
Annual Financial Reports and Audit Report for the year ending 30 June 2021

Responsible Officer: Group Manager Corporate & Commercial (Guy Bezrouchko)

Recommendation

That Council:

1. In accordance with section 413 (2c) of the *Local Government Act 1993* and clause 215 of the *Local Government (General) Regulation 2005*, adopt the 2020/21 Audited Financial Reports and "Statement by Councillors and Management" for both the General-Purpose Financial Reports and the Special Purpose Financial Reports, with the Chairperson and Deputy Chairperson delegated to sign on behalf of Council.
2. Note that public notice for the presentation of the draft 2020/21 Financial Reports was issued on Wednesday, 13 October 2021 and invited both inspection and submissions.
3. Forward a copy of the 2020/21 Audited Financial Reports to the Office of Local Government.
4. Present the 2020/21 Audited Financial Reports to the public at Council's 20 October 2021 meeting.

Background

Council's 2020/21 Financial Reports have now been completed and the Auditor's draft report received. To comply with the provisions of the *Local Government Act 1993*, the following actions must be implemented to allow for the finalisation of the year end accounts.

Geoff Dwyer (Thomas Noble and Russell) on behalf of the Audit Office of NSW will attend Council's meeting on 20 October 2021 and present the report on the audit of Council's accounts for the 2020/21 financial period.

The relevant sections of the *Local Government Act 1993* relating to the preparation of Council's annual financial reports are as follows:

- a) Section 413, 415 and 416 requires a council must prepare financial reports, including Financial Reports and 'Statement by Councillors and Management' for both the General-Purpose Financial Reports and Special Purpose Financial Reports; for each year, and must refer them for audit and be audited by the 31 October.
- b) Section 413 requires that the financial reports must be accompanied by a statement of Council's opinion made pursuant to a resolution of Council and signed by the Chairperson, at least one other councillor, General Manager and the Responsible Accounting Officer. The content supporting Council's opinion is prescribed and both forms are attached to this report.
- c) Fix a meeting date to present the financial reports to the public; and
- d) Advertise, for a minimum of seven days prior to the meeting, that the financial reports and the auditor's report are available for public inspection.

Public notice for the presentation of the financial reports at the October Council meeting, in the prescribed format occurred from Wednesday 13 October 2021.

Financial summary

In addressing the statutory requirements under the *Local Government Act 1993*, Council's Audited Financial Reports together with the Auditor's Report are presented to Council.

Council's Net Operating Result for the financial year ended 30 June 2021 was a surplus of \$4.324M, which includes Capital Income of \$5.235M. This compares to a surplus in 2020 of \$2.384M (including Capital Income of \$4.411M).

Council's financial position remains sound as is demonstrated by the following key financial indicators for the past three years:

Table 1: Key financial indicators

	2020/21 (\$000's)	2019/20 (\$000's)	2018/19 (\$000's)
Operating Results			
Operating Result (deficit) before capital amounts	(911)	(2,207)	(3,034)
Operating Result adjusted for non-cash items (depreciation, impairment)	4,324	2,384	2,637
Performance Measures			
Unrestricted Current Ratio (Benchmark: > 1.5x)	7.03 : 1	5.24 : 1	5.42 : 1
Debt Service Cover Ratio (Benchmark: > 2x)	1.59 : 1	1.54 : 1	1.80 : 1
Building & Infrastructure Renewals Ratio (Benchmark: > 100%)	100.64%	92.77%	127.76%
Net Working Capital			
Cash Assets	49,380	35,193	37,698
Plus: Receivables	2,095	2,598	2,427
Less: Payables	(2,440)	(2,386)	(3,959)
Sub total	49,035	35,405	36,166
Indebtedness	32,358	21,559	24,145
Restrictions			
External	4,081	3,216	3,749
Internal	43,869	30,548	32,509
Total	47,950	33,764	36,258
Equity			
Retained earnings	244,899	240,575	238,191
Asset revaluation reserves	269,379	269,517	260,722
Total Equity (including revaluations)	514,278	510,092	498,913

The yearly operating performance is monitored and reported to Council through the Quarterly Budget Review process and integrated with Council's long-term financial plan. Actual results for 2020/21 closely reflect the budget estimates.

Major income statement movements

Revenue

Bulk water revenue continues to provide the majority of Council's operating revenue at \$19.8M or 63% of total revenue. This is a steady, reliable cash flow and increased by 7% compared to last year.

Table 2: Total bulk water sales in kilolitres

	2020/21	2019/20	2018/19
Bulk water charge (nominal per kilolitre)	\$1.7157	\$1.6552	\$1.6059
Total bulk water sales income	\$19,827,600	\$18,590,100	\$17,817,800
Bulk water consumption in kilolitres*			
Ballina Shire Council	3,988,841	3,690,695	3,701,081
Byron Shire Council	2,610,810	2,623,960	2,729,781
Lismore City Council	3,171,566	3,263,993	3,190,705
Richmond Valley Council	675,568	710,739	642,652
Rous retail customers	1,109,973	906,203	830,692
	11,556,758	11,195,590	11,094,911

* The annual charge for all constituent Councils determines the current rate per kilolitre based on the respective Council's consumption for the previous year ending in February (Kilolitres based upon March to February readings).

Revenue received from retail water customers and filling stations decreased by \$187,400 (6.74%) and \$533,100 (62.51%) respectively, as regional rainfall returned to a more consistent pattern, after the drought experienced in 2019/20. Outstanding collections relating to retail water customers finished at 2.7% compared to last year's result of 4.6%.

Interest revenue from cash and investments decreased by \$431,600 (54%) compared to the previous year. The weighted average return on investments has decreased from 2.17% in 2019/20 to 1.15%, due to the continuing low interest rates.

Council's Land Development activities at Perradenya Estate included the sale of 20 lots during the year, resulting in a gain on disposal of \$1.094M. A revaluation of commercial properties resulted in a \$5,000 revaluation increment in the current year.

Council receives operating grants and contributions from various sources. The revenue received each year is influenced by the nature and extent of Council's improvements program and general economic activity. Grants and contributions decreased by \$125,700 (9.7%) compared to the previous year, as 'one off' funding for the March 2017 flood was finally acquitted in 2019/20.

Table 3: Developer contributions revenue increased by \$785,100 (17.8%) when compared to 2019/20, with the majority of contributions received from Ballina Shire Council (\$2.6M), Lismore City Council (\$1.2M) and Byron Shire Council (\$1.06M):

Table 3: Developer contributions

Rous	2020/21 (\$)	ET's 2020/21*	2019/20 (\$)	ET's 2019/20
TOTAL	5,188,086	585.63	4,402,987	509.71

* ET = \$8,872 in the 2020/21 financial year.

Developer contributions received were utilised to fund Council's loan repayments for the Wilsons River Source and reduce the amount that is funded from operating revenue and reserves.

Expenditure

Employee benefits and on-costs increased by \$705,500 (8.3%) compared to the previous year. This was due to increased salaries, superannuation and payroll tax costs associated with additional staff.

Materials and services decreased by \$1.49M (14.3%) when compared to 2019/20, with the majority of the decrease due to expenses related to extended ground water costs of \$1.42M, that were unable to be capitalised and the completion of a 'one off' grant for the March 2017 flood of \$486,000 in 2019/20.

Generally operational expenditure was in line with forecast.

Major statement of financial position movements

Cash and Investments

Cash and investments have increased by \$14.187M (40%) compared to last year. This is due to the drawdown of \$13.5M in new loan funds in June 2021.

Inventories

Inventories of \$1.598M at 30 June 2021 include \$984,000 of real estate assets in relation to the Perradenya estate. This is a decrease of \$1.4M (58%) associated with the current year sale of Release 6 land stock.

Infrastructure, Property, Plant and Equipment

Council capitalised \$17.9M of assets during the year. Work continued on the St Helena upgrade with stage 1 nearing completion (\$11.27M), reticulation main upgrades (\$867,000), water treatment upgrades (\$3.27M), plant and equipment upgrades (\$575,000), information technology upgrades (\$213,000), flood mitigation upgrades (\$89,000) and solar installation at various sites (\$356,000). Other water supply network assets accounted for the majority of the remainder. As at 30 June 2021, \$4.7M remained in 'work in progress', with the St Helena stage 2 upgrade accounting for \$3.4M.

Water infrastructure assets are required to be indexed in between revaluation years. The NSW Department of Primary Industries provides the indexation percentage for water assets and advised that for 2020/21 the percentage was 0.92%. This has increased the value of Council's water infrastructure by \$3.062M.

Correction of prior period error - Lismore City Council received grant funding to construct the Lismore Airport Floodway over the existing South Lismore drain asset. The South Lismore drain was recognised in Rous County Council's asset register in 2010/11 after a revaluation identified several assets where ownership could be considered part of flood mitigation activities.

While assessing the correct accounting treatment for the transfer of the new works, by applying the Conceptual Framework for Financial Reporting criteria, it was determined that control of the South Lismore drain asset has always been with Lismore City Council and therefore it should be de-recognised. Following consultation between Lismore and Rous staff and the preparation of accounting position papers this accounting treatment was agreed upon by all relevant parties.

The de-recognition has resulted in a decrease to flood mitigation assets of \$3.2M as at 30 June 2020. The has resulted in the net carrying amount of flood mitigation assets changing from \$122.4M to \$119.2M.

Contract liabilities

Total contract liabilities have increased by \$913,000 (1,087%) from the previous year. The majority of this relates to funds Council holds on behalf of the NSW Department of Primary Industries (\$730,000). While the remainder is funds received in advance which cannot be brought to account until specific expenditure has been completed.

Borrowings

Council's net borrowing position increased by \$10.7M (50%) during the year, as a new loan was sourced to fund the St Helena upgrade project.

Special Purpose Financial Statements

While Council is a multi-purpose county council, it has nominated land development and commercial properties as Category 2 businesses and water activities are deemed to be a Category 1 business for the purposes of National Competition policy reporting. Under the National Competition guidelines Council is required to apply taxation equivalent principles to each business similar to those that would apply if they were operating in the commercial sector. Council declared business activities have been reported with operating details and assets disclosed on a gross basis in Council's special purpose financial statements in accordance with this reporting framework.

Correction of prior period errors – Under allocation of notional interest to land stock:

In early 2000, Council acquired 47.7 hectares of land which was zoned Village 2(v) and had development consent for 166 serviced residential lots, 1 village/commercial lot and 2 integrated housing blocks. A register was created to capture all construction expenditure and apply notional interest prior to recouping costs through sales.

Over the past 20 years, the notional interest has been accumulating due to insufficient allocation to cost of goods sold, resulting in an inflated non-current receivables balance in the Water Supply Business Activities and inflated non-current inventories and borrowings in Land.

In 2021, a review was undertaken of the register that identified the amount of accumulated interest expense that should have been allocated to all land releases based on number of land lots per release. The errors identified have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2020) and taking the adjustment through to non-current receivables, inventories, borrowings and accumulated surplus at 30 June 2020.

Reserves scorecard for year ending 30 June 2021

Council adopted [42/19] the Financial Reserves policy at the 19 June 2019 Council meeting. The policy provides target reserve balances for Internally Restricted Reserves. The targets identify the minimum balance of the reserve and are viewed as a guide rather than a benchmark. The minimum balances are based on a percentage of the annual recurrent expenses for each Fund. For example, if income ceased the Fund would still be able to operate and pay bills for three months (25% of average annual operating expense) or six months (50% of average annual operating expense).

Externally Restricted Reserves are raised when Council receives funds that legislation dictates be used for a specific purpose. These reserves are used to isolate funds to ensure they are only applied for the purpose for which they were paid. Typically, this relates to developer contributions, grants or trust deposits. Externally Restricted Reserves do not have a target reserve balance.

The policy requires that each year, reserve balances are compared to agreed targets and details are presented in a scorecard. Reserve balances reflect cash held by Council at 30 June 2021.

Table 4: Reserves scorecard for year ending 30 June 2021

Internal Reserves compared to Budget Shocks Target								
The target reserve balance is a percentage of the Funds annual operating expenses. The percentage is based on the reliability of the Funds financial transactions. Where the								
Reliability Assessment								
Reliable	1 month of annualised operating expense as contingency							
Moderate	2 months of annualised operating expense as contingency							
Unreliable	3 months of annualised operating expense as contingency							
Reliability Rating	Flood Mitigation	Weeds Bio	Retail Water	RWL	Commercial Property	Fleet	Bulk Water Combined	Whole Organisation
Operating Income	1	1	3	2	1	1	1	1
Operating Expense	2	1	3	2	1	1	2	2
Capital Income	1	1	1	1	1	1	1	1
Capital Expense	1	1	1	1	3	1	2	2
Reliability Total (in months)	5	4	8	6	6	4	6	6
2020/21 Operating Expense	\$1,567,154	\$1,526,358	\$3,443,146	\$825,807	\$331,517	\$893,278	\$18,895,668	\$27,482,900
Reliability Rating	5 over 12	4 over 12	8 over 12	6 over 12	6 over 12	4 over 12	6 over 12	6 over 12
Target Reserve Balance	\$653,000	\$509,000	\$2,295,000	\$413,000	\$166,000	\$298,000	\$9,448,000	\$13,741,000
Actual Internal Reserve Balance 30/6/21 (excludes external restricted)	\$901,286	\$1,156,690	\$2,664,125	\$409,657	\$1,203,373	\$1,160,076	\$37,803,597	\$45,298,804
Result	Pass	Pass	Pass	Fail	Pass	Pass	Pass	Pass
External Reserves	\$197,774	\$922,028	\$0	\$0	\$0	\$0	\$2,961,478	\$4,081,280
Total Reserves	\$1,099,060	\$2,078,718	\$2,664,125	\$409,657	\$1,203,373	\$1,160,076	\$40,765,075	\$49,380,084

The scorecard in Table 4 above, shows that actual internal reserve balances as at 30 June 2021 for all Funds, except Richmond Water Laboratories (RWL), exceed the target reserve balances. As at 30 June 2021, RWL had an accounts receivable balance due of \$50,000, which was received in July, increasing the actual internal reserve balance and exceeding the target reserve balance.

The scorecard shows that Council has healthy cash reserves and will continue to be able to meet its future obligations.

Consultation

Council's *Annual Financial Reports and Audit Report for the year ended 30 June 2021* together with the *Financial Statements year ended 30 June 2021*, have been referred to the Audit, Risk and Improvement Committee (20 October 2021). Minutes of that meeting which is scheduled to be held on 18 October 2021 will be tabled at the Council meeting.

Conclusion

Council remains in a sound financial position with cash and investments at satisfactory levels to ensure that all current liabilities can be met when they fall due.

Attachment

1. Auditor-General NSW: Report on the Conduct of the Audit for the year ended 30 June 2021
2. Rous County Council 2020/21 Financial Statements for the year ended 30 June 2021