
Governance and Administration Matters - 23 November 2021

ITEM 7.5 2020/21 Annual Financial Reports

AUTHOR Corporate

PURPOSE AND BACKGROUND

Councillors will recall considering Council's Unaudited 2020/21 Annual Financial Reports at its meeting in October 2021 and resolving to refer them to our External Auditor in finalising the year-end process.

Having completed the audit, in accordance with Sections 418 and 419 of the Local Government Act 1993, Council's 2020/21 Audited Annual Financial Reports, including the Auditors Report, were publicly exhibited and are now being presented to Council for information.

ISSUE

These financial reports are for the financial year ending 30 June 2021.

Council's External Auditor has expressed an "Unmodified Opinion", on Council's 2020/21 general purpose financial statements, meaning that our statements reflect a true and fair view of our financial performance and position for the year.

In brief, as at 30 June Council's financial position is considered sound and stable. This is an excellent result considering the financial challenges posed by the Covid-19 pandemic.

Council's net operating result for the year was a surplus of \$7.2M exceeding the original budget estimate of a \$1.2M surplus. Once adjusted for one-off capital grants and contributions (which establishes/provides the true result of managing our day-to-day operations), Council's net result declines to a deficit of \$32.7M comparing favourably to the original budget deficit of 33.8M. Council also delivered its largest ever capital works program with the addition of over \$90M of assets.

Councillors would be aware of the processes that have commenced to address our long-term funding needs and ensure Council is financially sustainable to deliver on its service requirements and the replacement of infrastructure.

Section 420 of the Act also allows for any person to make submissions to Council with respect to the audited financial statements or Auditor's Reports, which must be received by Council within seven days of the public meeting.

The Act requires that Council assess all submissions and take such action as it considers appropriate in addressing the matter. In the event that Council receives any submissions, details of the issues and proposed actions will be reported to the next Ordinary Meeting of Council.

Copies of all submissions received will be referred to the Council's External Auditor. Council's Auditor, being the NSW Audit Office, will be in attendance this evening to address Council on the 2020/21 Audited Annual Financial Reports.

RECOMMENDATION That -

1. Council note the 2020/21 Annual Financial Reports and Auditor Reports.
2. Any submissions received and proposed actions relating to those submissions will be reported back to Council at the next Ordinary Meeting, if required.
3. Copies of all submissions received will be referred to Council's External Auditor.

ATTACHMENTS [Click here for attachment](#)

- A. Canterbury Bankstown Council Annual Financial Statements 2021

POLICY IMPACT

Council has met all related legislative requirements as set out in the Local Government Act 1993, associated Regulations and Local Government Code of Accounting Practice and Financial Reporting.

FINANCIAL IMPACT

Whilst this report does not present any direct financial impact for Council, it does convey that Council's 2020/21 financial reports presents a stable financial position for Council as at 30 June 2021.

That said, Councillors would be aware of Council's requirement to address its longer-term financial requirements, which is the subject of a separate special rate variation process currently underway.

COMMUNITY IMPACT

There is no direct community impact resulting from this report.

DETAILED INFORMATION

Executive Summary

Councillors will note Council's financial performance (before capital grants and contributions) is reported as a deficit of \$32.7M, which reflects a number of non-cash accounting entries (eg. adjusting for the revaluation of assets and depreciation expense), which contribute to Council's deficit position.

Whilst having no immediate cash/financial impact, the information does provide and/or suggests that there is a longer-term imbalance of available funding to both manage our service expectations and ensure that adequate funding is allocated for asset maintenance and replacement purposes. That's said, this matter is expected to be addressed as part of Council's decision to adjust its rating income over the coming 4 financial years.

Council's financial reports provide a detailed assessment of Council's performance and position however, overall, some of the more pertinent details of our results are as follows:

- Total combined Net Operating Result of \$7.2M, and a Net Result before Grants and Contributions of (\$32.7M) – incorporates/reflects estimated shortfall (depreciation) in required funding to replace and/or renew our assets;
- Capital Expenditure for the year of \$90M, and total infrastructure asset base of \$3.6B (Net Carrying Amount / Written Down Value);
- Total Cash and Investment of \$374.8M, of which \$8.1M is unrestricted;
- Total Liabilities of around \$114.0M, which are largely of an employee nature, payables to suppliers and tip remediation works;
- Council's combined cost to bring existing infrastructure to a satisfactory standard - estimated at around \$52.2M; and
- No outstanding borrowings.

More broadly, Council's detailed financial results are outlined below.

COVID-19

The COVID-19 pandemic has impacted the 2020/21 financial reports by approximately \$8.5M through loss of income from government-imposed shutdowns, income that was indirectly impacted by the crisis and other relief measures provided by Council. A further impact of \$6M is expected in the 2021/22 financial year.

These impacts were foreshadowed in the original budget documents resolved by Council at its June 2021 meeting and in further reports to Council in July 2021 and August 2021 regarding further financial assistance provided by Council.

Further details will be provided throughout the financial year as part of the quarterly review budget process reported to Council as part of its annual Integrated Planning and Reporting requirements.

As a precaution, Council has held cash and cash equivalents on hand for operational needs to ensure we manage any adverse cashflow impacts from any delays in recouping council receivables, especially from rates. As at 30 June 2021 Council's Rates Outstanding ratio was higher than previous years (see note F5-1).

Financial Performance

Overall, Council's short-term financial position as at 30 June 2021 is well placed and considered reasonable. A summary of Council's financial performance for the reporting period is as follows:

Canterbury-Bankstown Council Financial Performance – Year Ending 30 June 2021

Description	2020/21 Budget \$'000	2020/21 Actual \$'000	2019/20 Actual \$'000
INCOME FROM CONTINUING OPERATIONS			
Rates and Annual Charges	244.3	247.6	237.9
User Charges and Fees	15.5	17.6	19.4
Interest and Investment Income	7.2	6.2	9.1
Other Revenues	13.6	15.1	17.0
Grants and Contributions - Operating	24.7	25.2	24.6
Grants and Contributions - Capital	35.0	39.9	20.9
Other Income	4.2	6.2	5.5
Total Income from Continuing Operations	344.5	357.8	334.4
EXPENSES FROM CONTINUING OPERATIONS			
Employee Benefits and On-costs	146.9	142.1	132.9
Borrowing Costs	0.5	0.1	0.2
Materials and Services	109.9	103.3	102.9
Depreciation and Amortisation	74.3	75.0	75.1
Other Expenses	11.7	14.0	11.0
Net Loss from Disposal of Assets	0.0	16.1	10.7
Total Expenses from Continuing Operations	343.3	350.6	332.8
OPERATING RESULT	1.2	7.2	1.6
Net Operating Result for the period before grants and contributions provided for capital purposes	(33.8)	(32.7)	(19.3)

Comparison with Original Budget

Once adjusted for specific capital grants and contributions, Council's Net Operating Result was a deficit of \$32.7M compared to an original budgeted deficit of \$33.7M. This is primarily due to:

- outperformance with a number of user fees and charges including vehicular crossing design services \$628k, child care fees \$424k, recreation and community fees \$257k, planning and rating certificates \$384k, development and construction fees \$341k;
- outperformance with other revenues items including external income for BLaKC and parks \$307k, trade waste \$166k, and fines \$40k;
- Council was successful in obtaining additional capital grants during the financial year and report these to council and make adjustments to budget during the year through the quarterly budget reviews. Examples of additional grants received included the Department of Industries Federal Funding program phase 2 \$5.5M and phase 2 of the local roads and community infrastructure program \$1M;
- The continued low interest rate environment has meant that as existing investment deposits matured, they have been reinvested at the much lower prevailing rates. Also, Council's relief measures and lower cashflows during the year also contributed to actual income being lower than budget. Given official rates have fallen to record lows, Council is likely to see a rapid decline in interest income over future financial years. Council made adjustments to forecast interest income during the year as part of quarterly budget review;
- Council increased tip usage during the year leading to higher than original budget expenditure for EPA levies (\$3.3M). Adjustments were made to EPA levy budget throughout the year through the quarterly budget review process. This was partially offset by lower than budgeted costs for subsidies and donations \$754k and work cover levies \$223k; and
- Council does not budget for any net losses on disposal of assets unless known at the time of preparing the original budget. The majority of the losses relate to write-offs of various infrastructure assets as part of Council's asset renewal program, particularly as infrastructure assets are renewed and/or replaced.

Comparison with Previous Year Result

When assessing Council financial performance to that of the previous year, Councillors would note that Council's Net Operating Result for the year improved from a surplus \$1.6M in 2019/20 to a surplus of \$7.2M for 2020/21. Whilst the COVID-19 pandemic impacted Council's income for the year, this was offset by increased income from grants during the same period.

Whilst having provided Councillors with detailed movements and/or variation to costs in previous Council reports, broadly, the major variations are due to:

- the reduction in user charges and fees, and other revenues as a direct result of COVID-19 pandemic impacts of around \$3.7M;

- increased net losses on the disposal of assets of around \$5.4M;
- increased grants and contributions received during the year of around \$19.6M including one off emergency services levy funding \$0.6M, one off grants for smart cities and environmental improvement projects \$0.9M, new Roads to Recovery Funding and Local Roads and Community Infrastructure Funding \$17.4M;
- decrease in interest and investment income from lower interest rates and reinvesting investments at significantly lower interest rates of around \$2.9M; and
- increase in EPA levy costs associated with tipping fees as a result of largest capital works program completed by council of around \$2.5M.

Overall, the above variations provide some insight into the pressures and constraints facing Council, particularly in areas we have little influence and/or control as to how cost vary from year to year.

Financial Position

Broadly, Council's financial position reflects the following balances:

Canterbury-Bankstown Council Statement of Financial Position – as at 30 June 2021

Description	\$M
FINANCIAL POSITION	
Current Assets	191
Non-Current Assets	3,819
Total Assets	4,010
Current Liabilities	91
Non-Current Liabilities	23
Total Liabilities	114
Net Assets / Equity	3,896
CASH & INVESTMENTS	
External Restrictions	203
Internal Restrictions	164
Unrestricted Cash	8
Total Cash & Investments	375

Council has a sound level of liquidity (cash & investments) to deal with ongoing operational requirements and contingencies, including preserving specific cash and investments for future asset replacement programs, protecting its liabilities and satisfying Council's statutory obligations.

In terms of assets, Council capitalised a further \$90M throughout the period. Primarily, most funds were allocated to replacing/renewing Council's infrastructure assets, such as roads (\$21.1M), parks & reserves (\$7.1M), stormwater management (\$3.5M), footpaths (\$2.5M) and buildings (\$8.1M).

Council is similarly well placed to meet its short and long-term obligations (current and non-current liabilities), such as employee entitlements, payments to its creditors within the coming financial year.

Performance Ratios

NSW councils are required to report their performance against certain set financial ratios and benchmarks set by the State Government. Notwithstanding the varied scale and size of all councils, the ratios provide a basis to annually compare all councils on a consistent basis.

A summary of Council's performance ratios, when compared to the benchmarks is as follows:

Ratio	Industry B/Mark	CBC (2020/21)	CBC (2019/20)	B/Mark (2020/21)
Operating performance	>0%	(5.29%)	(2.77%)	No
Own source operating Revenue	>60%	81.8%	86.4%	Yes
Unrestricted current	>150%	380%	412%	Yes
Debt service cover	>2X	85X	62X	Yes
Rates and annual charges outstanding	<5.0	6.3%	5.5%	No
Cash expense (months)	>3.0	14.5	14.2	Yes
Building & infrastructure renewals	>100%	78.0%	62.0%	No

As at 30 June 2021, Council exceeded all operational related financial benchmarks except operating performance and rates and annual charges outstanding. This is primarily due to the impacts of the Covid-19 pandemic, non-cash net losses from adjustments on infrastructure assets, lower interest income and required funding to match the depreciation expense of infrastructure assets.

Council's rates and charges outstanding ratio has increased from previous year and currently sits above the industry benchmark. This is a result of the Covid-19 relief measures that have been put in place by Council for ratepayers suffering financial hardship, though will be addressed in the coming financial year.

Separately, Council's building & infrastructure renewals ratio improved significantly from the previous financial year due to the largest capital works program delivered in 2020/21. Despite the improvement in this ratio, the ratio is still well below the industry benchmark and highlights the long-term funding issues being addressed by Council in order for Council to continue to deliver, maintain and renew the infrastructure and services expected by the community. Councillors would be well aware of this issue, particularly as detailed in Council's Financial Management Strategy incorporating Council's Long Term Financial Plan.

Annual Financial Reports

A complete set of Council's 2020/21 financial reports are attached, for Council's information. As indicated earlier, Council's Auditor will be in attendance to address Council on the matter and provide a more detailed assessment of Council's results.

