award and step increases. The remainder of the increase is due to new positions, particularly as a result of the approved restructure of Infrastructure Services and Water & Wastewater. Council faces a challenge in containing employment costs in future years. In the short term, employment costs will continue to increase with the addition of more Water & Wastewater and Waste Management roles in 2020/21. Management has implemented a strategy of delaying recruitment action for new and replacement roles for as long as practical. In addition, workers compensation increased by \$157K which included a prior year adjustment.
- Materials and contract costs increased by \$2.728M from the 2018-2019 year. \$2.620M related to an increase in contractors and consultancies which was mainly due to bushfire / disaster relief works which was substantially funded from grant income.
- Borrowing costs increased by \$463K due to a \$566K increase in fair value adjustments for remediation liabilities for landfill and AGL Gasworks sites.
- Depreciation increased by \$321K which is consistent with the renewals program and commissioning new assets for the road network of \$165K and for other structures of \$126K.
- Other Expenses decreased by \$689K. This included a \$324K saving in general insurance following the review of insurances; \$274K reduction in donations, contributions and assistance and a \$90K decrease in street lighting following the change to LED street lights.
- **Total expenses increased by \$3.925M from 2018/19 (8.5% higher).**

Impacts of natural disasters on expenditure:

- Nil material COVID-19 impacts on expenditure.
- Approximately \$500K of expenses (in materials and contracts) were below the threshold for natural disaster claims or were expended in excess of grant income received. This includes an additional \$202K spent on tree removal works on private property.

Operating Result

There are two Operating Results reported in the Income Statement:

- The Net Operating Result (including Capital Grants and Contributions) has decreased by \$2.558M from 2018/19 to a deficit of \$852K.
- The Net Operating Result (excluding Capital Grants and Contributions) is a deficit of (\$2.591M) for the year ended 30 June 2020 which is an increase of \$808K to the 2018/19 result of (\$1.783M) deficit.

The change in the Net Operating Result (including Capital Grants and Contributions) is mainly due to the increase in employment costs and bushfire / natural disaster costs which were not fully offset by additional revenue.

Operating Result on Income Statement (\$'000)	2019/20	2018/19	+/-
Net Operating Result (including Capital Grants & Contributions)	(852)	1,706	(2,558)
Net Operating Result (excluding Capital Grants and Contributions)	(2,591)	(1,783)	(808)

The Net Operating Result (excluding Capital Grants and Contributions) is used to calculate the OLG's Fit for the Future Operating Ratio measure. To achieve the Fit for the Future benchmark in later years, the Council will need to continue to implement its financial sustainability strategies which are included in the Long Term Financial Plan.

OLG – Impact of COVID-19 on Meeting Financial Benchmarks

The OLG acknowledged the impact of the COVID-19 pandemic in recent correspondence to all Councils:

*As COVID-19 continues to impact communities throughout NSW, the OLG understands that many councils are facing difficulties in balancing their budgets and achieving their financial targets. These are unprecedented times for councils and OLG will work to ensure that the audit process acknowledges the challenges councils face and that financial performance will inevitably be affected. OLG understands that councils are facing additional expenses, significant reductions in revenue, and challenges in ensuring the ongoing delivery of important community services. Financial management strategies will need to be flexible and adaptable and OLG will take a pragmatic approach to council performance this year. **No council should be considering reducing services or staffing just to demonstrate compliance with financial benchmarks.***

Financial Performance Ratios

The following table provides a summary overview of the key financial performance indicators that the Council is required to report in its Financial Statements. Notation is made of the Fit for the Future measures.

Council met all of the benchmarks for the financial performance indicators with the exceptions of the Operating Performance Ratio and the Cash Expense Cover Ratio. Council is working towards meeting the benchmark for the Operating Performance Ratio, consistent with the 2020-2030 Long Term Financial Plan which will be put to Council for adoption following public exhibition.

PERFORMANCE INDICATORS	2019/20	2018/19	Within Benchmark Yes/No
OPERATING PERFORMANCE RATIO (Benchmark: Minimum $\geq 0.00\%$) <i>Fit for the Future Measure</i>	-5.01%	-3.08%	No
<p>Comments: The operating performance ratio measures how well Council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.</p> <p>Council's operating performance ratio was below the industry benchmark for 2019-20 due to operating expenses (particularly employment costs) increasing at a faster rate than operating revenue.</p>			
OWN SOURCE OPERATING RATIO (Benchmark: Minimum $\geq 60.00\%$) <i>Fit for the Future Measure</i>	76.01%	77.28%	Yes
<p>Comments: The own source operating revenue ratio measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the OLG is greater than 60 per cent.</p> <p>Council's own source operating revenue ratio has exceeded the industry benchmark in recent years. The 2019/20 year ratio of 76 per cent is consistent with the previous year. The water and sewer funds performed at over 80% due to the high proportion of annual and usage charges.</p>			
UNRESTRICTED CURRENT RATIO (Benchmark : Minimum $\geq 1.5x$)	3.60x	1.93x	Yes
<p>Comments: The unrestricted current ratio is specific to local government and represents Council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.</p> <p>Council's unrestricted current ratio has exceeded the industry benchmark over recent years. This indicates that Council has sufficient liquidity to meet its current liabilities as and when they fall due.</p>			
RATES, ANNUAL & EXTRA CHARGES OUTSTANDING (Benchmark: Minimum $< 10.00\%$)	6.12%	4.66%	Yes
<p>Comments: The rates and annual charges outstanding ratio assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural Councils.</p> <p>Council's rates and annual charges outstanding ratio has been better than the benchmark for rural Councils over recent years. Council actively manages accounts receivable and has reviewed relevant policies. There has been an increase in the indicator for 2019/20 due to COVID-19.</p>			
DEBT SERVICE COVER RATIO (Benchmark : Minimum ≥ 2.00)	3.21x	3.71`x	Yes
<p>Comments: The debt service cover ratio measures the operating cash required to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.</p> <p>Council's debt service cover ratio has exceeded the industry benchmark over recent years. The ratio indicates that Council has adequate revenue to cover the principal repayments and borrowing costs of its debt.</p>			
CASH EXPENSE COVER RATIO (Benchmark: Minimum ≥ 3 months)	0.57 months	0.16 months	No
<p>Comments: This liquidity ratio indicates the number of months that the Council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the OLG is greater than three months.</p> <p>Council has changed its investments strategy to maximise interest returns, increasing funds in term deposits which are not included in the ratio calculation. Council ensures that it can pay its suppliers on time by having a term deposit mature weekly to cover Council's cash requirements.</p>			

Infrastructure Asset Performance Indicators

PERFORMANCE INDICATORS	2019/20	2018/19	Within Benchmark Yes/No
BUILDING AND INFRASTRUCTURE RENEWALS RATIO (Benchmark: Minimum $\geq 100\%$)	110.16%	71.09%	Yes
Comments: The building and infrastructure renewals ratio assesses the rate at which these assets are being renewed relative to the rate at which they are depreciating. Council has performed above this benchmark for the first time in recent years , this is attributable to a number of significant water fund capital works coming online.			
ASSET MAINTENANCE RATIO (Benchmark: Minimum $\geq 100\%$) <i>Fit for the Future Measure</i>	88.64%	87.03%	No
Comments: The asset maintenance ratio compares actual vs required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing. Council's asset maintenance ratio is below the benchmark due to the reallocation of resources to assisting with fighting the bushfires and subsequent bushfire recovery efforts.			
INFRASTRUCTURE BACKLOG RATIO (Benchmark : Minimum $< 2.0\%$) <i>Fit for the Future Measure</i>	1.77%	5.82%	Yes
Comments: The infrastructure backlog ratio shows what proportion the backlog is against the total value of a Council's infrastructure. Council has achieved the benchmark for this ratio for the first time . This is attributable to Council's renewals policy targeting condition score five and revaluation and updated conditions scores as Council implements the Technology One Asset Management module.			

Council achieved the OLG benchmark for the Building and Infrastructure Renewals Ratio and the Infrastructure Backlog Ratio. Council did not achieve the Asset Maintenance Ratio benchmark in 2019/20.

Public Notification

In accordance with Section 420 of the Local Government Act 1993, the Council is required to make the Financial Statements available to the public, seeking lodgement of any submissions in response to the document, for a period of seven days after presentation of the Financial Statements to Council.

To meet this requirement a copy of the Financial Statements will be made available to the public on the Council website and at the Customer Service counter.

Policy Implications

Nil.

Financial Implications

- Budget approved - N/A
- Cost centre - N/A
- Expended to date - N/A
- Future potential impact - N/A

Legal and Risk Management Implications

The presentation of the financial statements to the Council, and the ability for the public to inspect the statements, supports the Council's financial reporting governance requirements.

Attachments

1. Annual Financial Statements-2020 [8.2.1.1 - 120 pages]

Recommendation

THAT Council:

1. Receives the audited Annual Financial Statements for the year ended 30 June 2020 pursuant to Section 419 of the Local Government Act 1993.
2. Pursuant to Section 420 of the Local Government Act 1993, endorses the Financial Statements to be made available to the public to make submissions for a period of seven days.
3. Note the presentation by a representative of Crowe Australasia on behalf of the Audit Office of New South Wales, the Council's external auditor, to the Council meeting in respect of the Audited Financial Statements.

9. Business of Great Urgency

In accordance with Clause 241 of the Local Government Act (General) Regulations 2005 business may be transacted at a meeting of Council even though due notice of the business has not been given to the Councillors. However, this can happen only if:

- a) A motion is passed to have the business transacted at the meeting; and
- b) The business proposed to be brought forward is ruled by the Chairperson to be of great urgency.