

# Armidale Regional Council

## Review of Restricted and Unrestricted Cash

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The following paper provides a summary of the last four financial statements of the former Guyra Shire Council and Armidale Dumaresq Council and the first four financial statements of the amalgamated Armidale Regional Council. Information has been gathered from the audited financial statements and discussions with the Chief Financial Officer and the Acting General Manager in September 2020. The focus of this report is the General Fund of the Council and cash movements within this fund.

### Restricted and unrestricted cash – an overview

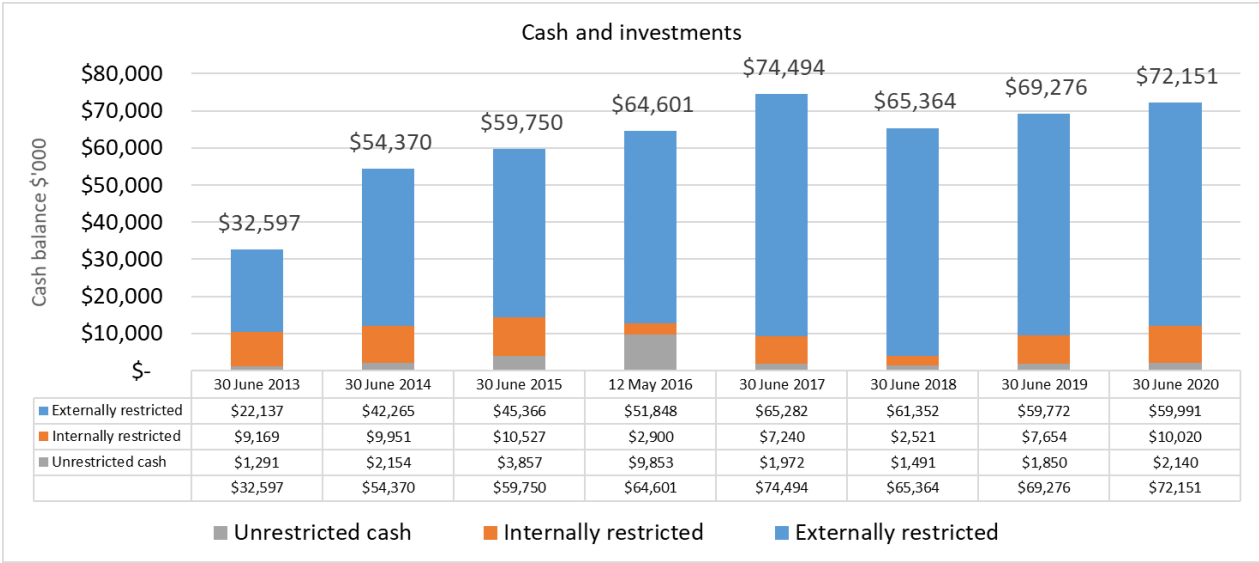
Cash and investments are categorised as follows:

- Externally restricted cash represent funds received by the Council that must be spent in a specified manner, generally in accordance with legislation, a grant agreement or loan.
- Internally restricted cash has been restricted by Council for a specific program or purpose, generally to fund a liability or for a future infrastructure program.
- Unrestricted cash is the remaining cash held by Council for the purposes of meeting liquidity needs and to fund unanticipated items.

On the 12 May 2016 the former councils held \$64.6 million in cash and investments (Armidale Dumaresq \$46.5 million and Guyra \$18.1 million). Of this \$12.8 million was internally restricted or unrestricted cash. On 30 June 2020 cash and investments total \$72.2 million and \$12.2 million is categorised as internally restricted or unrestricted cash.

The balance of these at the end of each financial reporting period for the former councils and the amalgamated Council are shown in the following graph. It should be noted the last financial period of the former councils ended on 12 May 2016 and will not necessarily be comparable to other financial periods which end on 30 June. This is due to the timing of payments and receipts which will differ in mid May in comparison to 30 June.

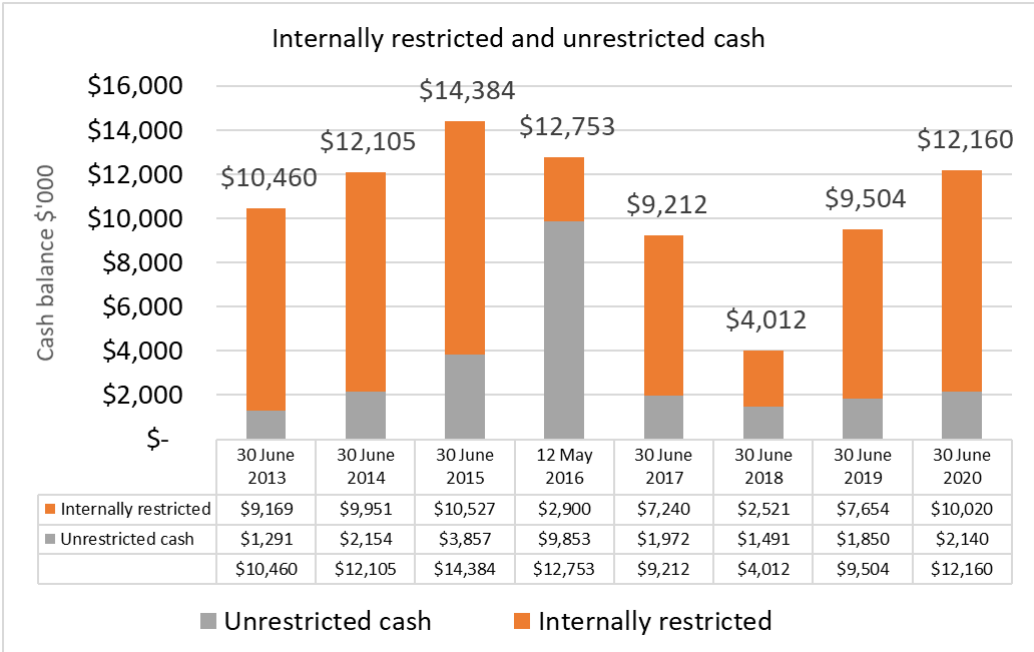
**Table 1 Cash and Investments – 4 years pre merge and 4 years post merge**



**Internally restricted and unrestricted cash**

This report focuses on the Council-controlled internally restricted and unrestricted cash. There have been some large movements in the combined total of cash held for these categories since the merger, declining to as low as \$4 million on 30 June 2018, as shown in the Table 2.

**Table 2 Internally restricted and unrestricted cash**



The decline in the cash balance has improved in the past two financial years, with the balance returning to a similar level as prior to the merger. On the 12 May 2016 the former councils held \$12.8 million internally restricted or unrestricted cash. On 30 June 2020 \$12.2 million in cash is categorised as internally restricted or unrestricted cash.

**Table 3 Movements in internally restricted and unrestricted cash**

	Guyra + Armidale Dumaresq				Armidale Regional			
	30 June 2013	30 June 2014	30 June 2015	12 May 2016	30 June 2017	30 June 2018	30 June 2019	30 June 2020
Cash balance on reporting date	\$10,460	\$12,105	\$14,384	\$12,753	\$9,212	\$4,012	\$9,504	\$12,160
Increase / (Decrease) \$		\$1,645	\$2,279	(\$1,631)	(\$3,541)	(\$5,200)	\$5,492	\$2,656
Increase / (Decrease) %		16%	19%	(11%)	(28%)	(56%)	137%	28%

Table 4 lists all internally restricted reserves and the unrestricted cash balance reported by each of the former Councils for the four years prior to the merger and the amalgamated Council for the past four years.

**Table 4 Internally restricted and unrestricted cash – detailed listing**

	2012/13			2013/14			2014/15			1 July 2015 to 12 May 2016			13 May 2016 to 30 June 2017	2017/18	2018/19	2019/20
\$'000	Armidale Dumaresq Council	Guyra Shire Council	TOTAL	Armidale Dumaresq Council	Guyra Shire Council	TOTAL	Armidale Dumaresq Council	Guyra Shire Council	TOTAL	Armidale Dumaresq Council	Guyra Shire Council	TOTAL	Armidale Regional Council	Armidale Regional Council	Armidale Regional Council	Armidale Regional Council
<b>Internal restrictions</b>																
Plant and vehicle replacement	\$ -	\$ 686	\$ 686	\$ -	\$ 1,124	\$ 1,124	\$ -	\$ 1,467	\$ 1,467	\$ -	\$ -	\$ -	\$ 2,240	\$ -	\$ -	\$ 885
Infrastructure replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,317
Employees leave entitlement	\$ 1,977	\$ 550	\$ 2,527	\$ 1,977	\$ 550	\$ 2,527	\$ 2,000	\$ 900	\$ 2,900	\$ 2,000	\$ 900	\$ 2,900	\$ 5,000	\$ 2,521	\$ 3,194	\$ 4,053
Carry over works	\$ -	\$ 414	\$ 414	\$ 558	\$ 414	\$ 972	\$ 155	\$ 414	\$ 569	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,368	\$ 1,136
Asset backlog	\$ 659	\$ -	\$ 659	\$ 659	\$ -	\$ 659	\$ 714	\$ -	\$ 714	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Airport improvements	\$ 2,000	\$ -	\$ 2,000	\$ 2,077	\$ -	\$ 2,077	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer replacement	\$ 110	\$ -	\$ 110	\$ 210	\$ -	\$ 210	\$ 210	\$ -	\$ 210	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Financial Assistance Payment (in advance)	\$ 1,426	\$ -	\$ 1,426	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sports council	\$ -	\$ -	\$ -	\$ 258	\$ -	\$ 258	\$ 322	\$ -	\$ 322	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits, retentions and bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bridge replacement	\$ -	\$ 288	\$ 288	\$ -	\$ 288	\$ 288	\$ -	\$ 535	\$ 535	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
HACC services	\$ -	\$ 3	\$ 3	\$ -	\$ 7	\$ 7	\$ -	\$ 7	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Kolora - council contribution	\$ -	\$ 597	\$ 597	\$ -	\$ 597	\$ 597	\$ -	\$ 2,166	\$ 2,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Low income housing	\$ -	\$ 37	\$ 37	\$ -	\$ 37	\$ 37	\$ -	\$ 29	\$ 29	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Strategic plan implementation	\$ -	\$ 45	\$ 45	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Preschool	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate	\$ -	\$ 366	\$ 366	\$ -	\$ 1,189	\$ 1,189	\$ -	\$ 1,593	\$ 1,593	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Medical centre	\$ -	\$ 5	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Swimming pool	\$ -	\$ 6	\$ 6	\$ -	\$ 6	\$ 6	\$ -	\$ 8	\$ 8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,092	\$ 629
<b>Total internal restrictions</b>	<b>\$ 6,172</b>	<b>\$ 2,997</b>	<b>\$ 9,169</b>	<b>\$ 5,739</b>	<b>\$ 4,212</b>	<b>\$ 9,951</b>	<b>\$ 3,401</b>	<b>\$ 7,126</b>	<b>\$ 10,527</b>	<b>\$ 2,000</b>	<b>\$ 900</b>	<b>\$ 2,900</b>	<b>\$ 7,240</b>	<b>\$ 2,521</b>	<b>\$ 7,654</b>	<b>\$ 10,020</b>
<b>Unrestricted cash</b>	<b>\$ 633</b>	<b>\$ 658</b>	<b>\$ 1,291</b>	<b>\$ 1,268</b>	<b>\$ 886</b>	<b>\$ 2,154</b>	<b>\$ 2,599</b>	<b>\$ 1,258</b>	<b>\$ 3,857</b>	<b>\$ 1,688</b>	<b>\$ 8,165</b>	<b>\$ 9,853</b>	<b>\$ 1,972</b>	<b>\$ 1,491</b>	<b>\$ 1,850</b>	<b>\$ 2,140</b>
<b>Internally restricted + unrestricted cash</b>	<b>\$ 6,805</b>	<b>\$ 3,655</b>	<b>\$ 10,460</b>	<b>\$ 7,007</b>	<b>\$ 5,098</b>	<b>\$ 12,105</b>	<b>\$ 6,000</b>	<b>\$ 8,384</b>	<b>\$ 14,384</b>	<b>\$ 3,688</b>	<b>\$ 9,065</b>	<b>\$ 12,753</b>	<b>\$ 9,212</b>	<b>\$ 4,012</b>	<b>\$ 9,504</b>	<b>\$ 12,160</b>

### Timeline of movements and decisions regarding internally restricted and unrestricted cash

Reporting date	Internally restricted	Unrestricted cash	Total	Movement	Comment
30 June 2013	\$9,169	\$1,291	<b>\$10,460</b>		
30 June 2014	\$9,951	\$2,154	<b>\$12,105</b>	\$1,645	
30 June 2015	\$10,527	\$3,857	<b>\$14,384</b>	\$2,279	
12 May 2016	\$2,900	\$9,853	<b>\$12,753</b>	(\$1,631)	<ul style="list-style-type: none"> <li>• Amalgamation.</li> <li>• All internal reserves, with the exception of the employee leave entitlements reserve, were dissolved at 12 May 2016.</li> </ul>
30 June 2017	\$7,240	\$1,972	<b>\$9,212</b>	(\$3,541)	<ul style="list-style-type: none"> <li>• Internal reserves for the newly formed Council established 28 June 2017.</li> <li>• Unfavourable budget variances potentially contributed to the decline in funds (the revised budget position for this year reported a forecast decline in cash of around \$2.1m).</li> <li>• The 2016/17 budget appears to have overstated the cash position of the Council by \$24m, potentially contributing to the acceptance of a budget that would result in the decline of these funds.</li> </ul>
30 June 2018	\$2,521	\$1,491	<b>\$4,012</b>	(\$5,200)	<ul style="list-style-type: none"> <li>• The original budget forecast a decrease of \$3.7m in this cash and the recalculated revised original budget position shows a forecast decrease of around \$5.4m.</li> <li>• At 30 June 2018 the internal reserves and unrestricted cash reached very low levels and Council was not able to fund 2017/18 carry forwards or the plant replacement reserve of \$2.4m that was included in the 2018/19 budget.</li> </ul>
30 June 2019	\$7,654	\$1,850	<b>\$9,504</b>	\$5,492	<ul style="list-style-type: none"> <li>• The 2018/19 original budget forecast to spend all available cash and had no provision for budget overruns or unexpected costs. If no intervention had occurred Council would have been at risk of using external reserves to fund operations resulting in a financially unsustainable outlook and other negative consequences. Budget variations were undertaken including reducing the operating deficit from \$3.8m to \$0.9m.</li> </ul>
30 June 2020	\$10,020	\$2,140	<b>\$12,160</b>	\$2,656	

The analysis in the above timeline shows that it is primarily the adoption of deficit budgets during the period since merger that has reduced internal reserves and unrestricted cash levels and resulted in actions being taken such as the removal of the plant and vehicle replacement reserve.

The cash position remains tenuous as internal reserves are established for specific purposes and the unrestricted cash level is still low. There are also the following factors:

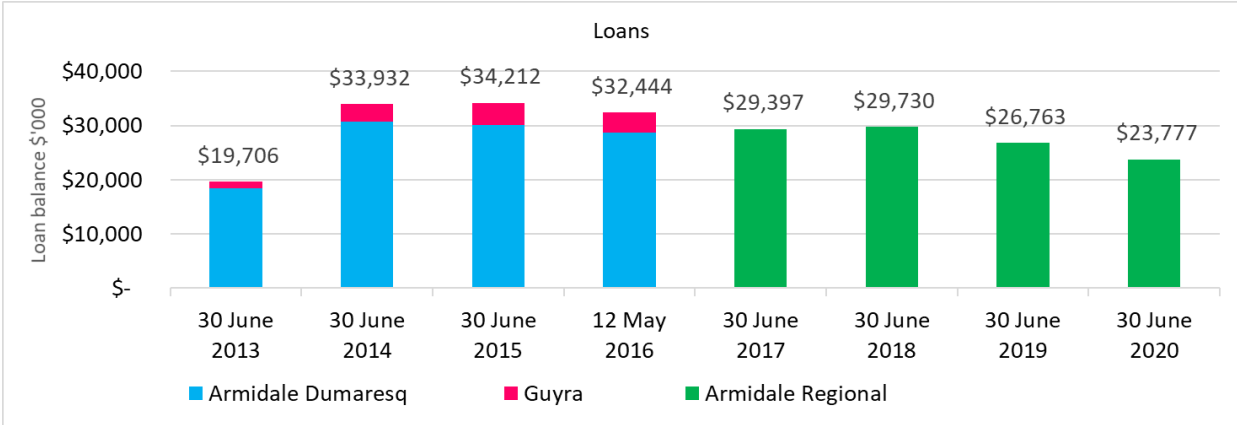
- A number of unbudgeted financial commitments remain that are beyond the financial capacity of Council to support without reducing service levels.
- Eliminating the operating deficit remains an ongoing significant challenge.
- There is no guarantee that the temporary SRV will continue.
- Recovery from the drought is ongoing and likely to take several years.
- The following asset ratios were reported at 30 June 2019, which are all below the recommended benchmark levels:
  - asset renewal ratio 45% (benchmark >=100%)
  - infrastructure backlog ratio 5% (benchmark < 2%)
  - asset maintenance ratio 87% (benchmark > 100%)

**Borrowings**

Loans have reduced from \$32 million to \$24 million since the merger. The following balances by fund existed at 30 June 2020:

General Fund	\$19,287,268
Water Fund	\$4,489,670
Total	\$23,776,938

**Table 5 Loans**



**Recommendations and summary**

To achieve a financially sustainable outlook Council will need to continue to:

- Within the Long Term Financial Plan establish a target unrestricted cash balance to ensure working capital is sufficient to meet liquidity needs of the Council and provide for unexpected challenges and opportunities. The CFO has suggested a target of \$5 million would be required for the challenges that face the Council.
- Strengthen unrestricted cash and internal reserves, including the employee leave entitlements reserve balance.
- Prioritise asset renewal and maintenance funding over new build within the budget process.
- Size the capital program appropriately to meet the capability and capacity of the workforce.
- Control operating expenditure and reduce where possible.

- Look for revenue and funding opportunities.

Financial sustainability is not an outcome that can be achieved quickly from where Council is now. It will take many years of applying the above strategies to achieve a financially sustainable outlook and this will require a long-term programmed and disciplined approach.