



MINUTES

Finance Committee

held at

Council Administration Centre
General Manager`s Meeting Room
180 Mort Street, Lithgow

on

Monday 10 May 2021

at 4:30 PM

ORDER OF BUSINESS

1. Present	3
2. Apologies	3
3. Declaration of Interest	3
4. Presentations	3
5. Staff Reports	3
5.7. FIN - 24/05/21 - 2020/21 Quarter Three Budget Review.....	3
5.2. Rates - Coal Mines	5
5.1. On-costs Calculation - Further Discussion	5
5.3. Investment Report April 2021.....	6
5.4. Finance Committee Meeting Dates	6
5.5. Cashflow Update - April 2021	6
5.6. FIN - 24/05/21 - Local Government Remuneration Tribunal Determination 2021	7
6. General Business	7
7. Meeting Close	7

The Chairperson declared the meeting open at 4.30pm.

1. Present

Present: Cllr Ray Thompson, Cllr Steve Ring

Officers: Ross Gurney, CFIO; Craig Butler, General Manager; Neil Derwent, Financial Services Manager

2. Apologies

An apology was received from Cllr Wayne McAndrew.

3. Declaration of Interest

NIL

4. Presentations

NIL

5. Staff Reports

5.7. FIN - 24/05/21 - 2020/21 Quarter Three Budget Review

The CFIO presented the Quarter Three budget review to the Committee.

The budget review will be the main focus of the Councillor Information Session on 17/5/21.

The intention is to dedicate the information session to discussing this report in detail to provide Councillors with a thorough understanding of the issues.

There is a significant change from the satisfactory result in Quarter Two, with the projected financial position at 30 June unsatisfactory compared with the original budget. There has been an approx. \$2M turnaround since Quarter Two. Some budget variations were beyond Council's control and others were a result of internal budget issues or resulting from Council's remedial actions of the past few months.

There was a reduction in mining rates following a successful appeal by mine owners against valuations. CFIO has prepared a separate report to the Committee in relation to the coal mining rates.

A separate report on the potential longer term impact of any fall in mining rates will be required. The valuations will drop as mines become non-productive and this will have an impact on the mining category's share of the rates pool. We can only rely on public information on the life of each coal mine, so any projected impact is based on available information.

For the beginning of this financial year the total of the mining rates was \$2.2 million of the \$14 million pool. This has fallen with the change in valuation and the impact will be spread across all rating categories.

We can potentially have new business sub-categories, e.g. for solar and battery farms. We are looking at consolidating the existing sub-categories.

There was an increase in materials and contract costs in Quarter Three, with budget allocated to grant funded projects and for flood natural disaster repairs, most of which can be claimed above the threshold of \$90,000.

There was also \$670K added for water purchases as we were not making payments to StateWater for some months due to the Fish River supply issues. We took \$800K from the water fund budget at the Quarter Two review and have now had to put back \$670K.

There was over a \$1million budget in capital labor costs and we have deferred a number of projects and there are a couple that have gone to contractors instead of being completed by internal labour. The labour costs that would normally go to capital were not funded from grants as early as intended. This has impacted operating employment costs.

The other key issue is the cash and investments balance where we have had an increase over the year in external restrictions, including putting \$2million back into the domestic waste reserve for the rephasing of the Resource Recovery Centre project which won't be completed by end of June. That is \$2 million of the \$5 million that has increased. We had an increase in the Development Contributions reserve as well and a positive turnaround in the Water Fund.

Whilst we have had an increase in externally restricted reserves, cash has not significantly increased, it is only slightly higher than the end of June last year. The funds available for internal restrictions have therefore fallen. A report will be put to Council to set the internal reserve balances at the end of June.

The key point is that we only have \$3 million available for internal restrictions and we need to take immediate action to hold discretionary purchases as necessary for the foreseeable future. Discretionary purchases include replacement plant and equipment. While we have deferred over \$7million in capital works in 2020/21, including some plant replacement, cash outflows can still regularly exceed cash inflows. Additional purchasing controls will be put in place.

To improve the situation, we need to start utilising the external reserves and next year's budget has been based on the available cash, including repayment of part of the \$2.5million internal loan.

There have been a number of large plant/equipment purchases in the last couple of years. It was a strategy when we had the cash available to replace expensive short term hire of plant.

There is a lot of work to do in the next 12 months with the implementation of budget strategies which have been presented to Councillors.

There has been a deterioration in our position against what was budgeted. Some changes were due to external factors and others were internal / operational. GM has put in place a series of actions and we have already deferred some projects but it is clear we need to drive stronger budgetary controls. CFIO and Financial Services Manager will assist the key departments with implementing controls.

All capital project budgets for next financial year will be correctly phased over the year. Previously projects were costed based on historical costs with a percentage added. Tighter controls are required to make sure that projects stay on budget.

ACTION

THAT the Committee note the discussions on the Quarter Three Budget Review.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

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5.2. Rates - Coal Mines

A mine owner has successfully appealed to the Valuer-General against valuation increases for 3 mines. Council had a \$524K decrement adjustment for this financial year but the rates can be caught up next financial year.

Finance considered different models and options for recovering the rates in 2021/22. The basis for adjusting the rating categories was to minimise the impact on individual ratepayers in terms of equity and fairness.

The Revenue Policy will be updated in the Operational Plan on exhibition.

This model distributes the \$524K in the fairest and most equal way across all the categories.

Discussions will need to happen in the next term of Council that consider the revenue policy, special rates, other categories, rating structure, upcoming changes to the Act etc.

ACTION / RECOMMENDATION

THAT the committee note the discussions on the Coal Mine Rate adjustments.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

5.1. On-costs Calculation - Further Discussion

The CFIO provided a worked example of the on-costs methodology. Committee accepted 31% on-costs for the purposes of modelling cases for in-house versus external service delivery.

The Financial Services Manager advised that if you 31% is used for budgeting purposes then on-cost recovery from the Waste Fund, Water Fund and Sewer fund will fall. While 52% on-costs is high we do spend all of it and more. We calculated on the basis of providing a service for 52 weeks of the year.

The Committee discussed the comparison to the private sector on-costs methodology. We will calculate on-costs based on what is operationally best for council.

ACTION

THAT the Finance Committee note the information provided in this report on the proposed change to the methodology for calculating on-costs for budgeting and cost modelling purposes.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

5.3. Investment Report April 2021

The cash and investments balance has fallen but that is expected in April when cash inflows are lower. May has a rates instalment due so the investments balance is expected to increase. We just need to be stronger on cashflow management controls moving forward.

At the end of April we had \$26.2million which is slightly below the balance at the end of June last year.

We have adjusted the interest income budget again to be lower, \$220K is what we are expecting for the full year now. At this stage next financial year we could be below \$150K as the average interest rate is now 0.45%.

RECOMMENDATION

THAT:

1. Investments of \$25,900,558 and cash of \$320,883 for the period ending 30 April 2021 be noted.
2. The enclosed certificate of the Responsible Accounting Officer be noted.
3. The commentary on funding requirements for restricted reserves be noted.

MOVED: Councillor R Thompson

SECONDED: Councillor S Ring

5.4. Finance Committee Meeting Dates

The Committee agreed with the proposed dates and will refine the dates as needed.

ACTION / RECOMMENDATION

THAT the Committee set the next meeting date for 16 June and the following meeting date for 19 July.

MOVED: Councillor R Thompson

SECONDED: Councillor S Ring

5.5. Cashflow Update - April 2021

The situation at the end of April highlights cash outflows exceeding cash inflows for the month.

We received a million dollar grant payment for Farmers Creek work.

Over the next few months we should see additional grants coming in.

Stronger Communities Grant is available for Lithgow LGA, this includes community groups. No co-contribution is required for Stronger Communities Grants.

CFIO provided recommendations to the committee for remedial action to improve the cashflow position.

We ran the rates and water debtors comparison and found it was normal for this time of year so any cash shortfall we had from rates has been resolved.

RECOMMENDATION

THAT the Finance Committee:

1. Note the cashflow update.
2. Endorse the recommendations for remedial action to improve Council's cashflow position for the remainder of 2021/22 which will be considered by Council at the May meeting.

MOVED: Councillor R Thompson

SECONDED: Councillor S Ring

5.6. FIN - 24/05/21 - Local Government Remuneration Tribunal Determination 2021

2% increase was determined.

This report will go to Council to set the remuneration for next financial year.

We have allowed for a 2% increase in the budget for next financial year.

The Committee agreed with the recommendation for the 2% increase.

ACTION / RECOMMENDATION

THAT the Finance Committee endorse a 2% increase in Councillor remuneration for 2021/22 in accordance with the Determination.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

6. General Business

NIL

7. Meeting Close

Next Meeting: Wednesday 16 June 2021 at 3:30pm in the Committee Room.

There being no further business the Chairperson declared the meeting closed at 5:17 pm.