GLEN INNES SEVERN COUNCIL:
SOUND FINANCIAL MANAGEMENT AND MARKED IMPROVEMENT SINCE AMALGAMATION IN 2004

This report illustrates the improvement in the Glen Innes Severn Council's (GISC's) financial position after amalgamation of the former Glen Innes Municipal Council (GIMC) and Severn Shire Council (SSC) in September 2004, and why a Special Rate Variation (SRV) was the appropriate next step for the now amalgamated Council to take.

The information provided in this report indicates the improvement in Council's financial position (across almost all financial indicators) since amalgamation, and the general improvement in Council's asset management position across available asset management indicators, including asset expenditure – particularly roads, bridges and footpaths. This information potentially stands Council in stark contrast to a number of other amalgamated Councils, which have arguably not benefited financially after their amalgamations.

List of Abbreviations:

AMP – Asset Management Plan
B&IRR – Building and Infrastructure Renewal Ratio
CES – Community Engagement Strategy
CPI – Consumer Price Index
CSP – Community Strategic Plan
DP – Delivery Program
FAG – Financial Assistance Grant
GC – Grants Commission
GIMC – Glen Innes Municipal Council
GISC – Glen Innes Severn Council
ILGRP – Independent Local Government Review Panel
IP&RF – Integrated Planning and Reporting Framework
KPI – Key Performance Indicator
LIRS – Local Infrastructure Renewal Scheme
LTFP – Long Term Financial Plan
NDF – Natural Disaster Funding
NSW – New South Wales
OLG – Office of Local Government
OP – Operational Plan
R2R – Roads to Recovery
SRV – Special Rate Variation
SSC – Severn Shire Council
TCORP – Treasury Corporation of NSW
WP – Workforce Plan

EXECUTIVE SUMMARY

The former GIMC and SSC were amalgamated in 2004 to improve financial sustainability by amalgamating a 'donut' council with a 'town' council. The purpose of this report is to review the financial indicators of all three (3) Councils (GIMC, SSC and GISC) since 1999 to identify whether GISC has:

a. Benefited from this amalgamation, and
b. Whether it has been effectively managed post amalgamation.

It should be noted that only financial indicators have been considered in this report. No non-monetary achievements have been addressed.

The report then considers how the SRV process commenced and why it was only undertaken in this current financial year.

The financial indicators and Key Performance Indicators (KPIs) have improved considerably from pre-amalgamation in 1999 to 2013. These indicators, along with the independent review by the Treasury Corporation of NSW (TCORP) in March 2013, confirm that GISC has been managed effectively.

An analysis of audited financial statements indicates improvement in GISC's financial position across almost all key indicators, when compared to the former Councils:

- **Operating Position:** The combined GIMC and SSC figures indicate an average combined loss of ($1,757,000) over the years 1999 to 2004. It can be compared with an average loss for GISC of ($973,000); which represents an improvement of $784,000 per annum.
- **Operating Position of Council as a proportion of Total Revenues:** The average combined operating position of the former Councils (SSC and GIMC) was -12.80%, with the new GISC having an average ratio of -4.72%; which should be viewed as being a significant improvement.
- **Unrestricted Current Ratio:** GIMC and SSC had an unrestricted current ratio of 2 or less in the years leading up to amalgamation. GISC's unrestricted current ratio is now above 4.5; which should be viewed as another significant improvement.
- **Debt Service Ratio:** GIMC's Debt Service Ratio peaked at 100% in 2003. In contrast, GISC has a Debt Service Ratio of 7.8%, which compares very favourably with the TCorp average.
- **Affordability of Borrowings:** GISC has taken the middle ground in respect of borrowing and borrowing costs, with borrowing costs as a proportion of total revenue remaining reasonable static at less than 4%. This can be compared with the lower borrowing cost percentage of the SSC (combined with lower asset expenditure) and a higher borrowing cost percentage of GIMC, peaking at over 12% in 2003 (combined once again with lower asset expenditure). The increase in total liabilities as a proportion of revenue has been reasonably static, and is comparable with both the GIMC and SSC.

- **Rates Coverage Ratio:** The Rates Coverage Ratio is similar for all three (3) Councils.
- **Rates and Charges Outstanding Ratio:** GISC's Rates and Charges Outstanding Ratio is now below 4%, compared with SSC's ratio of above 16% in 2001 and GIMC's ratio of around 11% in 1999; an outstanding improvement.
- **Capital Expenditure as a Proportion of Total Revenue:** The average Capital Expenditure as a Proportion of Total Revenue for GISC is 22.26%, an improvement of 4.11% compared to the combined GIMC and SSC figures of 18.15%. This equates to an annual increase of $986,400 in capital expenditure, leading to improved community assets.
- **Capital Expenditure on Roads, Bridges and Footpaths as a Proportion of Total Revenue:** GISC has achieved 6.87% on this indicator, an improvement of **2.15%** compared to the combined GIMC and SSC average of 4.72% for the years from 2001 to 2005. This equates to an annual increase of $516,000 on roads, bridges and footpaths**,** which has helped to decrease the infrastructure backlog associated with these assets.

The above-mentioned information indicates that GISC has performed well after its amalgamation.

The journey which has lead to applying for a SRV is complex and requires a good understanding of how Local Government in NSW works, and how the Integrated Planning and Reporting Framework (IP&RF) has been implemented. Further matters that need to be understood are how Council receives grants and how the Grant Commission operates. There are many events and important dates that occurred on this journey, and they are noted in detail in the body of the report.

The main dates/events to note are:

- The Building and Infrastructure Renewal Ratio (B&IRR)was introduced as a KPI as part of the Audited Financial Statements for 30 June 2008;
- 23 June 2011 – Council adopted the original Long Term Financial Plan (LTFP) which included projected additional grant revenue (Roads to Recovery (R2R) 50% increase and Financial Assistance Grants (FAGs) – roads component $700,000 increase);
- 30 June 2011 – Revaluation of NSW Councils' assets to market value or replacement cost completed;
- 21 October 2013 – Meeting with the Grants Commission of NSW (who distribute the NSW portion of the FAGS). Council was advised that Grant increases were unlikely and that it was suggested that Councils consider alternative funding sources. The Grants Commission made specific suggestions for GISC to further pursue the Local Infrastructure Renewal Scheme (LIRS) and apply for an SRV.

Based on the timeline and the overwhelming perception amongst rural councils, at the time, that increases in the FAG roads component and the R2R grant were not out of the question (which was confirmed to be reasonable by TCORP in March

2013) and then the advice from the Grants Commission that local councils were not going to receive an increase, it is clear that this was the first significant trigger for Council to pursue an SRV (to make up the anticipated grant funding) in October 2013.

It can therefore be reasonably concluded that GISC has been managed well since the amalgamation of the former GIMC and SSC in 2004. Further, Council has acted responsibly and appropriately in not pursuing an SRV earlier than in the 2013/14-Financial Year.

BACKGROUND

The former GIMC and former SSC were amalgamated in 2004, with the aim of improving financial sustainability by amalgamating a ‘donut’ council with a ‘town’ council. It could be stated that the amalgamation process of local councils is a difficult one. In particular instances, problems were perceived to be significant enough for de-amalgamations to occur, i.e. recently in Queensland (Noosa, Douglas, Livingstone and Mareeba).

It anecdotally appears that the management of the local government entities before and after amalgamation has greatly influenced whether or not the amalgamations were successful, or not. There are also other significant factors which should be taken into consideration, such as communities of interest and the tyranny of distance.

The purpose of this report is to review the financial indicators of all three (3) Councils (GIMC, SSC and GISC) from 1999 to 2013 to identify whether GISC has:

a. Benefited from this amalgamation, and
b. Whether it has been effectively managed post amalgamation.

It should be noted that only financial indicators have been considered in this report. No non-monetary achievements have been addressed. Please refer to Annexure A of this report for more detailed information.

The report also considers how the SRV process commenced and why the application process was only undertaken in the 2013/14 Financial Year.

Council approved an SRV at an Extraordinary Council Meeting on 20 February 2014 and the necessary SRV application was lodged with IPART on 24 February 2014. It is expected that Council will be advised of the success of this application in early June 2014.

In preparation for this application, a significant amount of financial modelling and asset planning was completed to identify that Council needed an increase in its rating revenue to fund those assets the Community wanted (as identified through community engagement in the development of the Community Strategic Plan and associated Delivery Program, and the Road and Open Spaces Hierarchy Management Plans), as well as properly renewing and maintaining Council’s asset base.

This modelling identified that an SRV, combined with further operational savings, and a further $4 million LIRS loan would further improve Council’s financial and asset management ratios. In fact, the reviewed (Transport) Asset Management Plan (AMP) identified that by 2033 GISC will have made a significant impact on the roads, bridges and footpaths infrastructure backlog (deferred renewals).

Currently, given the strong arguments in respect of financial sustainability raised by the above modelling, it seems reasonable to reflect on the road to the SRV from amalgamation in 2004. Particular emphasis has been placed on whether Council has effectively managed GISC finances since amalgamation, and alternatively whether an application of this nature should have been completed earlier.

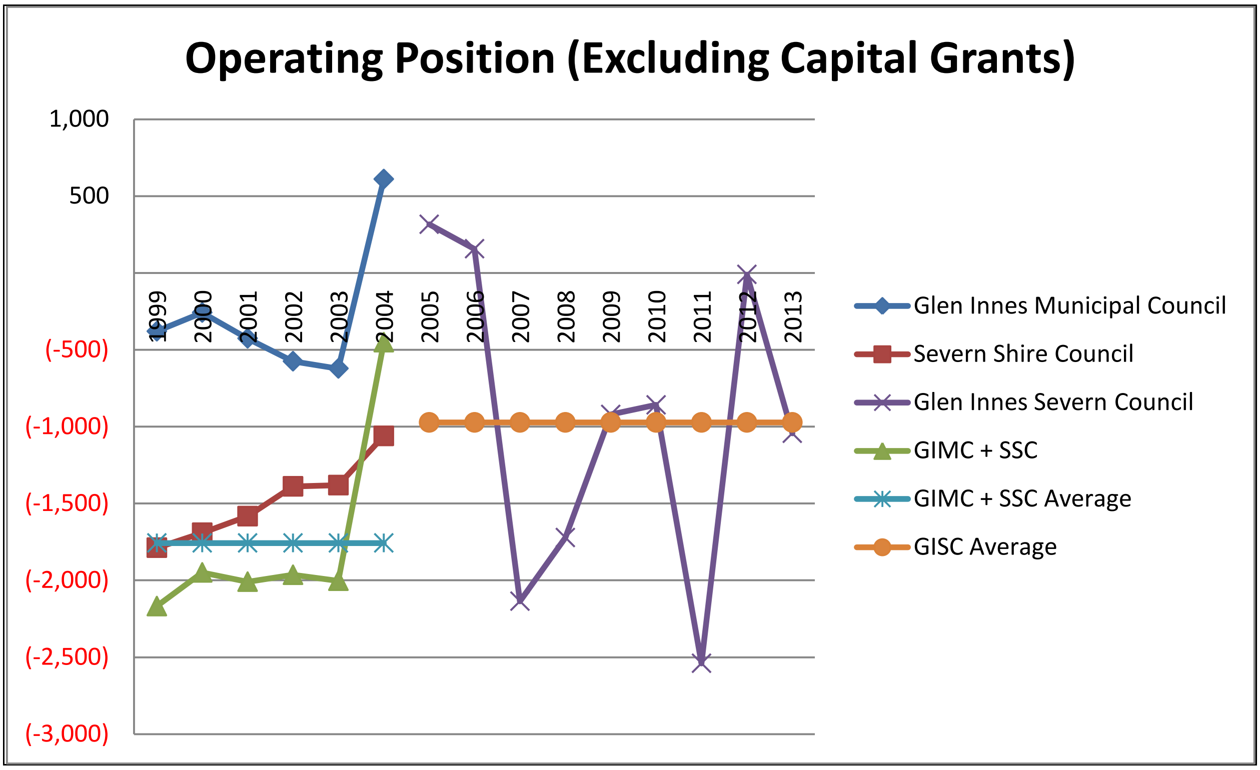
Has Council been effectively managed since Amalgamation?

A comparison has been prepared between financial indicators from before amalgamation, and after, based on the audited financial statements. Data from the former SSC and GIMC from six (6) years prior to amalgamation (1999 to 2004 inclusive) has been used, which should give a good indication of the financial position of those Councils for this period. Subsequent years (2005 to 2013) have been included for GISC to provide a comprehensive comparison of financial trends for the current (amalgamated) Council.

It is noted that there were minor discrepancies between some of the reported financial statements due to changes in Local Government Reporting requirements, although these do not hinder a good comparison being made.

It should also be noted that no 'time value' has been given to money in some of these comparisons. 'Time value' of money is the concept that the value of a dollar to be received in the future is less than the value of a dollar on hand today. Therefore, comparing a loss of $2.046 million for the combined GIMC and SSC in 1999, to a loss of $2.136 million for GISC in 2007 is not strictly correct, as the loss in 1999 has not been increased proportionally with the time value of money. For this reason, the majority of comparisons have been made as a proportion of operating expenditure or revenue, as this takes into account both the time value of money and the general increase in the organisation's size.

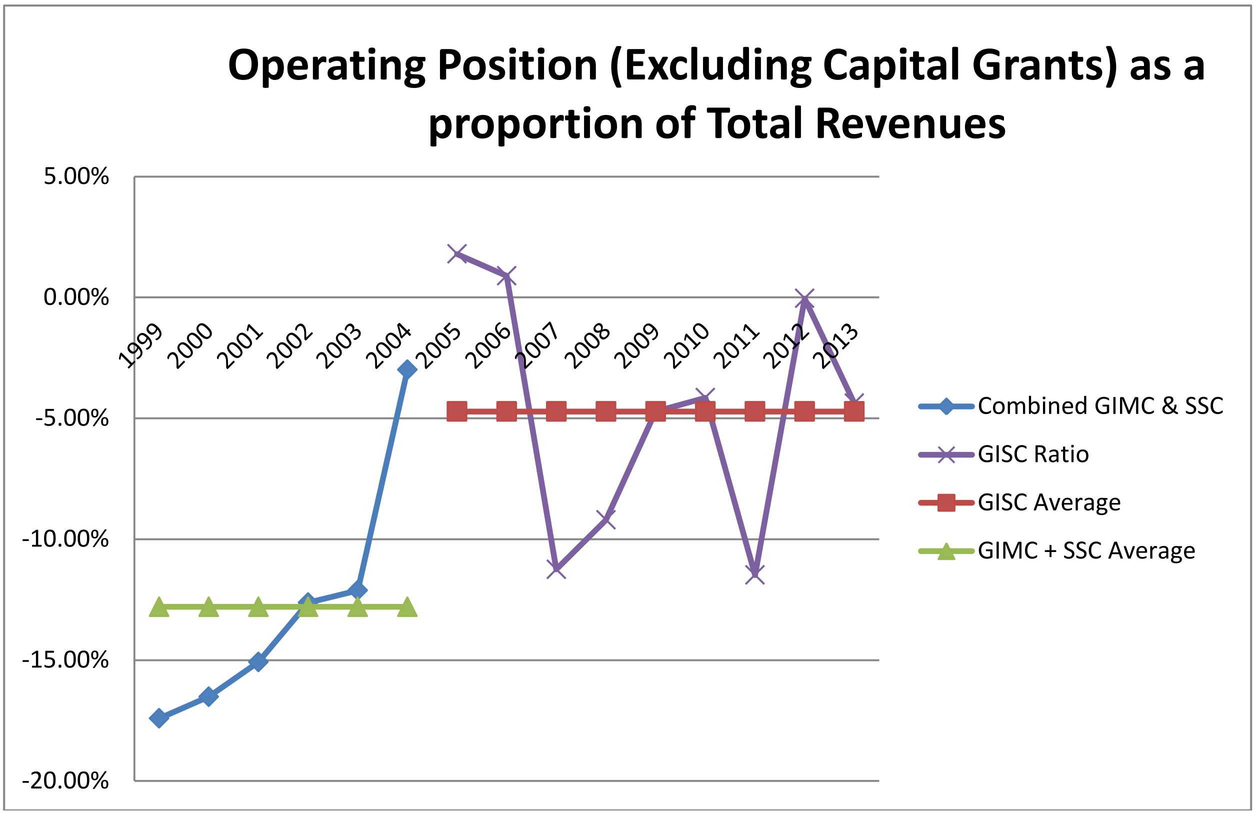
Graph 1.1 The Operating Position of Council:



The combined GIMC and SSC line indicates an average combined loss of ($1,757,000) over the years 1999 to 2004. It can be compared with an average loss for GISC of ($973,000). This is a very rough comparison of the operating performance of Council, particularly when one considers the time value of money and that only an average has been used. Therefore, the actual improvement in the GISC's position of ($1,757,000 - $973,000) $784,000 per annum is actually <u>understated</u> by the time value of money in the interim.

A more appropriate indicator of operating performance would be the operating position (profit or loss) as a proportion of total revenue. A comparison of this nature is discussed on the next page (Graph 1.2).

Graph 1.2 Operating Position of Council as a proportion of Total Revenues:

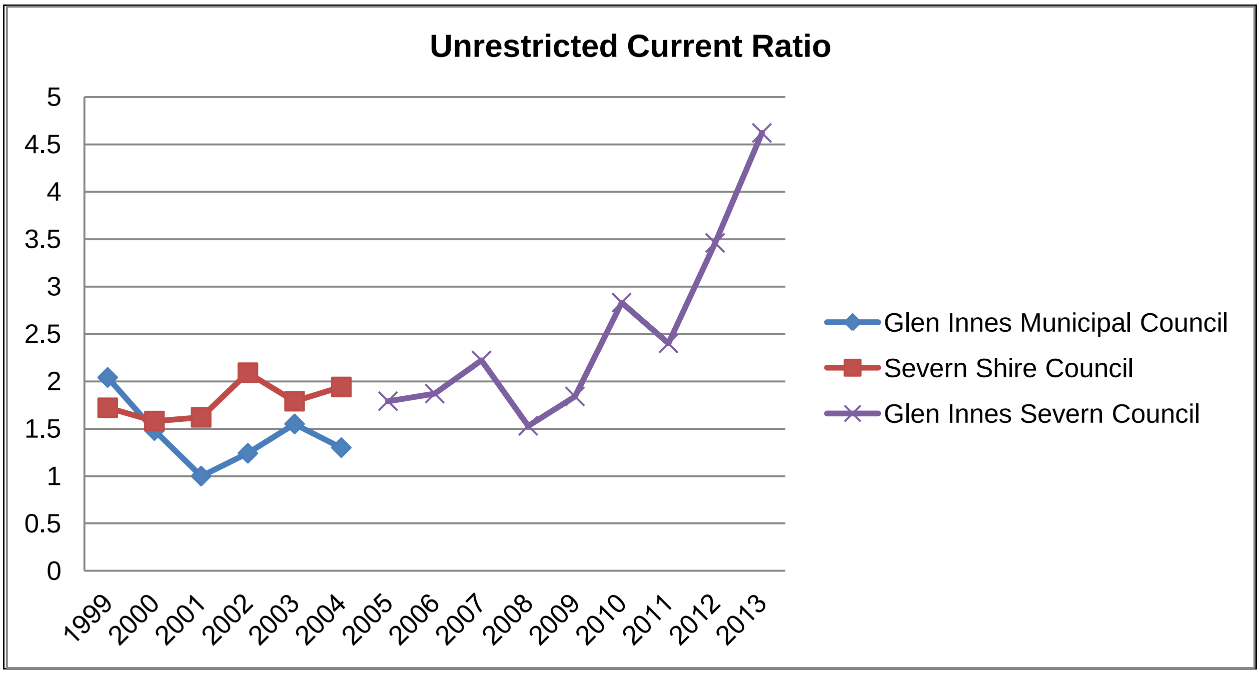


The average combined operating position of the former Councils (SSC and GIMC) was -12.80%, with the new GISC having an average ratio of -4.72%.

The GISC ratio is therefore a significant improvement on the pre-amalgamation Councils' combined results. It should be noted that the average operating ratio of -4.72% is marginally below the TCORP benchmark of > - 4.0%. Therefore, Council has made a significant improvement in this regard compared to before amalgamation and is very close on average to meeting the required benchmark of TCORP.

It should also be noted that these figures are derived from simply adding together the profit/loss and total revenues; a full consolidation has not been prepared as it is not believed to provide any significant variation to the above results.

Graph 1.3 Unrestricted Current Ratio:



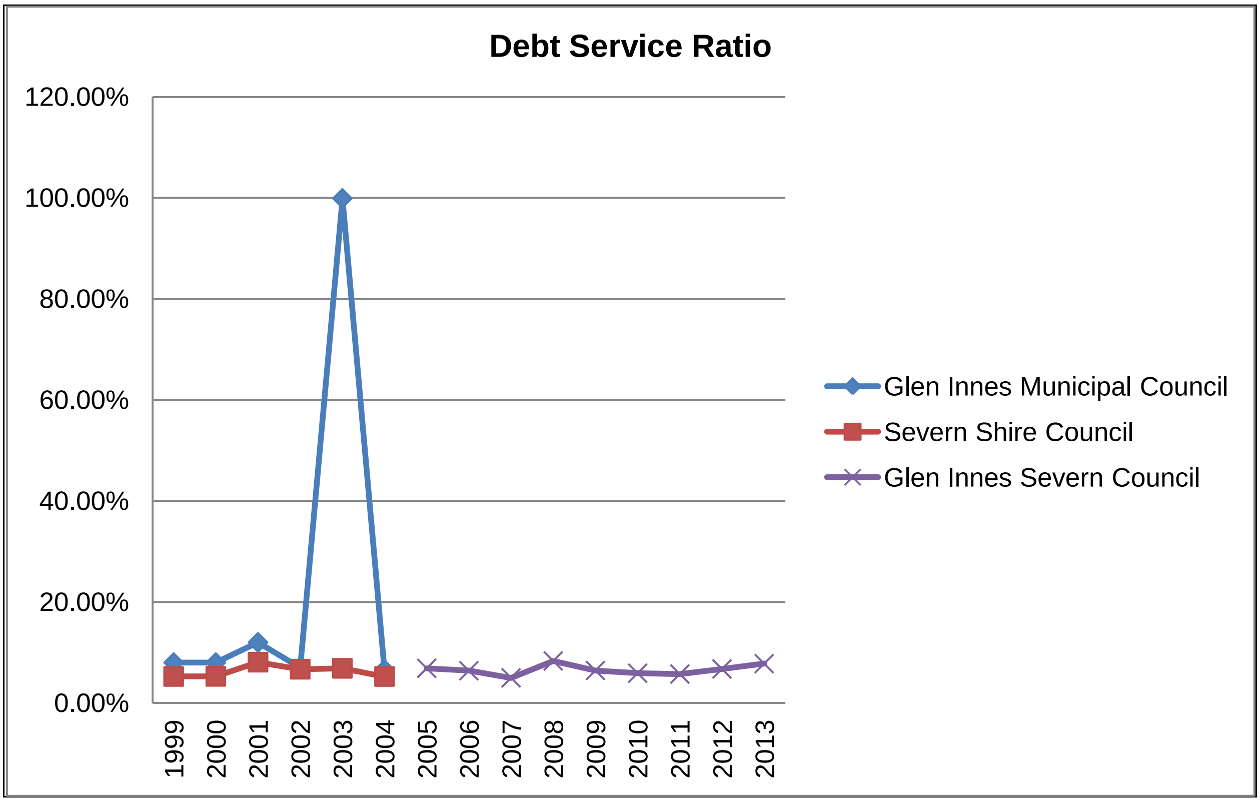
The TCORP benchmark for this ratio is above 1.5, while the industry has generally accepted two (2) as a good position. Council is, at the time of preparing this report, sitting at above 4.5. This indicates the organisation is in a strong position to meet its short to medium commitments and liabilities. As shown in Graph 1.3 (above), there is a clear and improving trend for GISC, compared with the relatively stationary positions for the GIMC and SSC.

The above suggests that the GISC has been able to make unrestricted cash surpluses over the period. This does not necessarily suggest Council has been spending less on infrastructure than it could have. Although Council could have spent marginally more on infrastructure, the current ratio of over 4.5 is comparable with the average for Council's Office of Local Government (OLG) group (Group 10), suggesting that Council has now improved to the average in this particular regard. Therefore, this increase was a responsible choice, balanced with an increase in capital expenditure (identified below Graph 5.1, 5.2 and 5.3).

Please also refer to the TCORP Benchmarking Report of 21 March 2013 Figure 18 – Unrestricted Current Ratio Comparison, attached to this report as Annexure B.

It is noteworthy that TCORP stated that Council's liquidity position is sound.

Graph 2.1 Council's Borrowings and Interest payments:



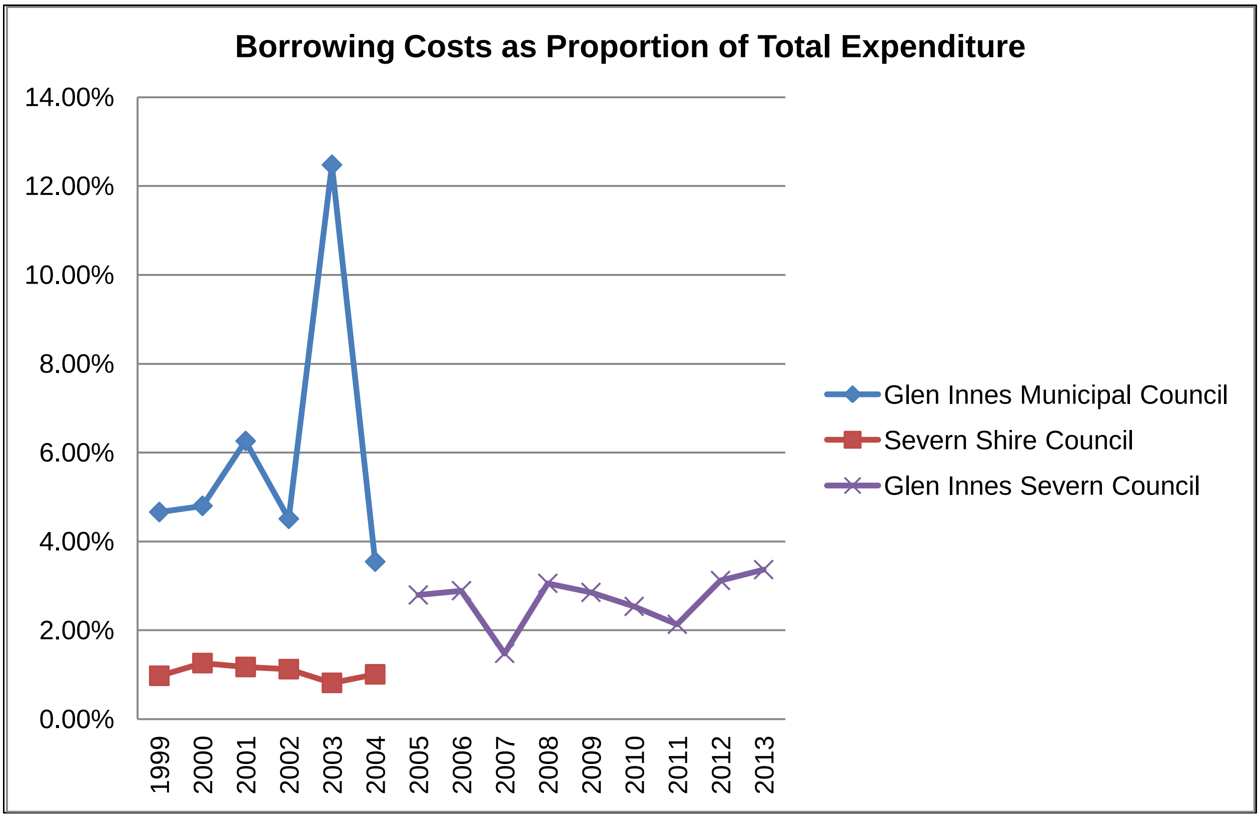
The graph above indicates that the cost of borrowing for GISC has not increased significantly based on the Debt Service Ratio. This Ratio, sitting at 7.8% for GISC in 2013, identifies that Council has borrowed responsibly and in line with the growth rate of Council's ability to pay for these borrowings.

When compared with the average for Group 10 (the group GISC is ranked amongst by the OLG), TCORP indicates that Council is well below the average for its Debt Service Ratio; therefore GISC is well placed in comparison (Refer to Figure 19 on page 28 of Annexure B). This ratio is, however, relative. Realistically, no borrowing ratio is 'good' unless the net result of those borrowings provides a valuable and affordable asset needed by the community. The table below summarises Council's borrowings since amalgamation:

Purpose of Loan	Interest Rate	Amount $
Library/ Learning Centre Loan	7.35%	530,000
Subsidised Sewerage Treatment Works	6.51%	2,715,000
Land Acquisition – Water Storage	7.69%	2,800,000
LIRS Loan – Accelerated Road Works Program	1.32% (5.32%) 4% subsidy	1,000,000
LIRS Loan – CBD Infrastructure Upgrade	1.46% (5.46%) 4% subsidy	1,800,000
Business Acquisition - Quarry	7.69%	1,050,000

Council has received a significant number of assets for the loan funding incurred. Based on the Graphs (2.1, 2.2 and 2.3) it is clear that these borrowings have been made affordably. The loan funding in respect of the 'Business Acquisition – Quarry' went hand in hand with the purchase of the future water storage site.

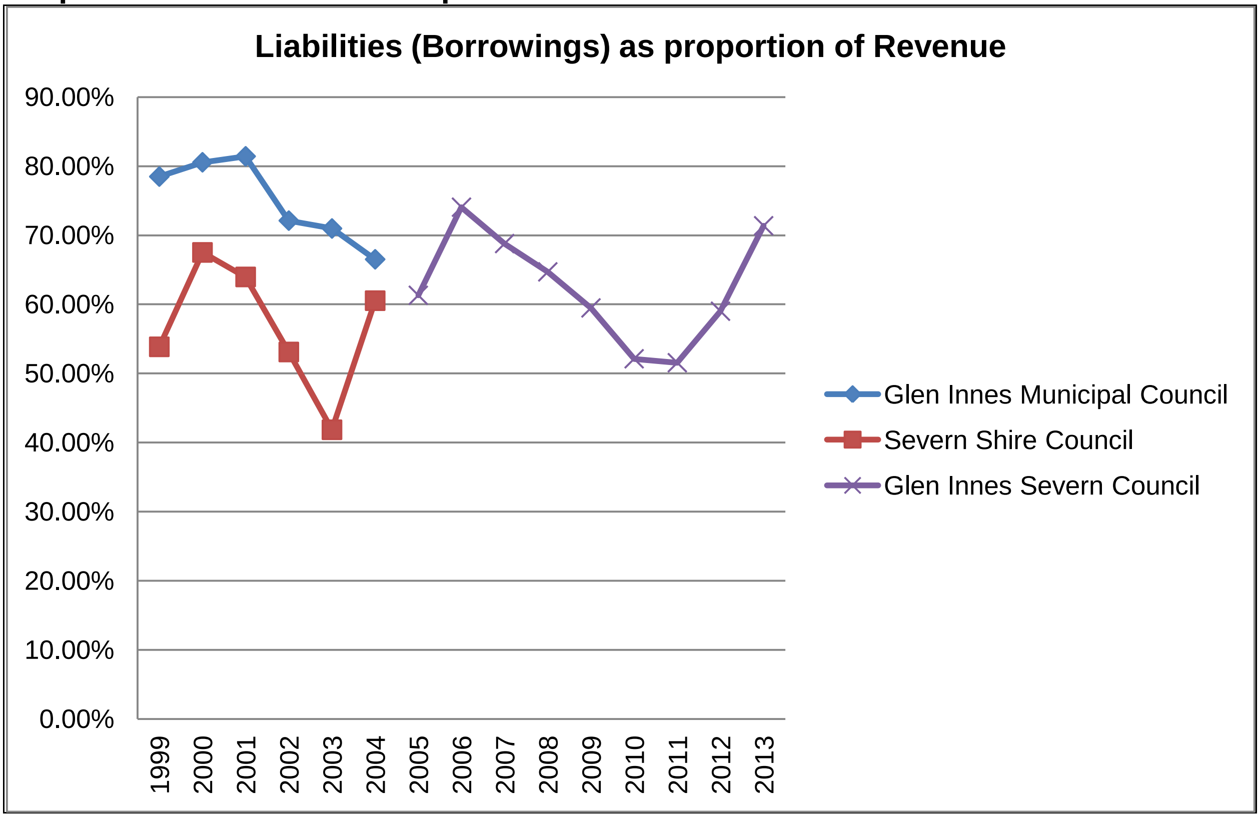
Graph 2.2 Affordability of Borrowings:



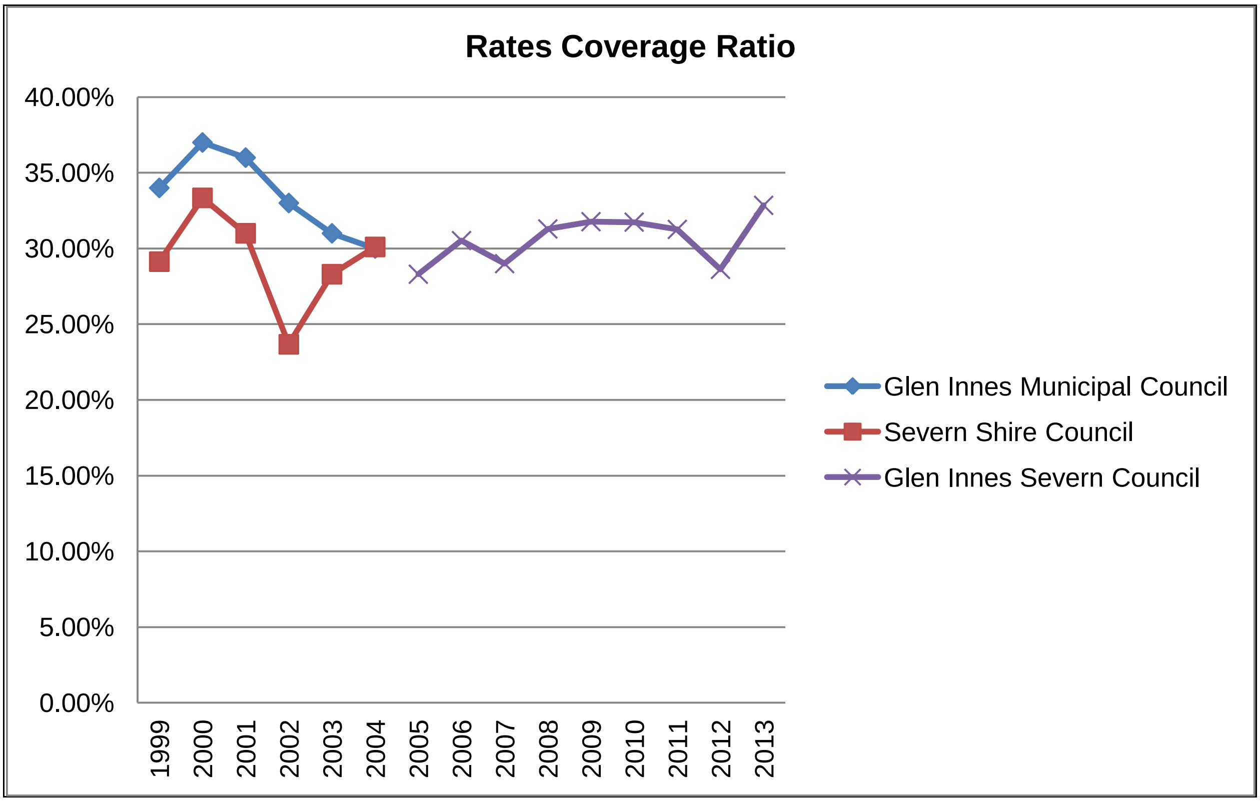
Based on the comparison in Graph 2.2 above, it is clear that GISC has taken the middle ground in respect of borrowing and borrowing costs, with borrowing costs as a proportion of total revenue remaining reasonable static during the period from 2005 to 2013. This can be compared with the lower borrowing cost percentage of the SSC (combined with lower asset expenditure) and a higher borrowing cost percentage of GIMC (combined once again with lower asset expenditure).

A further indicator on the next page (Graph 2.3) indicates that the increase in total liabilities as a proportion of revenue has been reasonably static, and comparable with both the GIMC and SSC. Therefore, the growth in borrowings post amalgamation has been in line with the growth in overall revenue of Council.

Graph 2.3 Liabilities as a Proportion of Revenue:

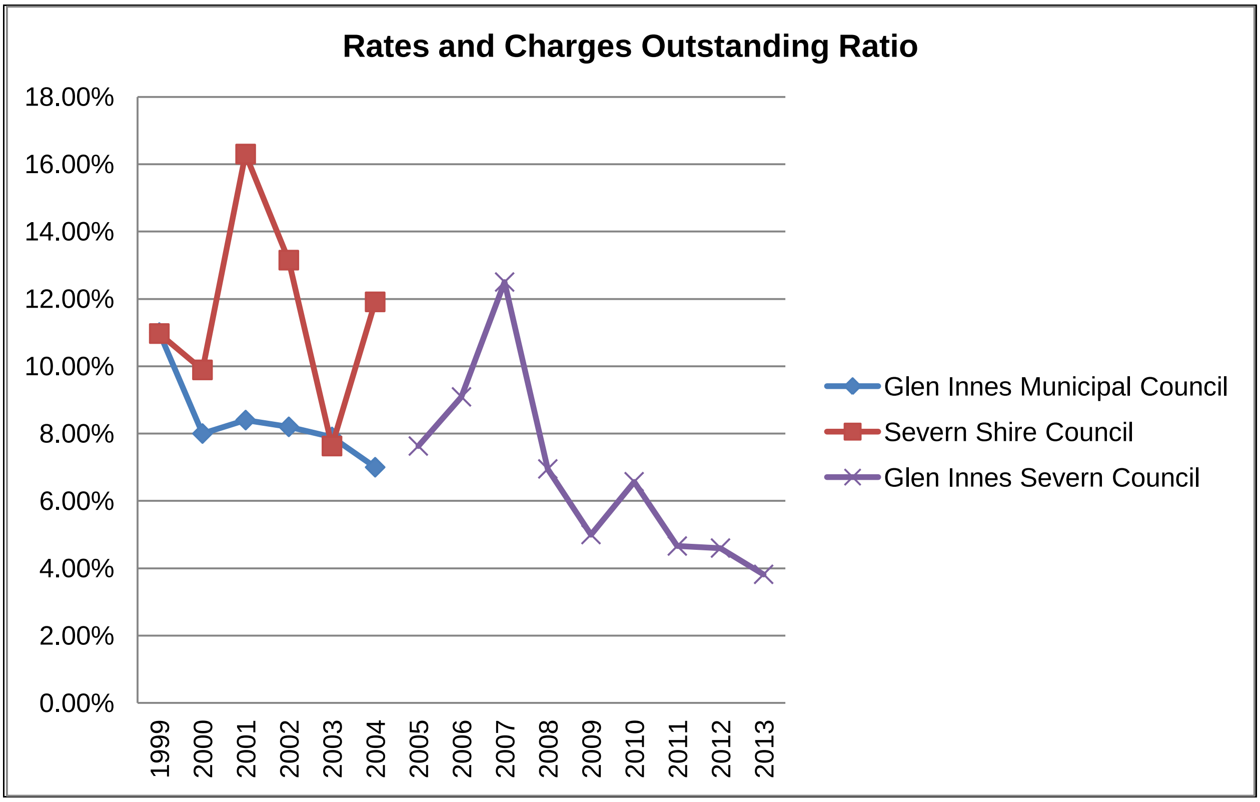


Graph 3.1 Rates Coverage Ratio:



The Rates Coverage Ratio, shown above for GISC, is very similar to the two (2) prior Councils. All indicate that as a proportion of total expenditure, rates and annual charges comprise a relatively small proportion of revenue. This ratio is indicative of the need to raise rates and annual charges. A similar ratio comparison with neighbouring Councils can be seen in the TCORP report Figure 16 – Own Source Operating Revenue Ratio Comparison (Annexure B, page 26).

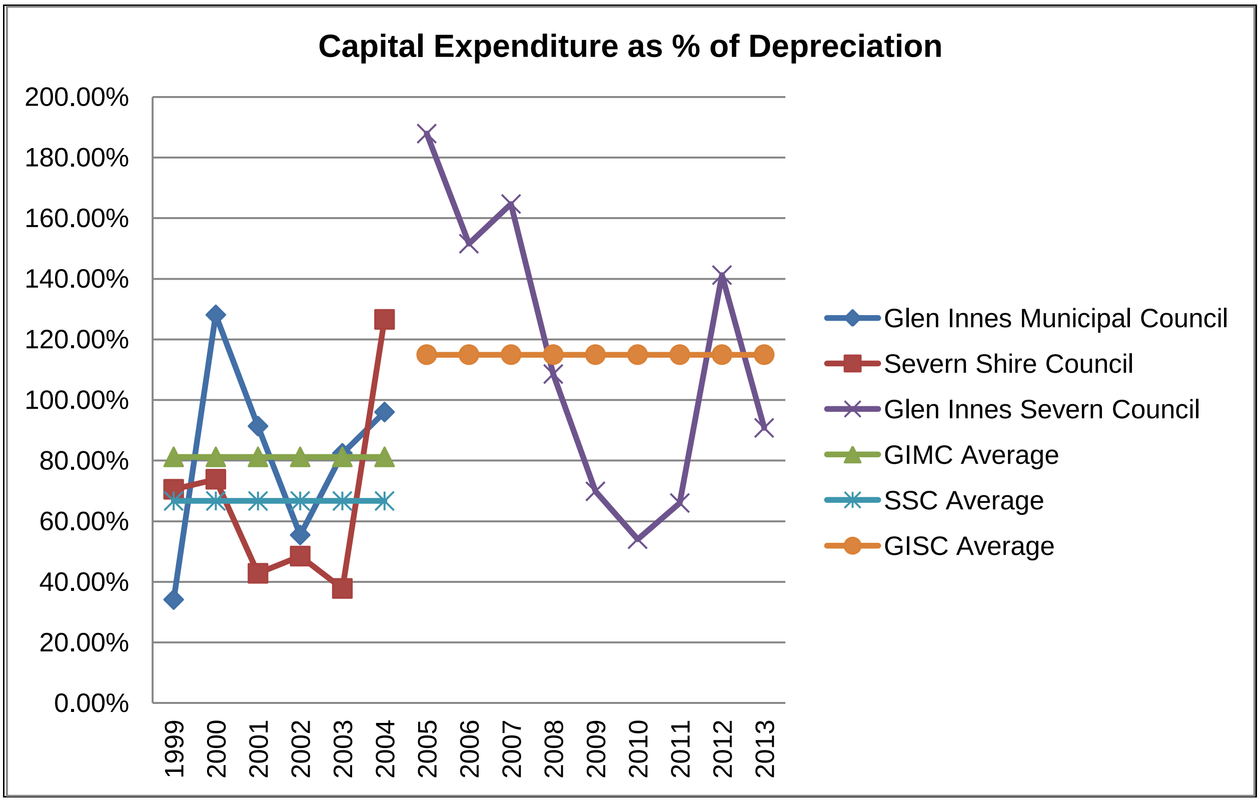
Graph 4.1 Rates and Charges Outstanding Ratio:



The Rates and Charges Outstanding Ratio indicates that GISC has successfully put a lot of work and emphasis on ensuring that outstanding rates and charges are maintained at a healthy level. The trend in Graph 4.1 above is impressive, with a significant reduction in outstanding monies over the last six (6) years. The ratio of below 4% should be compared with a ratio of above 16% in 2001. This ratio, combined with the difficult economic times, suggests that GISC is operating effectively in this regard.

This ratio also suggests that financial management (specifically debt recovery) procedures have improved.

Graph 5.1 Capital Expenditure as a Proportion of Depreciation:



Graph 5.1 indicates that the GISC has been spending significantly more on capital works as a proportion of depreciation when compared with the SSC and GIMC.

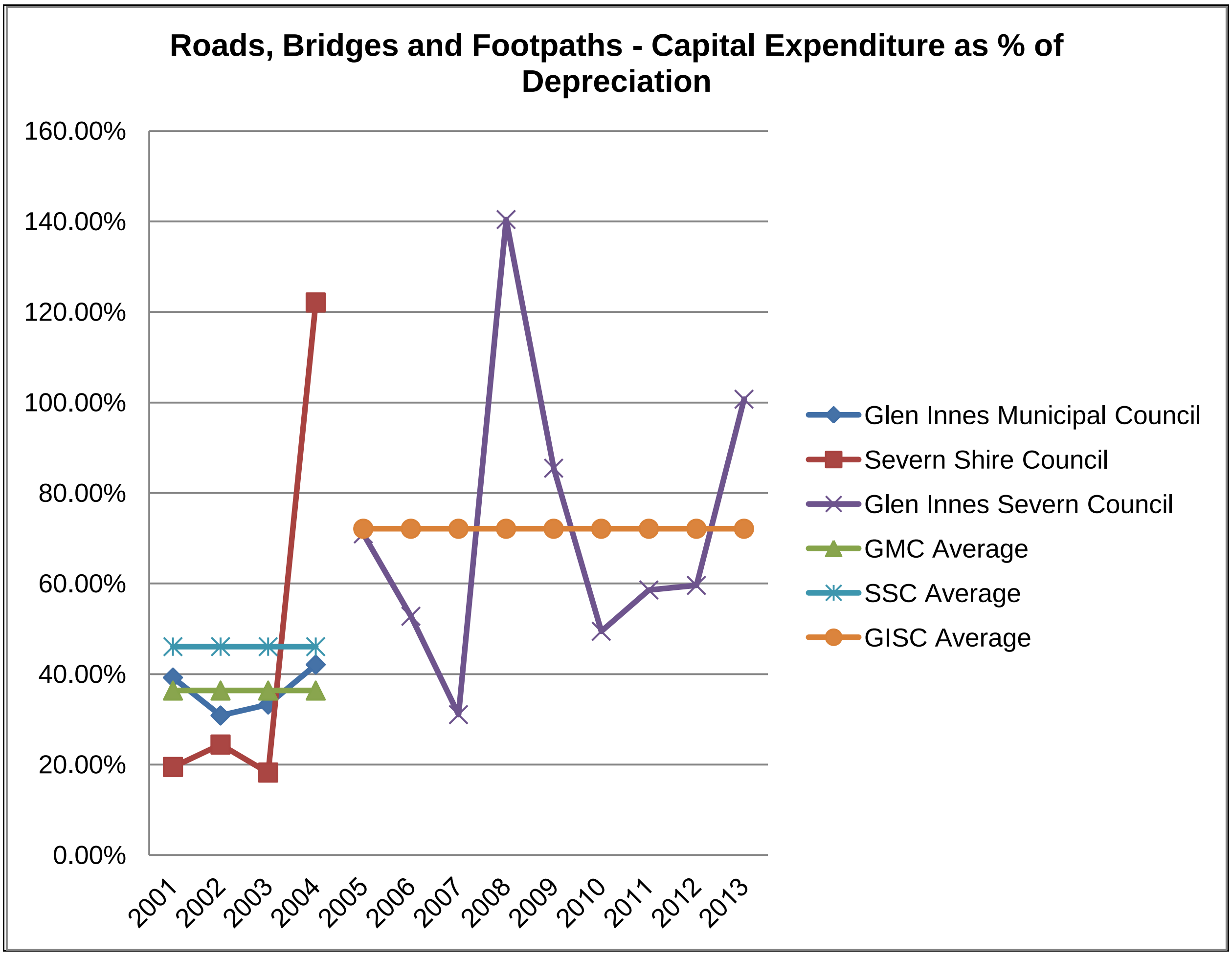
As the comparison uses capital expenditure as a proportion of depreciation, the ratios are not time sensitive (therefore the time value of money can be ignored). This indicates that GISC has increased total capital expenditure well above the average spent before amalgamation. A good proportion of this expenditure is represented by large projects, which were loan funded. As indicated above, this loan funding has been taken directly in proportion to the increase in the revenue of GISC.

A further method of comparison would be to equate capital expenditure as a proportion of total revenue. On this basis, the following can be identified:

Council	Capital Expenditure as a proportion of Total Revenue (Average)	Years measured
SSC + GIMC	18.15%	1999 to 2004
GISC	22.26%	2005 to 2013
Variance	**4.11%**	

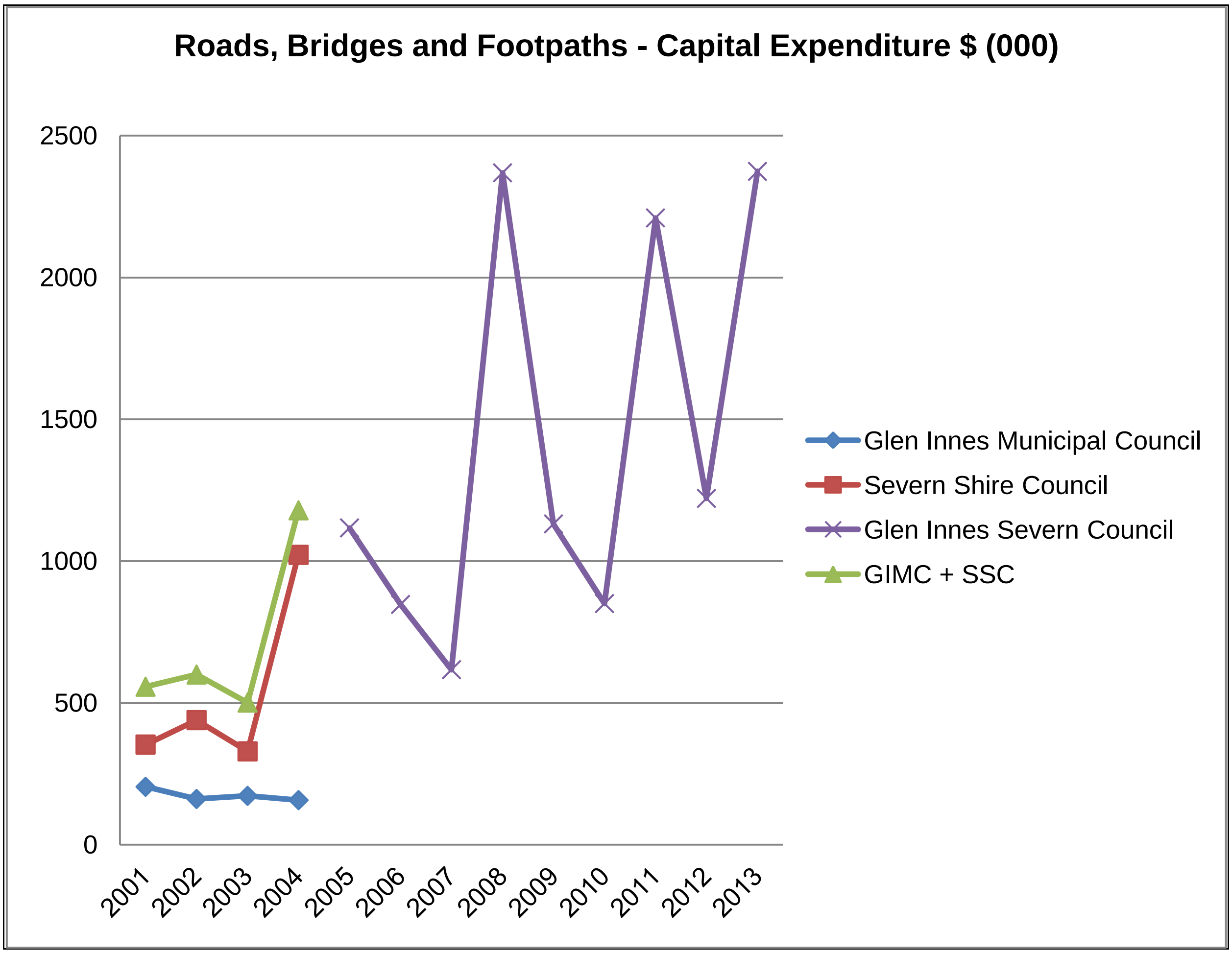
To put this variance into context based on the total revenue of GISC that is in the order of $24 million per annum, this equates to an annual variance of $986,400 on capital expenditure.

Graph 5.2 Capital Expenditure on Roads, Bridges and Footpaths as a Proportion of Depreciation (on those assets):



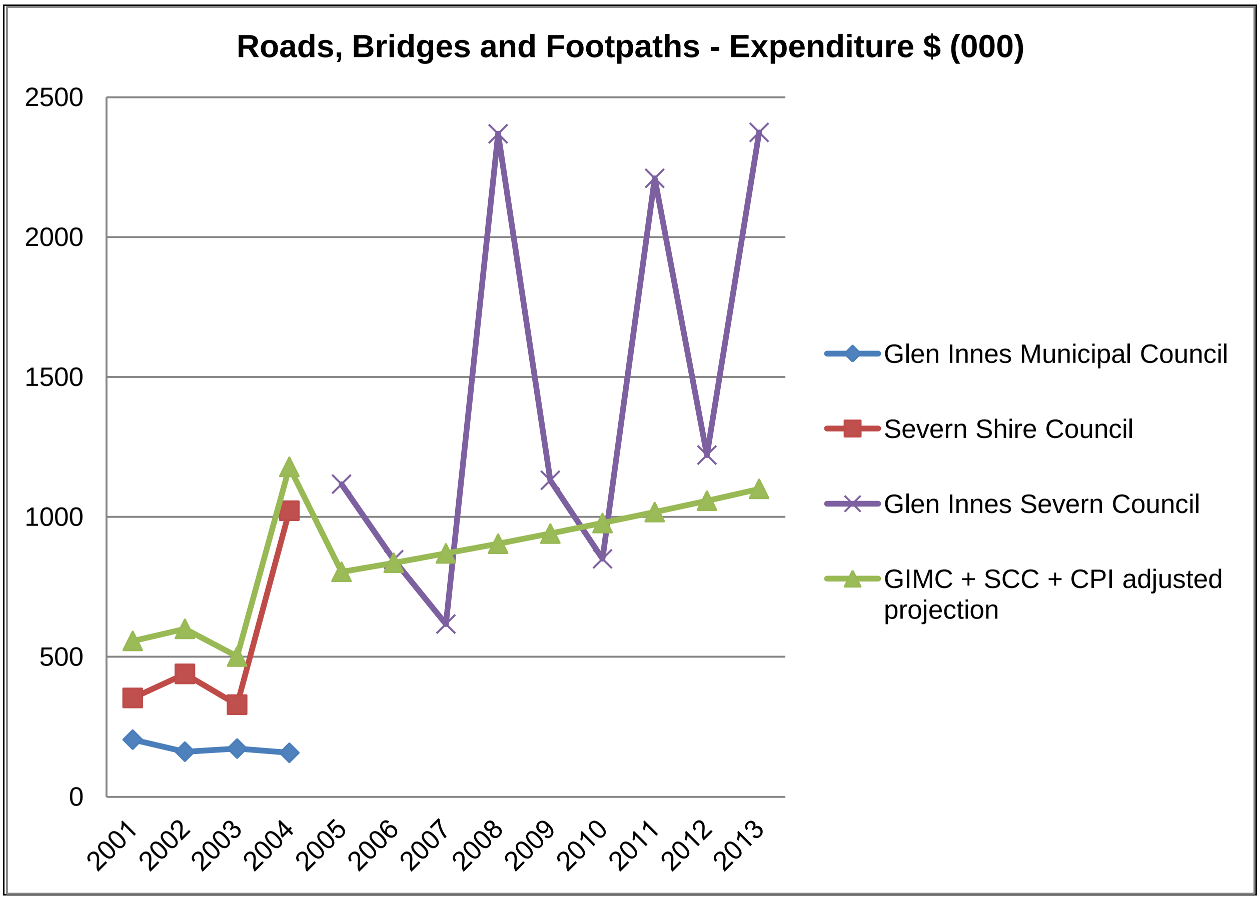
Similar to Graph 5.1 above, Graph 5.2 indicates that Council's capital expenditure on roads has improved significantly as a proportion of its depreciation. As a proportion comparison is used, the percentages in this graph are not cumulative. It therefore shows that GISC has been spending more on roads, bridges and footpaths than the SSC and GMC combined (as a proportion of depreciation).

Graph 5.3 Capital Expenditure on Roads, Bridges and Footpaths in $(000):



Based on Graph 5.2 above on the previous page, the suggestion could be made that Council has simply decreased the amount of depreciation and therefore improved its ratios. This is not correct. In Graph 5.3 above, the dollar value of capital works on roads, bridges and footpaths is indicated. This suggests that there has been a steady increase in works on roads, bridges and footpaths from a combined total of $557,000 in 2001, to a total of almost $2.374 million in 2013.

Graph 5.4 Capital Expenditure on Roads, Bridges and Footpaths in $(000) plus CPI projection for SSC and GIMC combined:



The Graph above indicates a Consumer Price Index (CPI) adjusted average for the four (4) years prior to amalgamation projected out at a CPI increase of 4%. (This was calculated by taking each year's combined road works for SSC and GIMC and adjusting it to a Net Present Value (NPV) with a discount rate of 4% in 2005, then averaging).

A further method of comparison would be to equate capital expenditure on roads as a proportion of total revenue. On this basis, the following can be identified:

Council	Capital Expenditure on Roads, Bridges and Footpaths as a proportion of Total Revenue (Average)	Years measured
SSC + GIMC	4.72%	2001, 2002, 2003 and 2004
GISC	6.87%	2005 to 2013
Variance	**2.15%**	

To put this variance into context, based on the total revenue of Council in the order of $24 million per annum, this would equate to an annual increase of $516,000 on roads, bridges and footpaths alone.

Summary of Ratios and Financial Indicators:

The financial indicators and Key Performance Indicators (KPIs) have improved considerably from pre-amalgamation in 1999 to 2013. These indicators, along with the independent review by TCORP in March 2013, confirm that GISC has been managed effectively.

Particular emphasis should be placed on the additional capital expenditure (Graph 5.1 to 5.3), combined with an improvement in financial ratios (Graph 1.1, 1.2, 1.3, 3.1 and 4.1), and planning for the future through responsible borrowing (Graph 2.1, 2.2 and 2.3).

Should an SRV application have been completed earlier?

This is a complex issue, requiring a good understanding of how Local Government in NSW works, and how the IP&R framework has been implemented.

Further matters that need to be understood are how Council receives grants and how the Grant Commission operates.

Important dates and events that have influenced the decision-making process associated with the SRV-application are as follows:

- The amalgamation of the former GIMC and SSC in the 2004/05 financial year;
- The Building and Infrastructure Renewal Ratio (B&IRR) was introduced as a KPI as part of the Audited Financial Statements for 30 June 2008;
- 30 June 2010 – CSP and DP (Group 1) implementation;
- 30 June 2011 – CSP and DP Group 2 implementation. Council volunteered to be in Group 2, one year ahead of requirements (Council was placed in Group 3);
- 30 June 2012 – CSP and DP Group 3 implementation;
- 23 June 2011 – Council adopted the original LTFP, AMPs, DP, OP, Workforce Plan (WP), CSP and Community Engagement Strategy (CES). (It should be noted that the LTFP included projected additional grant revenues (R2R 50% increase and FAG (roads component) $700,000 increase);
- 30 June 2011 – Revaluation of NSW Councils' assets to market value or replacement cost completed;
- 28 June 2012 – First review of Council's LTFP with the assumption that significant additional grant funding would be received – based on advice received from the Federal Government. This plan primarily dealt with the affordability of the *status quo* plus large capital works programs (e.g. swimming pool upgrade) that were identified by the community as part of the CSP consultation;
- 21 March 2013 – Independent assessment of Council finances by TCORP in respect of the LIRS loan. This report established the TCORP benchmarks by which Councils will need to report into the future;

- April 2013 – Council report adopting original 2013/14 OP (and budget) includes mention of SRV and need to investigate SRV (to meet TCORP benchmarks);
- 21 October 2013 – Meeting with the Grants Commission (GC) of NSW (who distribute the NSW portion of the FAGS). Council was advised that grant increases were unlikely and that it suggested GISC consider alternative funding sources, particularly using the LIRS subsidy and applying for an SRV;
- 8 November 2013 – Senior staff meeting with IPART to discuss the possibility of an SRV application;
- November 2013 – Revised LTFP prepared with no grant increases based on the advice received, and a Councillor Workshop held to discuss the effects;
- November 2013 – Council adopted a revised LTFP, Scenario 5 which included an SRV;
- December 2013 – revised AMP (Transport) and DP prepared to include possible SRV;
- December 2013 – Council lodged an application for $4 million in LIRS loan funding;
- January 2014 – Community Consultation Forums were held to discuss the LTFP and SRV;
- 20 February 2014 – An Extraordinary Council Meeting was held approving LTFP including SRV; and
- 24 February 2014 – An Application was lodged with IPART for SRV approval.

Prior to 2008, the building and infrastructure renewal ratio was not included as a key ratio in respect of Council's operations. Even after 2008, up to 2011, including the completion of the first integrated AMPs, no emphasis was placed on this indicator nor was there any direct correlation with financial planning for the majority of councils in NSW. The primary reason for this scenario was the fact that local councils had not yet valued all their assets at market value (or in the case of certain assets without an active market such as roads, at replacement cost). Therefore, no true estimate existed of the actual required capital works per annum.

The incorporation of this revaluation into Council's Financial Statements was only completed in June 2011 (DLG Circular to Councils – 12-09). Therefore, only after this point in time did Council receive a first draft of revaluations for all its assets, which gave a better idea of what should be spent per annum. On review of GISC Financial Statements (particularly for the 2010/2011 financial year) it is clear that reviews of depreciation and service levels resulted in (often material) changes in Council's operating position.

The introduction of the IP&RF, including the AMPs and the LTFP, was the first real push to integrate this planning and ensure that Council could afford to maintain its asset base, as well as the lifecycle cost of the asset base it had created. The IP&RF had not fully considered this and had not provided any benchmarks that had to be met. The main focus of the industry was therefore to meet goals set by the community in the CSP (such as upgraded Swimming Pools and the like).

At this time no specific emphasis was placed on the need to meet the TCORP benchmarks for Local Government, primarily as these were only 'released' or perhaps more accurately emphasised after the TCORP review in March 2013. Therefore, the first real overall consideration of the need to meet the new TCORP benchmarks was in March 2013. At this point, and in the same review, <u>TCORP noted that the increases in Council's Grant revenue were reasonable and therefore Council staff believed the LTFP did not need immediate review.</u>

Subsequently, in the preparation of the annual OP during March/April, it had been identified that additional savings and revenue increases would need to be made to improve GISC's operating position and asset management ratios. This triggered the introduction of the drainage charge, the decrease in the number of vehicles in Council's light fleet, sale of properties etc, which were identified and discussed in the OP report.

Moreover, in the OP and the previous LTFP, additional borrowings were identified to boost capital spending (i.e. the accelerated roads project which would equate to $1 million in borrowings for roads every second year). These were identified in the LTFP reviewed by TCORP, who noted that the borrowings were affordable and that Council could borrow an additional $4.8 million on top of that identified in the LTFP.

The OP report also identified the possibility of a smaller SRV of around $350,000 – primarily to boost asset spending combined with the grant increases expected at that time. However, in March 2013 it was too late to consider a SRV for the 2013/14 financial year.

There are significant additional factors which influenced the importance of various steps in the process. In particular, reports from the NSW Independent Local Government Review Panel (ILGRP) have played a significant role in pushing GISC and its staff to focus on the TCORP benchmarks (and financial sustainability in general) and the need to raise additional revenue, and therefore to apply for an SRV.

Based on the timeline and the overwhelming perception amongst rural councils that increases in the FAG roads component and the R2R grant were likely (which was confirmed to be reasonable by TCORP in March 2013) and then the advice from the GC in October 2013 that local councils were not going to receive an increase, it is clear that this was the first significant trigger for an SRV to be pursued (to make up the grant funding).

The possibility of not increasing grants had been considered by Council as part of the original budget. However, the aforementioned comment by TCORP served to stem these concerns. Therefore, GISC and GISC staff have acted very quickly thereafter to initiate and pursue the application for an SRV. In earlier years (2011 and 2012) Council was not in the position to accurately identify the true cost of its assets, and even if it were, there were clear indications that additional grant funding would offset a good portion of this additional spending.

As a result of the implementation of the IP&RF, Council has acted responsibly in:

a. Waiting until an accurate indication of required capital expenditure was prepared;
b. Attempting to source additional grant revenue rather than an SRV to fund this additional expenditure; and
c. Implementing cost savings and other revenue increases where appropriate.

The question of whether GISC acted responsibly with the information and resources available to it for the period from 2005 to 2011, specifically in respect of its capital expenditure, can be addressed with a comparison of Graphs 5.1, 5.2, 5.3 and 5.4 above. These aforementioned graphs suggest that GISC increased capital expenditure as a proportion of depreciation well above that of the combined pre-amalgamation councils. The dollar value of capital expenditure has also grown well above CPI. Therefore GISC has managed its assets responsibly, given its tight financial situation.

Should GISC have done even more than this? Should it have spent more of its cash reserves rather than improving its liquidity?

It may be argued that GISC could have marginally increased its capital expenditure at the expense of building cash reserves. However, the strategy implemented by GISC has now brought its liquidity up to the average for its group. Further, building up a cash reserve is a good financial strategy where Council is not in the position to spend enough to fully maintain assets, or where Council in the past has not spent enough. The idea is that a cash reserve acts as insurance for the breakdown of a bridge or the need for significant capital works (which unless they are funded through Natural Disaster Funding (NDF) will not generally be insured). The adopted strategy confirms that GISC has acted appropriately in this regard, and without additional revenue or an SRV, should not have spent more than it had.

In respect of whether the cash reserves should be deemed to be reasonable, once one excludes the significant amounts held as restrictions (approximately $11 million) it leaves $2 million available as working capital. Council spends around $25 million per annum. This means that $2 million is actually less than one (1) month’s working capital. Therefore, when put into context, the increase in unrestricted cash reserves should be viewed as reasonable.

CONCLUSION

Based on the financial indicators presented within this report and the sequence of events since amalgamation up to the application for a Special Rate Variation (SRV), it can be clearly identified that Council has been well managed in respect of its finances and has improved in respect of its asset management (which has been limited by insufficient funding).

Specific improvements since amalgamation include an improved operating position, an improved quantum of capital expenditure expressed both as a dollar amount and as a percentage of depreciation, rates and charges outstanding have reduced significantly, the unrestricted current ratio has improved significantly, and borrowings have been made responsibly.

The timeline discussed in the body of the report demonstrates that in respect of applying for a SRV, Council was only really in the position to responsibly start the application process for a SRV in the 2013/14 Financial Year.

Council has been spending more on assets since amalgamation and Council has been justified in applying for an SRV to ensure that asset spending can improve further.

Industry recognised financial indicators show that Council has improved after amalgamation, with some of these indicators also showing an improvement in internal financial processes (such as the Rates and Charges Outstanding Ratio).

It could therefore be reasonably concluded that GISC has been managed well since the amalgamation of the former GIMC and SSC in 2004. Further, Council has acted responsibly and appropriately in not pursuing an SRV earlier than in the 2013/14-Financial Year.

Acknowledgement:

The above report has largely been based on a report that was prepared by Council's Director of Corporate and Community Services, Anna Watt, and Council's Manager of Finance, Eric Brown, for the Ordinary Council Meeting that was held on 27 March 2014.

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