A brief analysis of the Annual Financial Statements 2017/18

Introduction
Warrumbungle Shire Council (WSC) recorded a Surplus on the Net Operating Result for the financial year 2017/18 of $1.9 million.

The result, net of Capital Grants however, was a deficit of $4.4 million and compares with a surplus of $265,000 in the previous year. The adverse turnaround in 2017/18 was mainly as a consequence of additional Financial Assistance Grant instalments received in advance ($2.6 million). Other contributing factors to the deterioration in the financial result included the following:-

- Increased employee benefits and costs $1.1 million
- Increased depreciation, amortisation and impairment $1.3 million

Income Statement
Analysis of Income – 2017/18

Total Income from continuing operations in 2017/18, reduced by $458,000 from the previous year, with increased capital grants $1.9 million in part offsetting the reduction of operating grants of $2.6 million previously referred to. The total actual income for the year was $5.3 million greater than the adopted budget with material variations in user charges for RMS ordered works $1.1 million and capital grants for water and sporting facilities $4.2 million.

Analysis of Expenditure – 2017/18

Total Expenditure was $2.3 million higher than the previous year and $6 million over budget. There were material unfavourable variances for the following:-

- **Employee benefits and on-costs**
  Employee costs in 2017/18 were $1.1 million greater than the previous year and budget.

- **Materials and Contracts**
  Higher expenditure on capital projects and repairs and maintenance were the main reasons for increased expenditure of $1.9 million compared with budget.

- **Depreciation and Amortisation**
  Increased expenditure on Roads and Buildings and new asset purchases contributed to the increased depreciation charges incurred in 2017/18 compared with the previous year and budget of $1.3 million and $1 million respectively.

Statement of Financial Position
Net Worth of the organisation (Equity) has decreased by $3.9 million largely a consequence of the net loss on revaluation of buildings.

Cash Balance deteriorated from $18.3 million @ 30 June 2017 to $17.0 million @ 30 June 2018.

Liquidity of Council deteriorated by $128,000 during the year. At the close of the year the Available Working Capital of Council stood at $5.744 million as detailed below;

	2018	2017	Change
	$'000	$'000	$'000
Net Current Assets (Working Capital) as per Accounts	**16,531**	**17,153**	(622)
Add: Payables & provisions not expected to be realised in the next 12 months included above	3,128	3,099	29
Adjusted Net Current Assets	19,659	20,252	(593)
Add: Budgeted & expected to pay in the next 12 months			
- Borrowings	867	827	40
- Employees leave entitlements	1,347	1,480	(133)
- Deposits & retention moneys	313	382	(69)
Less: Externally restricted assets	(9,132)	(9,047)	(85)
Less: Internally restricted assets	(7,310)	(8,278)	968
Available Working Capital as at 30 June	**5,744**	**5,616**	**128**

The balance of Available Working Capital should be at a level to manage Council's day to day operations including the financing of hard core debtors, stores and to provide a buffer against unforeseen and unbudgeted expenditures. Taking into consideration the nature and level of the internally restricted assets (Reserves) set aside to fund future works and services and liabilities, Council's Available Working Capital at year end appears adequate.

Cash Expense Coverage Ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months. Council will be able to meet its immediate expenses for more than five months without additional cash inflows.

However, if this ratio is applied to only "Unrestricted funds", the ratio reduces to less than 2 months.

Rates and Annual Charges Outstanding Ratio assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.

Net rates and annual charges levied during the year totalled $12.076 million and represented 30% of Council's total revenues. Including arrears, the total rates and annual charges collectible was $12.953 million of which $12.009 million (92.71%) was collected.

Arrears of rates, annual and extra charges stood at $1.157 million at the end of the year and represented 8.69% of those receivables.

Debt Service Cover Ratio measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times. Council exceeded the benchmark.

The debt service costs of $1.105 million consumed 3.79% of Council's adjusted operating revenue and has remained constant over the last three years.

Summary

Whilst the Net Operating Result for the year is positive, the result before the receipt of capital grants moved to a deficit and indicates some fundamental aspects that need to be addressed to ensure the ongoing sustainability. Most of these relate to budget monitoring and reporting, including recommendations for remedial action required.

- The Net Operating Result prior to Capital Grant income must be positive and generate a reasonable income to channel towards the capital works program and/or any new initiatives and improvements to services that Council may desire to introduce and implement.

- Steps may need to be taken to introduce measures to reduce and manage operating expenditure, since operating income is insufficient to fund the current levels.

- Increasing income does not appear to be a reasonable option, e.g. an increase to Rates is restricted.

- Generation and management of Unrestricted Cash is an imperative in the years ahead. As a short term measure, until improvements and efficiencies in operations flow through to the bottom line, there may be a need to review of “Internal Restrictions”.

- Since there are few opportunities to improve the Balance Sheet of Council, there is a need to identify new avenues of income to generate additional unrestricted cash. Some of the possibilities could include rationalisation of fixed assets, re-evaluating the use of council properties etc.