



EXTRAORDINARY MEETING OF COUNCIL

Wednesday 30 October 2019

at 9:00am

Council Chambers

56 Chanter Street, Berrigan



Agenda



Notice is hereby given that an Extraordinary Meeting of the Council of the Shire of Berrigan will be held in the **Council Chambers**, Berrigan, on **Wednesday 30th October, 2019** commencing at 9:00am, to consider and order upon:

ADOPTION OF THE COUNCILS 2018/2019 ANNUAL FINANCIAL STATEMENTS

Other business may be considered at an extraordinary meeting of the council, even though due notice of the business has not been given, if:

- a) A motion is passed to have the business considered at the meeting, and
- b) The business to be considered is ruled by the chairperson to be of great urgency on the grounds that it requires a decision by the council before the next scheduled ordinary meeting of the council.

A motion moved as above can be moved without notice but only after the business notified in the agenda for the extraordinary meeting has been dealt with.

Only the mover of a motion moved as above can speak to the motion before it is put.

A handwritten signature in black ink, appearing to read 'Rowan Perkins', is positioned above the printed name.

ROWAN PERKINS
GENERAL MANAGER



Council Meeting

Wednesday 30th October, 2019

BUSINESS PAPER

1. APOLOGIES AND REQUESTS FOR LEAVE OF ABSENCE

Cr John Taylor

2. DECLARATION OF ITEMS OF PECUNIARY OR OTHER INTERESTS

3. 2018/19 ANNUAL FINANCIAL STATEMENTS

AUTHOR: Director Corporate Services and Finance Manager

STRATEGIC OUTCOME: Good government

STRATEGIC OBJECTIVE: 2.1 Berrigan Shire 2027 objectives and strategic actions facilitate the effective governance by Council of Council operations and reporting

FILE NO: 12.066.1

RECOMMENDATION: - that the Council having satisfied itself in relation to the preparation of its financial reports and special schedules:

1. note the draft Management Representation Letter (**Appendix "A"**)
 2. refer its financial statements to the Auditors for the audit report;
 3. subject to receipt of the audit report, at its meeting to be held on Wednesday 20 November 2019, the Council present its audited financial reports and audited reports to the public and that the Council's intention be publicly notified;
 4. sign the attached General Purpose Financial Report "Statement by Council" and the Special Purpose Financial Report "Statement by Council";
 5. adopt the valuation of assets that Senior Officers have prepared in accordance with recognised valuation procedures as to a fair and reasonable value of those assets (see note 9);
-

REPORT:

The 2018/19 Annual Statements have been prepared and audited and are now ready for adoption by the Council.

A copy of the Statements have been attached as **Appendix "B"**.

The report below has the following sections:

- A brief summary of the key results and performance measures
- Some general comments on the statements
- A run down on the statutory process required to formally adopt the financial statements
- A detailed analysis of the Financial Statements and associated notes and schedules.

The work of the Finance Manager and her team to prepare these statements should also be acknowledged. The work required this year to meet audit requirements has been significantly greater than previous years. If this trend continues, the Council may need to consider additional resources for this function.

Key points

Some of the key points from these statements are:

1. Council made an **operating surplus of \$0.5m** before capital grants and contribution.
2. Council held approximately **\$35.4m in cash and investments** at 30 June 2019, of which only **\$8.2m** was not committed elsewhere.
3. Council **renewed approximately \$6.9m in infrastructure assets** (i.e. roads, water, sewer, drainage etc.) and constructed an **additional \$1.5m of new infrastructure**.
4. Council **meets all but the own source operating revenue ratio performance benchmarks** included in the Financial Statements by the Office of Local Government. Own source operating revenue ratio is always difficult to achieve in years with large grant components.

Summary of Results


The table below is a brief summary of the key results for the 2018/19 financial statements.





The results demonstrate a healthy underlying result.

<u>Overall performance</u>	2017/18	2017/18
Operating surplus	\$4.1m	\$6.4m
Operating surplus before capital grants and contributions	\$0.5m	\$4.6m
<u>Revenue and expenses</u>		
Total revenue	\$25.0m	\$25.9m
Total expenses	\$20.8m	\$18.4m
<u>Cash and investments</u>		
Cash and cash equivalents	\$7.4m	\$6.0m
Investments	\$28.0m	\$26.0m
<u>Balance Sheet</u>		
Total assets	\$285.0m	\$275.5m
Total liabilities	\$4.8m	\$5.2m
Total equity	\$280.1m	\$270.3m
<u>Water and Sewer funds</u>		
Total assets	\$68.39m	\$62.96m
Total liabilities	-	\$0.01m
Total equity	\$68.39m	\$62.95m





Performance measures

The performance measures set by the Office of Local Government and required to be included in the Council's financial statements are shown below.

<u>Industry Indicators</u>	<u>Benchmark</u>	<u>2018/19</u>	<u>2017/18</u>
Operating Performance Ratio	Greater than 0%	5.60% 	18.24%
Own Source Operating Revenue Ratio	Greater than 60%	58.39%	61.16%

<u>Industry Indicators</u>	<u>Benchmark</u>	<u>2018/19</u>	<u>2017/18</u>
Unrestricted Current Ratio	Greater than 1.50:1	6.79:1 	7.24:1
Debt Service Cover Ratio	Greater than 2.00:1	35.08:1 	48.70:1
Rates Outstanding Percentage	Less than 10.00%	5.97%* 	3.30%
Cash Expense Cover Ratio	Greater than 3.00 months	29.33 months 	27.97 months

*Note that the change in rates outstanding ratio is a result of a change in accounting for the balance of the ratio (now excluding prepayments), and not a change in collections which continue to be strong.

<u>Infrastructure Asset Performance Indicators</u>	<u>Benchmark</u>	<u>2018/19</u>	<u>2017/18</u>
Building and Infrastructure Renewals Ratio	Greater than 100%	154.79% 	131.39%
Building and Infrastructure Renewals Ratio (General Fund)	Greater than 100%	193.88% 	160.54%
Infrastructure Backlog Ratio	Less than 2%	0.00% 	0.00%
Asset Maintenance Ratio	Greater than 100%	119.12% 	103.90%

General comments

Overall, the Council retains a strong cash position in all three operating funds.

The Council's balance sheet remains strong with adequate provisions and correct asset values. The Council's operating position and cash flow performance is quite strong and improving.

The 2019/20 year will see significant challenges before the Council.

Continued careful monitoring of the Council's financial position is required to ensure this Council is sustainable and able to deliver for its community, today and into the future

Statutory Process

The Council is now required to do the following:

1. Complete the statutory process for adoption and completion.
2. Assure itself that the Statements have been prepared in accordance with the appropriate standards (prior to adoption) and formally refer the Statements to the Council's Auditors for the Audit Report.

The audit was performed from Wednesday 5 September to Friday 7 September 2018.

After satisfying itself with the accuracy and correct preparation of the Statements, the Council is required to do the following:

1. **Adopt** the statements and report on the conduct of the Audit.
2. **Once the auditors report have been received,**
 - a) **advertise** the Statements for public submissions for a period of 7 days and,
 - b) **Make available** the Statements to various authorities including the NSW Office of Local Government. The Council has received an extension until 30 November 2019 to lodge

If Council does not receive the auditor's report in time for advertisement on 7 November, the timetable for final adoption at the November meeting may need to be modified.

Preparation of the Statements

The Statements are required to and have been drawn up in accordance with:

- The *Local Government Act* 1993 and the Local Government Regulations.
- Australian Accounting Standards.
 - The Local Government Code of Accounting Practice and the Local Government Asset Accounting Manual.

The Statements are also in accordance with the Council's accounting records for the year ended 30 June 2019.

The Council is required to prepare five primary reports which form the cornerstone of the financial statements, they are:

- An Income Statement
- A Statement of Comprehensive Income
- A Statement of Financial Position (Balance Sheet)
- A Statement of Changes in Equity
- A Statement of Cashflows

In addition to these statements are Notes 1 to 23, the Special Purpose Financial Reports and the Special Schedules.

The Statements and corresponding notes which form the Council's accounts along with the Special Purpose Financial reports are audited. The Special Schedules are considered supplementary to the accounts and therefore are selectively audited. The permissible income for general rates schedule is audited, and the report on Infrastructure Assets are not currently audited (although still intending to be in future).

They are prepared for the benefit of other authorities such as the Office of Local Government, Grants Commission, the Department of Lands, the Australian Bureau of Statistics and other Councils.

The following commentary on the Annual Accounts and Special Purpose Financial Accounts is provided for the Council's information.

Please note that all figures are in \$000's unless otherwise noted.

Income Statement

The Income Statement shows the surplus or deficit from ordinary activities before capital amounts and therefore gives an indication of the Council's performance in providing services that are funded from periodic operating income. These results generally exclude capital injections of funds which pay for capital works; the corresponding expenditure for these items appears in the Balance Sheet in the form of an asset.

The surplus from ordinary activities line shows how much the Council's wealth has increased or decreased over the year as a result of its activities. It is important to note that the Council is required by the NSW Local Government Code of Accounting Practice and Financial Reporting to recognise grants and contributions in its Income Statement even if the corresponding expenditure has not been incurred in that period.

The Council should note that the Council's result from ordinary activities result has declined somewhat from a \$6,351 operating surplus in 2017/18 to a **\$4,115 operating surplus** in 2018/19. On the face of it, this would appear to be a very large shift but this change is largely the result of the Council receiving FAG in 2017/18 in advance as detailed above.

Some of the more material changes are listed below (in 000s):

1. An increase in Rates and Annual Charges of \$273
2. An decrease in User Charges and Fees of \$1,181
3. A decrease in Operating Grants of \$862
4. An increase in Capital Grants of \$1,809
5. An increase in Employee Benefits and On-Costs of \$840
6. An increase in Materials and Contracts of \$470

Discussion on each of these items follows in this report.

The result before capital grants and contributions also shows an underlying decline, moving from a \$4,591 surplus in 2017/18 to a \$546 surplus in 2018/19. Again, this is largely related to the timing of FAG payments.

Capital grants and contributions include grants such as the RMS REPAIR program, and developer contributions to infrastructure, either in cash or as contributed assets.

The advance payment of 2017/18 FAG artificially inflated the 2017/18 result, the 2018/19 result is more in keeping with expectations.

Nonetheless, the underlying financial position of the Council remains stable – i.e. the Council is making moderate surplus and has cash flows sufficient for the Council to meet its obligations and deliver on its strategic plans.

Statement of Comprehensive Income

The Statement of Comprehensive Income links the Council's operating result in its Income Statement to the Council's Statement of Financial Position, specifically the increase in Council Equity (i.e. the Council's assets less its debt).

In 2018/19, the Statement reflects the Council's operating surplus of \$4,115 and a gain on revaluation of \$6,380, less an impairment of \$0.64, making a total increase in Council equity for the year of \$9,843.

Statement of Financial Position (Balance Sheet)

The Balance Sheet is presented so as to reveal the following aspects of the Council's financial situation:

1. Information about the **financial structure** of the Council, its obligations, its equity and the types of resources available to it.
2. Information about the **capacity** of the Council to adapt to changes in its operating environment.
3. Information about the short and long term **solvency** of the Council by classifying its assets and liabilities into current and non-current.

The Balance Sheet recognises the basic accounting equation of Assets minus Liabilities equals Equity. The equity of Berrigan Shire comprises the accumulated surpluses from previous years plus the asset revaluation reserves.

In Berrigan Shire's case the Balance Sheet shows an increase in equity from \$270,301 to \$280,144. As discussed above this reflects the Council's operating surplus of \$4,115 shown in the Income Statement and the \$6,380 increase in valuation of the Council's infrastructure, property, plant and equipment assets and other adjustments, less the impairment of buildings of \$0.65.

Current Assets – the Council's cash and other assets likely to be realised over the next twelve months – have increased by \$2,305 over the financial year. This is a result of several large capital grants being paid late in the 2018/19 financial year and to funds being retained for large capital works programs across the water and sewer funds.

Non-current Assets have increased by \$7,174. This is largely the result of the revaluation of several classes of infrastructure assets and the addition of new assets.

Current liabilities – the Council's debts likely to be redeemed over the next year – have decreased by \$256. There has been a decrease in the Council's payables – i.e. amounts to be paid for salaries and GST at 30 June – while income received in advance has increased.

Non-current liabilities have decreased by \$108 as the Council continues to pay down debt. The only loan outstanding at 30 June 2018 is the drainage loan subsidised under the Local Infrastructure Renewal Scheme.

Statement of Changes in Equity

The Statement of Changes in Equity shows how the total changes in Equity have been derived. There were three changes in equity in 2018/19. There was an increase of

\$4,115 flowing from the Income Statement, and an increase in the Asset revaluation reserve of \$6,380, and a decrease relating to impairment of buildings.

The increase in equity from the Income Statement has been discussed above and the increase from the revaluation of the Council's assets will be discussed in detail below.

Cash Flow Statement

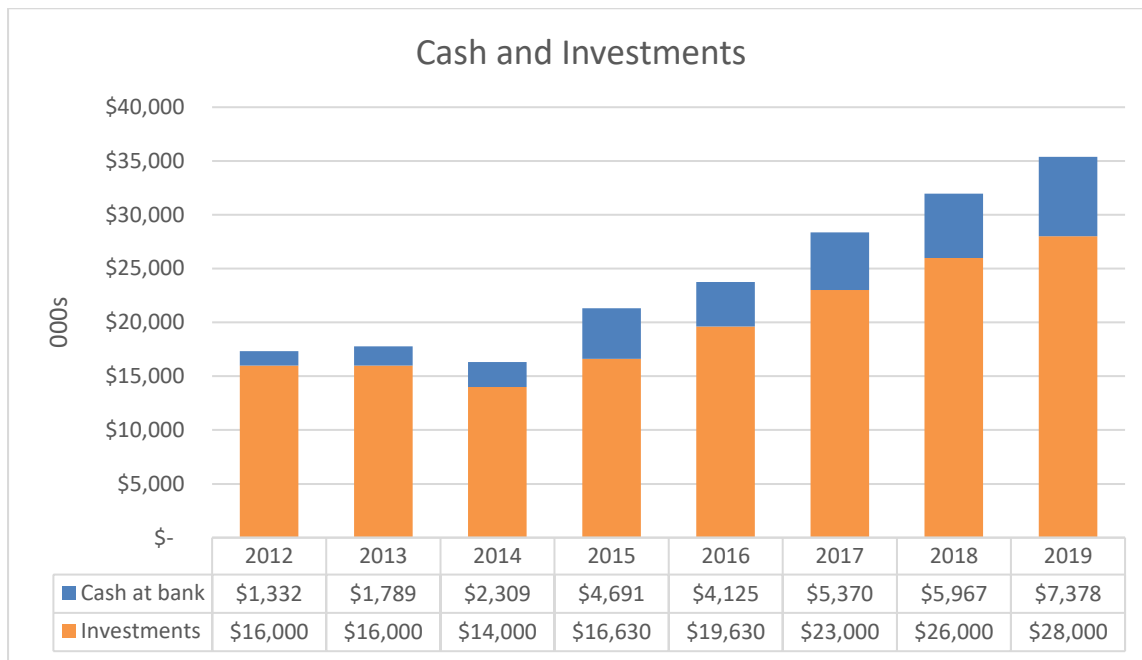
The Cash Flow Statement communicates information about the change in an organisation's liquidity and solvency during the year. It requires the grouping of cash receipts and cash payments into the following three classifications. They are:

- **Operating Activities:** These involve providing goods and services and include all transactions and other events that are not financing or investing activities.
- **Investing Activities:** These involve activities relating to the acquisition and disposal of non-current assets, including property, plant and equipment and other productive assets and investments.
- **Financial Activities:** Involves those activities which relate to changing the financial structure of the entity.

The Cash Flow Statement does not take into account non-cash items such as depreciation and accrued expenses and revenue. It is important because it shows the amount of cash created by Council's activities which governs the Council's ability to spend.

Overall the Council's cash and investments increased by \$3,411 during the year. This has several causes:

1. Increase in overall funds received from receipts
2. Increase in cash payments of expenditure
3. Decrease in payments for investing activities



Notes 1 to 23 provide detail to the abovementioned statements. Note that the Code of Accounting Practice and Financial Reporting has markedly changed the layout and numbering of these notes from previous years.

Note 1 sets out the basis of preparation for these set of statements. In a change instigated in 2017/18 much of the narrative around specific accounting policies has been moved from Note 1 and placed with the applicable Note.

Note 2 shows the financial statements split by Council’s Strategic Plan outcome (i.e. Sustainable and Natural Built Landscapes, Good Government, Supported and Engaged Communities and Diverse and Resilient Business

This again is a change from pre 2017/18 where this Note broke down the Council’s financial statements by function (i.e. Roads, Water, Sewer, etc.)

Note 2b provides some explanation of what activities are included in the various outcomes

Notes 3 to 5 provide more detail on the Income Statement.

Note 3 details the Council’s revenue. Revenue is broken down into several components.

- The Council’s rate and charges revenue increased by \$273 (2.7%) in 2018/19. This has two main drivers:

- The 2.3% permissible increase in general rates and the decision by the Council to increase some of its other service charges (Water, Waste and Stormwater) by between 2% to 3%.
- Some growth in the number of rateable assessments and service connections
- User charges and fees decreased by \$1,181 (31.5%) in 2018/19. This decrease is almost solely due to a decrease in non-domestic waste management fees relating to the loose-fill asbestos removal program undertaken by the NSW government in 2017/18 ceasing. Other fees and charges revenue was largely unchanged other than an increase in water supply charges and increased use of cemeteries.
- Interest and Investment Revenue increased by \$11 (1.5%). Interest rates received declined throughout the year while the Council's cash and investments increased over the period.
- Other Revenue has increased by \$597. This is largely as a result of additional revenue from temporary transfer of water entitlements.
- Operating grants received by the Council decreased by \$877. This is largely due to the timing of receipts of R2R funding, with 2018/19 being the final year in the current 5 year cycle.
- Capital Grants tend to vary widely from year to year depending on the current projects being undertaken by the Council. In 2018/19 the amount of Capital Grants and Contributions received by the Council totaled \$3,569 of which \$1,613 related to the *Stronger Country Communities program*.
- Contributions to s64 and s94 plans have more than doubled from a traditionally low base.
- The value of restricted grants and contributions (i.e. those grants and contributions that the Council has an obligation to spend in specified manner) fluctuates every year based on timing of receipts and building progress.

Note 4 details the Council's expenses. Expenses are broken down into several components.

- Employee costs expensed have increased by \$840 (11%). This result may seem anomalous given staff were only awarded a 2.5% pay rise under the terms of the Local Government (State) Award 2017. However, much of the change relates to an increase in the indexing of employee leave entitlements as required by

Australian Accounting Standards. Actual salaries and wages paid to employees decreased by \$49 (0.01%)

- Most other items in this area were steady.
- Materials and Contracts expenses increased by \$470 (18%). This figure can move sharply however depending on the mix of maintenance and capital works projects in any given year.
- Depreciation increase marginally from 2017/18, as a result of new assets.
- Other expenses cover a wide range of areas. Some of the key figures are shown below.

Other Expenses	2018/19	2017/18	% Change
Bank Charges			Net steady
NB – Refund \$45 received on overpayment shown in other revenue	74	36	
Emergency Services Levy			Change in funding structure – 6% decrease
NSW Fire Brigade Levy	In total \$162	In Total \$172	
NSW Rural Fire Service Levy			
Electricity and heating	324	351	8% decrease
Insurance	346	322	7.5% increase
Valuation Fees	78	-	Both 2017/18 & 2018/19 paid in 2018/19 – invoicing error by Valuation Services

Some of these fluctuations in costs are simply a matter of timing, changes in procurement contracts and weather.

Note 5 shows the gains and losses made by the Council from the disposal of assets.

The result shows a \$118 gain on Disposal of Plant and Equipment from the sale or trade-in of Council plant made in the normal course of business as well as a \$118 on sale of industrial land at the aerodrome. Infrastructure written off - \$969 shows the

accounting treatment of “disposed” assets – for instance where seals on roads are replaced. The \$82 net gain on sale of real estate relates to gain from the sale of developed real estate.

Notes 6 to 10 provide additional detail on the amounts shown in the Balance Sheet

Note 6a, 6b and 6c provide more detail on the Council’s Cash and Investments. As mentioned above, the Council’s total cash and investments have increased from \$31,967 to \$35,378 in 2018/19.

All Cash and Cash equivalents are held as “At fair value through profit and loss” and all Investments are “Held to Maturity”. Given the Council’s investment portfolio, which consisted of term deposits, there is little difference between the two.

External restrictions are those imposed on the Council by legislation relating to separate funds such as water, sewer and domestic waste as well as grants and contributions that come with conditions that the funds be spent on specific projects.

Internal restrictions are restrictions on funds which the Council places voluntarily on itself such as employee leave entitlements, the plant replacement reserves and the capital works reserve.

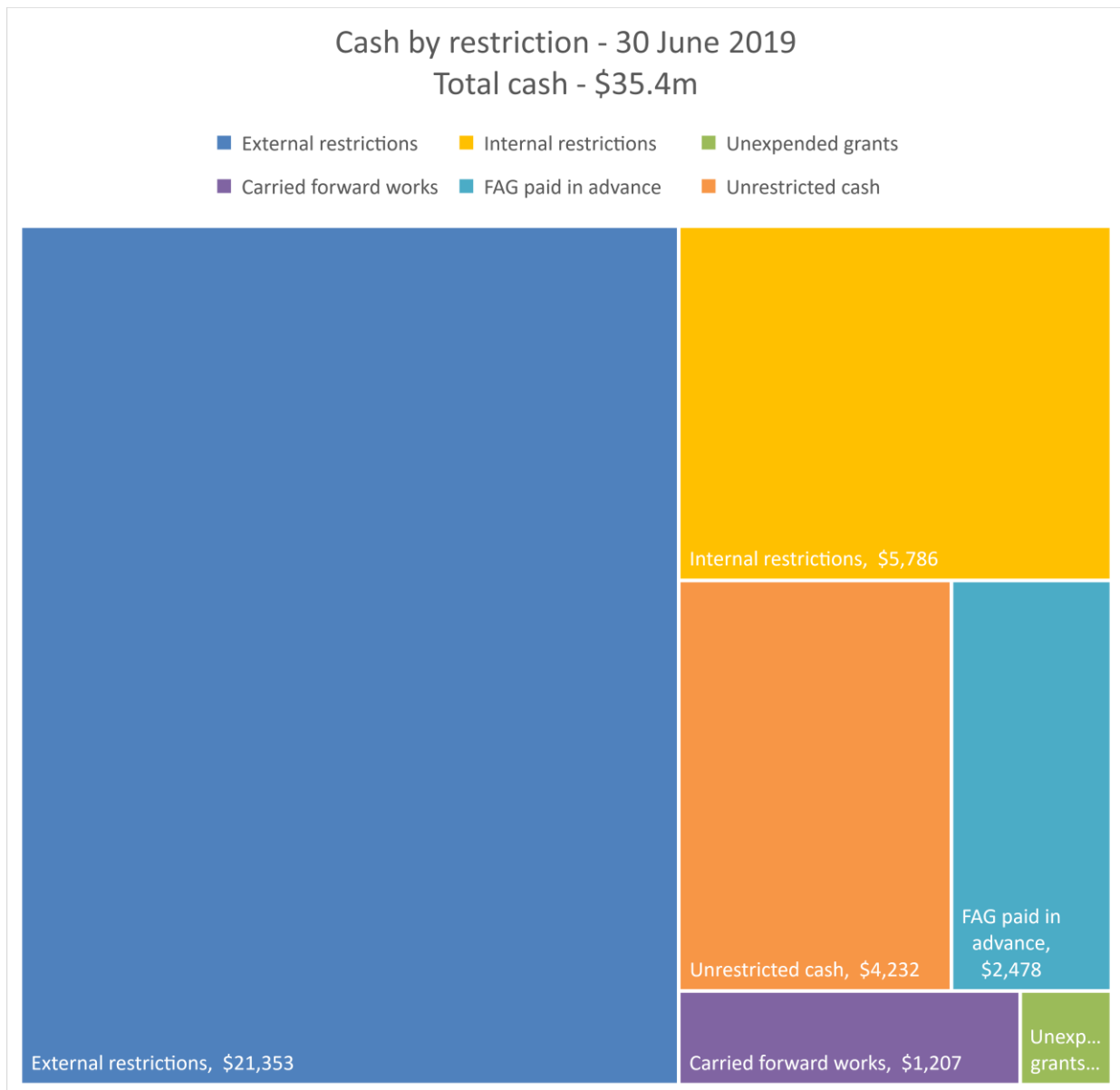
Unrestricted funds increased by \$146 to \$8,239. Much of the remaining unrestricted cash has already been allocated to carried forward jobs or is required for working capital. The table below provides some further detail about the Council’s unrestricted cash.

UNRESTRICTED CASH ANALYSIS

	\$000's
(A) Reserve funds as at 30-6-19 (A)	27,139
(B) Unexpended grants as at 30-6-19 (B)	<u>322</u>
(C) Total Reserve Balances as at 30-6-19 (A+B)	27,139
(D) Cash and investments 30-6-19	<u>35,378</u>
(E) Unrestricted cash as at 30-6-19 (D-C)	8,239
(F) Unspent works carried forward from 18/19	1,529
(B) Less unexpended grants restricted	<u>322</u>
(G) Net unspent works carried forward (F-B)	1,207
(H) Uncommitted cash at 30-6-19 (E-G)	7,032
(I) Less 2019/20 FAG paid in advance	<u>2,478</u>
(J) Balance of uncommitted cash at 30-6-19 (H-I)	4,554

Note this "uncommitted" cash is generally committed in the 2019/20 budget or required as working capital. This cash is not generally available for new projects or activities.

A graphical breakdown of the Council's total cash and investment holdings is shown below



Note 7 provides additional detail on the Council’s receivables; i.e. the amounts that are owed to the Council. Net receivables have decreased by \$1,080 (62%).

- Outstanding rates and charges increased by \$286 (185%). This represents a change in how the amount is calculated – no longer netting off prepayments. The Council’s performance in collecting outstanding rates and charges is very respectable when matched against its peers.
- Outstanding User Charges and Fees decreased by \$659 in 2018/19. This significant decrease is largely related to large invoices generated in June 2017 for Roads and Maritime Services and commercial tipping fees, which were not a factor in 2018/19.

- Accrued interest on investments increased by \$64. This is purely an issue of the timing of the maturity dates of the Council's investments
- Other income accruals decreased by \$799. This relates to invoices for commercial use of the Council's waste management facility in 2017/18 invoiced in July 2018. With the cessation of the Asbestos program this is no longer a factor.

Note 8 details inventories of stock and materials and developed real estate owned by the Council.

This is largely unchanged from 2017/18 other than the addition of some development costs for Tocumwal Aerodrome sub-division Stage 3.

Note 9 provides details on the movements in value of the Council's Infrastructure Property Plant and Equipment (IPP&E) assets. These represent the overwhelming balance of the Council's assets. The carrying value of the Council's IPP&E assets increased from \$240,156 to \$247,330 at the end of 2018/19.

The left hand columns in Note 9 shows the situation at the commencement of the 2018/19 year, the middle columns show the changes to asset values throughout the course of the year and the rightmost columns show the situation at the end of the financial year. Items worth noting include:

- The Council added a total of \$8,769 in assets in 2018/19. Of this \$5,740 related to renewals of infrastructure, \$877 renewal of non-infrastructure assets, \$2,152 to new infrastructure.
- This is offset by the Council recognising depreciation to the value of \$6,081 as discussed earlier.
- The revaluation increments of \$6,421 and \$41 decrements to equity, for a net of \$6,380 are also shown in this table.

The last item above requires more explanation. Council is required at each reporting date to assess the fair value of all of its assets every year and determine if that value differed materially.

Under AASB 13, assets are required to be valued at their "fair value"; in the case of assets such as roads and bridges the Office of Local Government has determined councils will need to estimate fair value using the cost-approach method. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset.

The Director Technical Services determined that there were no material changes in the values of some of the Council's infrastructure asset classes, other than indexing

of water and sewer as the industry standard rates set by Crown Lands and Water (CLAW).

A complete revaluation of Land and Building assets was undertaken by APV Limited for 30 June 2018. These values have been used in the preparation of these financial statements. The Council has also brought back to account the value of Crown Land for which the Council has been made the trustee.

A change in the asset software from BizeAssets to AssetFINDA in the 2018/19 year resulted in the clean-up of underlying data, and whilst a formal revaluation was not undertaken this transfer did result in the change in balances of infrastructure balances. This considerably slowed the entire statement preparation and audit process.

Additional audit requires and annual review of assets has resulted in an increasing compliance burden on staff. Going forward it is proposed to use external consultants to process and report on assets to allow completion of statements in a satisfactory and timely manner.

Note 10 provides additional information on the Council's payables and borrowings; i.e. the amounts that the Council owes others.

- Payables have increased; this is mainly a timing issue regarding invoice payments
- Borrowings have declined over 2017/18 as the Council continues to pay down debt.

Note 11 provides information on the Council's provisions; i.e. the amounts for which it is committed to pay in the future.

- 2018/19 has seen the Council's Provision for Employee Benefits decrease slightly – the second year in succession.

The table below provides some history on the level of the provision

Financial year	Provision for Employee Leave (000s)	% increase
2011/12	\$2,032	-2.8%
2013/14	\$2,182	5.3%
2014/15	\$2,584	14.4%
2016/17	\$2,713	5.0%
2017/18	\$2,641	-2.6%

Financial year	Provision for Employee Leave (000s)	% increase
2018/19	\$2,308	-12.6%
2018/19	\$2,303	-0.002%

As previously reported to the Council, the level of the Council's outstanding leave balances is a significant issue although the trend now is in a positive direction. The retirement of some staff with significant leave balances has once again helped this year, yet more still needs to be done.

Note 11 (a) demonstrates that while the Council is required to show nearly all leave entitlements owing as "current", i.e. potentially due and payable in the next 12 months, in reality the Council does not expect a substantial proportion of these entitlements to be actually taken in 2019/20.

The Provision for Asset Remediation/Restoration covers the likely cost to the Council to restore, rehabilitate and remediate certain areas such as quarries and landfills when they reach the end of their useful lives.

The Council is required to show this as a liability as well as incorporate this cost in the cost of the asset. This is required to be done on a **net present value** basis; i.e. the future expected costs are discounted to 2019 dollar amounts.

The provision at 30 June 2019 has increased slightly from 2018. This relates to an increase of \$7 relating to unwinding of the discount used, which is treated as a borrowing cost.

Note 12 provides information on equity adjustments. In this Council's circumstance, the only equity item that requires an explanation in these statements is the Infrastructure, property, plant and equipment revaluation reserve.

Note 13 reconciles the Council's operating result to the cash provided by the Council's net operating activities. These can differ due to items such as depreciation, asset write-offs, contributed assets and changes in amounts owed to creditors and owed by debtors and in inventory levels.

Note 14 to 23 provide additional information over and above the information provided in the statements.

Note 14 details the Council's future expenditure commitments not shown in the balance sheet such as commitments on long term contracts such as domestic waste collection. These commitments have increased somewhat, and are dependent on forward contracts signed.

Note 15 provides further information on other potential liabilities and assets that do not meet the threshold for inclusion in the financial statements or are otherwise difficult to value but are worthy of being disclosed. While the Council has some industry-wide contingent liabilities for items such as Defined Benefit Superannuation plans and Statewide and StateCover Mutual, there are no contingent liabilities specific to the operations of this Council.

Note 16 provides further information on the Council's exposure to financial risks. The Council holds the vast majority of its cash and investments in Term Deposits and at-call accounts while its only borrowing is a standard loan with a fixed interest rate for the term of the loan. As a result, the risk of default or interest rate movement to the Council is very slight.

Note 17 provides an explanation of significant variances from the Council's budget in the Income Statement and Statement of Cash Flows.

Note 18 provides information on the Fair Value measurement of Council's assets and liabilities.

The format and content of this note may change over time as the industry comes to grips with the best method to provide the required information in the most efficient manner.

The note itself is quite arcane but the large revaluations of building assets can be traced through this Note in Item 18(4)

Note 19 is a note on related party transactions. Council has determined there were no material related party transactions other than those relating to the ordinary remuneration of key management personnel.

Note 20 reports events after the reporting date, the only disclosure relates to the dissolution of the Central Murray County Council

Note 21 reconciles the Council's developer contributions. Note that Drainage developer contributions are used to partly repay the internal loan used to fund the stormwater drainage works.

Note 22 provides details on the Council's Financial Result and Financial Position by fund. This note duplicates much of the information shown in the Special Purpose Financial Statements and Special Schedules. Note the net deficit on the General Fund relates to Council's decision to draw down on unrestricted surplus funds to fund the Tocumwal Foreshore works, and the deficit in Sewer the operating losses in the fund for the year. In reality a small loss of this size on balance of turnover represents a near to break-even position.

Note 23 sets out some relevant ratios and performance benchmarks. These benchmarks were set out at the start of this report.

The Operating Performance ratio shows a decline from 18.24% to 5.60% largely related to the 2017/18 FAG paid in advance.

The Own Source Operating Revenue Ratio has increased from 61.16% in 2017/18 to 58.39% this year – meeting the OLG benchmark. Overall, this means that the Council was able to raise 58.39% of its own revenue with the balance coming from grants from the other levels of government. Years with large grants always make achieving this ratio difficult, as they skew the results.

The Council's Unrestricted Current ratio has declined, from 7.24:1 in 2018 to 6.79:1 in 2019. This still comfortably meets the OLG benchmark.

The Debt Service Cover ratio, which is a measure of the Council's long term ability to meet debt repayments, has improved from 35.08x to 48.70x. This ratio demonstrates that the Council is able to comfortably meet its loan obligations and will improve rapidly over the next few years as debt is paid down.

The Rates and Annual Charges ratio has decreased a decline from 3.32% to 5.97%. This is a result of a change in how the ratio is calculated, no longer including prepayments of rates.

The Cash Expense Cover ratio is 29.33 months – i.e. the Council has enough cash to pay over two years of operating expenditure. The required benchmark is three months. Note that much of this cash is restricted.

Special Purpose Financial Reports - The Special Purpose Financial reports have been prepared to report the results of Business Units determined by the Council in accordance with the requirements of the National Competition Policy (NCP) guidelines.

The Council has identified two business units being the Water Supply Service and the Sewerage Service. While notionally these activities exceed the \$2m threshold for consideration as a Category 1 activity, the Council resolved in September 2018 to continue to treat them as Category 2. The difference in categorisation has little practical effect on their operation.

The Special Purpose Financial Reports comprise a balance sheet and operating statement along with associated notes to the accounts for each deemed business.

NCP imputation payments are added to total expenses in the operating statement for each business to accurately reflect the amount of expenditure each business would

incur if they were not owned by the Shire. Items such as land tax and Council rates are calculated and included as NCP imputation payments which are then shown as expenditure against the business.

It is important to recognise that the businesses do not actually pay these NCP imputation charges. They are merely added to the total expenses to reflect what the business would have paid if they were not Council owned.

Special Schedules - These schedules contain the Council's financial data presented on a fund basis. They are unaudited but are used by other authorities and are also used as work sheets in preparing the annual statements.

- **The former Special Schedule 1** is no longer required, and is no longer reported
- **Permissible Income for General Rates (formerly Special Schedule 2)** is a statement of Permissible Income – the amount that Council is permitted to raise from ordinary rates. Unlike the rest of the financial statements, this statement is for the 2019/20 (i.e. this) financial year
- **Special Schedules 3 – 6** are no longer required, and is no longer reported
- **Report on Infrastructure Assets (formerly Special Schedule 7)** is a report on infrastructure assets. This includes condition assessments, estimates of infrastructure backlog and data on infrastructure renewal and maintenance.

Report on the Conduct of the Audit and Engagement Closing Report

At the time of writing the Council had not yet received the Report on the Conduct of the Audit and the Engagement Closing Report. Further information will be provided to the Council once these have been received.

Satisfaction and adoption

Prior to adoption of the Statements and referral to formal audit, the Councils should satisfy itself that the statements have been prepared in line with statutory and other requirements to present a true and fair view of the Council's financial position and financial performance.

To aid the Council in this task, a copy of a draft Representation Letter to the Council's auditors prepared by the General Manager and Responsible Accounting Officer (Finance Manager) is attached as Appendix "???".

This letter, while prepared for the auditors rather than the Council, should be suitable for use by the Council for the purpose identified above. It is a draft letter only at this stage and a final letter will need to be provided by management to the auditors

The Council can, of course, take the opportunity to ask further questions to satisfy themselves in this matter.

Having satisfied itself the Council is then required to:

1. Send a copy of the Statements to its Auditor.
2. As soon as possible after adoption of the reports and receipt of the Auditors Report, the Council must:
 - a) Make available a copy of the Statements and Reports to the Chief Executive of the Office of Local Government and the Australian Bureau of Statistics.
 - b) Fix a date for a meeting at which it proposed to present its financial Statements and Auditor's Reports to the public.
 - c) Give Public Notice of the date so fixed (which must be more than two weeks after notice is given but not more than one month after the Auditor's reports are received).

The following report has been included for the reason that:

- b) The business to be considered is to be considered is ruled by the chairperson to be of great urgency on the grounds that it requires a decision by the council before the next scheduled ordinary meeting of the council.*

4. NSW PUBLIC LIBRARIES ASSOCIATION ANNUAL CONFERENCE

AUTHOR: Director Corporate Services

STRATEGIC OUTCOME: Supported and engaged communities

STRATEGIC OBJECTIVE: 3.2 Support community engagement through life-long learning, culture and recreation

FILE NO: 03.095.2

RECOMMENDATION: that Cr Glanville be authorised to represent the Council at the NSW Public Libraries Association conference in Penrith on 19-22 November, 2019.

REPORT:

The NSW Public Libraries Association (NSWPLA) 2019 Annual Conference will be held in Penrith on 19-22 November, 2019.

Information regarding the conference is available on the NSWPLA website at <https://nswpla.org.au/switch2019/> . Full registration for the conference is \$750 + GST. This does not include travel and accommodation costs. It has been the practice of the Council in past years to send the Library Manager and a Councillor to the Annual Conference.

Cr Glanville has expressed an interest in representing the Council at the conference this year. As per the Council's [Policy for the Payment of Expenses and the Provision of Facilities for Mayors and Councillors](#), Cr Glanville's attendance must be authorised by the Council – where possible at a full meeting of the Council.