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Our ref: D2026191/1724

16 November 2020

Dear Mayor

**Report on the Conduct of the Audit  
for the year ended 30 June 2020  
Federation Council**

I have audited the general purpose financial statements (GPFS) of the Federation Council (the Council) for the year ended 30 June 2020 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2020 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

## **INCOME STATEMENT**

### **Operating result**

	<b>2020</b>	<b>2019</b>	<b>Variance</b>
	<b>\$m</b>	<b>\$m</b>	<b>%</b>
Rates and annual charges revenue	14.7	14.1	↑ 4.3
Grants and contributions revenue	25.1	22.8	↑ 10.1
Operating result from continuing operations	(0.9)	0.3	↓ 400.0
Net operating result before capital grants and contributions	(9.7)	(5.7)	↓ 70.2

The Council’s operating result from continuing operations of -\$0.9 million (including depreciation and amortisation expense of \$11.1 million) was \$1.2 million lower than the 2018–19 result. This was primarily due to an increase in employee benefits and on-costs and depreciation and amortisation expense.

The net operating result before capital grants and contributions (-\$9.7 million) was \$4.0 million lower than the 2018–19 result. This was primarily due to an increase in employee benefits and on-costs and depreciation and amortisation expense.

Rates and annual charges revenue (\$14.7 million) increased by \$0.6 million (4.3 per cent) in 2019–20 due to:

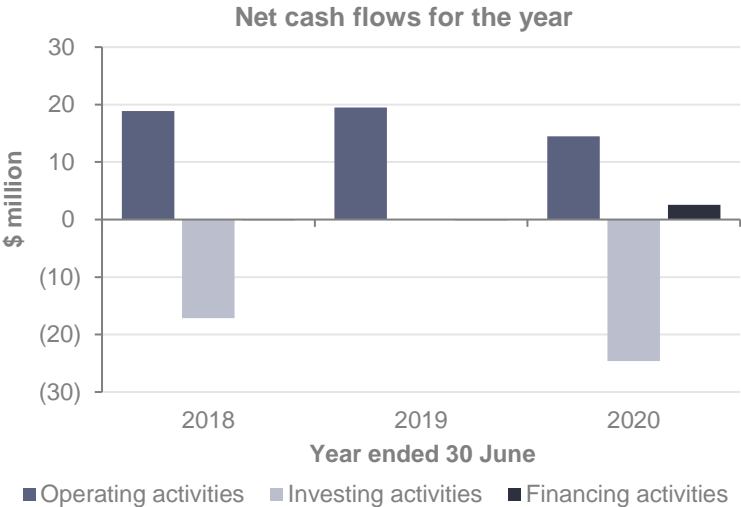
- the IPART rate peg, which increased general rates revenue by 2.7 per cent in 2019-20; and
- A 0.9 per cent increase in the number of assessments issued in 2019-20.

Grants and contributions revenue (\$25.1 million) increased by \$2.3 million (10.1 per cent) in 2019–20 due to:

- \$3.7 million of 2019–20 financial assistance grants received in 2018–19.
- \$4.0 million of grants received for roads and bridges projects.
- \$2.3 million of grants received for community projects.

## STATEMENT OF CASH FLOWS

- Council’s cash and cash equivalents was \$15.59 million (\$23.12 million for the year ended 30 June 2019). There was a net decrease in cash and cash equivalents of \$7.53 million at 30 June 2020.
- Net cash provided by operating activities has decreased by \$5.03 million. This is primarily due to increased payments for employee benefits and on-costs and materials and contracts of \$4.15 million.
- Net cash used in investing activities has increased by \$24.56 million. This is primarily due to decreased net receipts from the sale of investments of \$22.2 million and increased payments for infrastructure, property, plant and equipment of \$4 million.
- Net cash provided by financing activities has increased by \$2.69 million. This is primarily due to proceeds from additional borrowings of \$2.7 million.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	21.0	28.6	<ul style="list-style-type: none"><li>Externally restricted cash and investments are restricted in their use by externally imposed requirements. The decrease of \$7.6 million is primarily due to a decrease in specific purpose unexpended grants of \$8.6 million, offset by an increase in sewerage service funds of \$1.4 million.</li><li>Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The decrease of \$3.0 million is primarily due to a decrease in the plant and vehicle replacement reserve of \$0.8 million to reduction on the reserve for the waste deposit restoration.</li><li>Unrestricted cash and investments was \$1.9 million, which is available to provide liquidity for day-to-day operations of the Council.</li></ul>
Internal restrictions	6.5	9.5	
Unrestricted	1.9	0.5	
<b>Cash and investments</b>	<b>29.4</b>	<b>38.6</b>	

### Debt

Council has \$6.5 million of external borrowings (2019: \$3.9 million) which is secured over the revenue of Council.

Council has a \$0.4 million bank overdraft facility (2019: \$0.4 million) which was undrawn as at 30 June 2020.

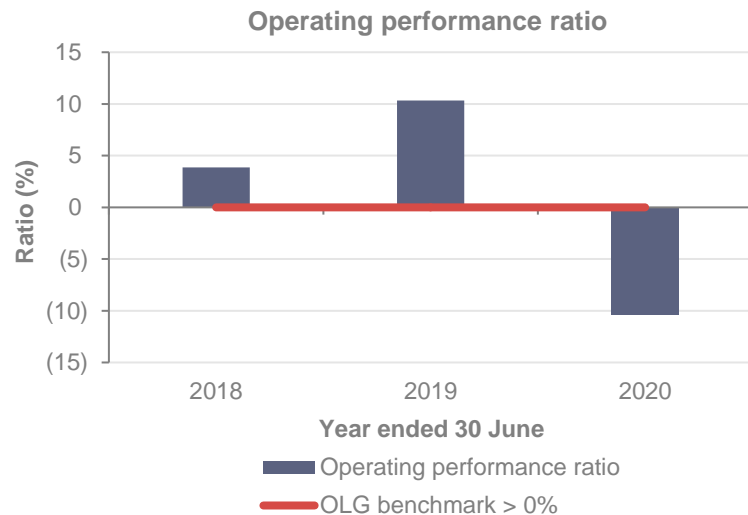
# PERFORMANCE

## Performance measures

The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

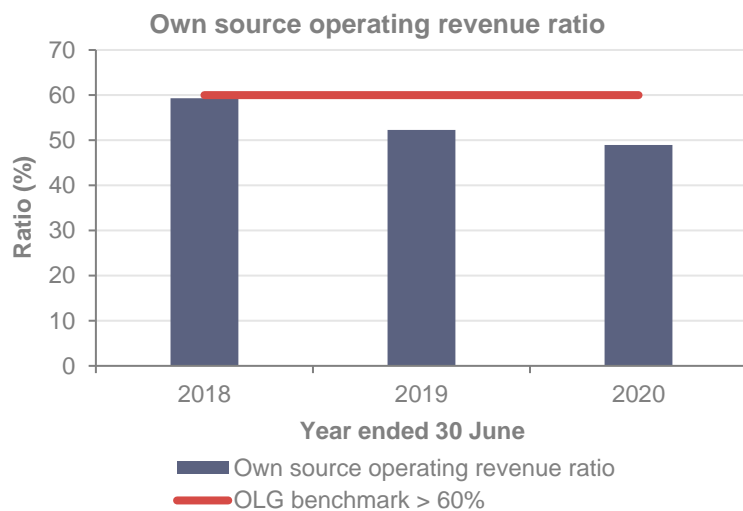
### Operating performance ratio

- The 'operating performance ratio' measures how well Council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.
- The operating performance ratio of (10.35%) did not meet the OLG benchmark for the current reporting period.
- The operating performance ratio decreased to (10.35%) (2019: 10.33%) primarily due to increased employee benefits and on-costs and materials and contracts expenses.



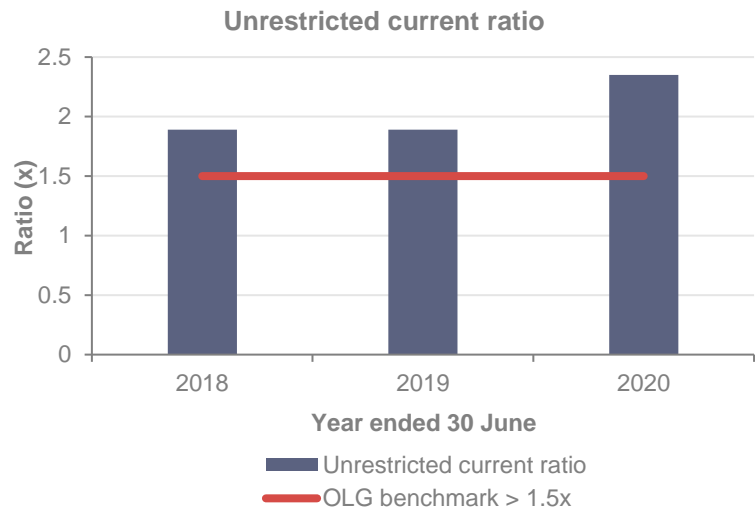
### Own source operating revenue ratio

- The 'own source operating revenue ratio' measures Council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.
- The Council did not meet the OLG benchmark for the current reporting period.
- The own source operating revenue ratio decreased to 48.95% (2019: 52.29%) primarily due to decreased user charges and fees and interest and investment income.



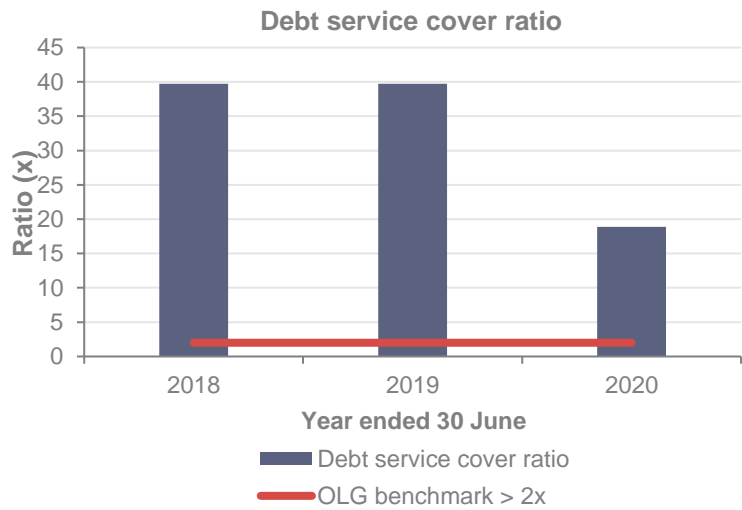
### Unrestricted current ratio

- The 'unrestricted current ratio' is specific to local government and represents Council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.
- The Council exceeded the OLG benchmark for the current reporting period.
- The Council's unrestricted current ratio has improved slightly on the prior year primarily due to decreased specific purpose unexpended grants and plant and vehicle replacement restrictions.



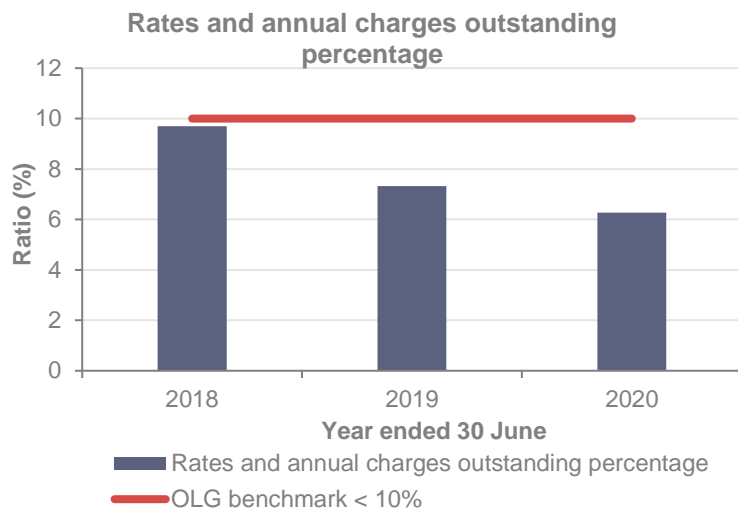
### Debt service cover ratio

- The '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.
- The Council exceeded the OLG benchmark for the current reporting period.
- The debt service cover ratio decreased to 18.87 (2019: 39.74) primarily due to new borrowings which were drawn down during the year.



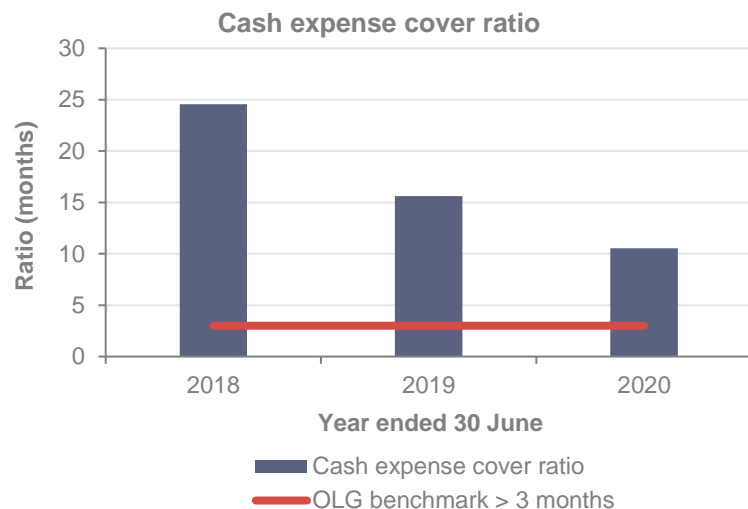
### Rates and annual charges outstanding percentage

- The 'rates and annual charges outstanding percentage' 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.
- The Council exceeded the OLG benchmark for the current reporting period.
- The rates and annual charges outstanding percentage decreased to 6.27% (2019: 7.32%) primarily due to Council's practices in ensuring outstanding rates and annual charges debts are recovered timely.



### Cash expense cover ratio

- This liquidity 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.
- The Council exceeded the OLG benchmark for the current reporting period with a result of 10.55 months.
- The cash expense cover ratio decreased to 10.55 months (2019: 15.60 months) primarily due to Council holding less cash and cash equivalents at 30 June 2020.



### Infrastructure, property, plant and equipment renewals

The Council renewed \$18.82 million of assets in the 2019-20 financial year, compared to \$23.10 million of assets in the 2018-19 year. The decrease is primarily due to \$2.72 million fewer roads renewals and \$0.88 million fewer water supply network renewals.

## OTHER MATTERS

### Impact of new accounting standards

#### **AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income for Not-for-Profit Entities'**

The Council adopted the new accounting standards AASB 15 'Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' (collectively referred to as the Revenue Standards) for the first time in their 2019–20 financial statements.

AASB 15 introduces a new approach to recognising revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. AASB 15 impacts the timing and amount of revenue recorded in a councils' financial statements, particularly for grant revenue. AASB 15 also increases the amount of disclosures required.

AASB 1058 prescribes how not-for-profit entities account for transactions conducted on non-commercial terms and the receipt of volunteer services. AASB 1058 significantly impacts the timing and amount of income recorded in a councils' financial statements, particularly for grant income and rates which are paid before the commencement of the rating period.

The Council did not recognise an adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the new Revenue Standards in Note 1 (e).

#### **AASB 16 'Leases'**

The Council adopted the new accounting standard AASB 16 'Leases' for the first time in their 2019–20 financial statements.

AASB 16 changes the way lessees treat operating leases for financial reporting. With a few exceptions, operating leases will now be recorded in the Statement of Financial Position as a right-of-use asset, with a corresponding lease liability.

AASB 16 results in lessees recording more assets and liabilities in the Statement of Financial Position and changes the timing and pattern of expenses recorded in the Income Statement.

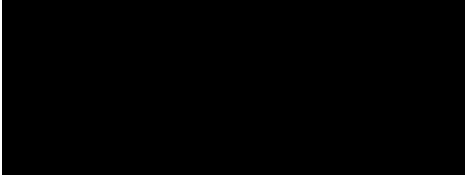
The Council did not recognise any right-of-use assets or lease liabilities at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 1 (e).

## Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Michael Kharzoo  
Delegate of the Auditor-General for New South Wales

cc: Mr Adrian Butler, General Manager  
Ms Jo Shannon, Director Corporate and Community Services  
Ms Linda MacRae, Audit, Risk and Improvement Committee Chair  
Jim Betts, Secretary of the Department of Planning, Industry and Environment