
Annual Financial Reports and Audit Report for Year Ended 30 June 2022

Responsible Officer: Group Manager Corporate and Commercial (Geoff Ward)

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 2021/22 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 2021/22 Financial Reports was issued on Wednesday, 12 October 2022 and invited both inspection and submissions.
3. Forward a copy of the 2021/22 Audited Financial Reports to the Office of Local Government.
4. Present the 2021/22 Audited Financial Reports to the public at Council's 19 October 2022 meeting.

Background

Council's 2021/22 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.

Richard Watkinson (Thomas Noble and Russell) on behalf of the Audit Office of NSW will attend Council's meeting on 19 October 2022 and present the report on the audit of Council's accounts for the 2021/22 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 12 October 2022.

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 2022 was a surplus of \$2.21M, which includes Capital Income of \$5.63M. This compares to a surplus in 2021 of \$4.32M (including Capital Income of \$5.23M).

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

	2021/22 (\$000's)	2020/21 (\$000's)	2019/20 (\$000's)
Operating Results			
Operating Result (Deficit) before Capital Amounts	(3,418)	(911)	(2,207)
Operating Result Adjusted for Non-Cash Items (Depreciation, Impairment)	2,213	4,324	2,384
Performance Measures			
Unrestricted Current Ratio (Benchmark: > 1.5x)	4.26 : 1	7.03 : 1	5.24 : 1
Debt Service Cover Ratio (Benchmark: > 2x)	1.42 : 1	1.59 : 1	1.54 : 1
Building & Infrastructure Renewals Ratio (Benchmark: > 100%)	61.95%	90.06%	92.77%
Net Working Capital			
Cash Assets	40,554	49,380	35,193
Plus: Receivables	2,994	2,095	2,598
Less: Payables	(2,907)	(2,440)	(2,386)
Sub Total	40,641	49,035	35,405
Indebtedness	28,960	32,358	21,559
Restrictions			
External	5,428	4,081	3,216
Internal	32,421	43,869	30,548
Total	37,849	47,950	33,764
Equity			
Retained Earnings	247,112	244,899	240,575
Asset Revaluation Reserves	273,921	269,379	269,517
Total Equity (including Revaluations)	521,033	514,278	510,092

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 2021/22 have been significantly impacted by the March 2022 flood events, particularly capital expenditure which was \$20.2M below original budget estimates.

Major Income Statement Movements

Revenue

Bulk water revenue continues to provide the majority of Council's operating revenue at \$21.2M or 63% of total revenue. This increased by 7% compared to last year. Total Kilolitres used during 2021/22 decreased by 8.32% from the prior year predominantly due to the high rainfalls experienced in the second half of the year.

Table 2: Total Bulk Water Sales in Kilolitres

	2021/22	2020/21	2019/20
Bulk Water Charge (nominal per kilolitre)*	\$2.0023	\$1.7157	\$1.6552
Total Bulk Water Sales Income	\$21,215,500	\$19,827,600	\$18,590,100
Bulk Water Consumption in Kilolitres			
Ballina Shire Council	3,675,654	3,988,841	3,690,695
Byron Shire Council	2,427,908	2,610,810	2,623,960
Lismore City Council	3,001,977	3,171,566	3,263,993
Richmond Valley Council	601,307	675,568	710,739
Rous Retail Customers	888,504	1,109,973	906,203
	10,595,350	11,556,758	11,195,590

* 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). However due to issues relating to the first flood event in March 2022 the reading at the end of February 2022 was not available. The charge for 2022/23 was based on the consumption for eleven months to January 2023 annualised for a full year.

Revenue received from retail water customers and filling stations increased by \$52,200 (2.01%) and \$3,600 (1.12%) respectively despite greater than average regional rainfall.

Interest revenue from cash and investments decreased by \$131,400 (37.73%) compared to the previous year. The weighted average return on investments has decreased from 1.15% in 2020/21 to 0.75%, due to the continuing low interest rates.

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 increased by \$2.256M (193%) compared to the previous year, driven by 'one off' funding for the March 2022 flood was received.

Table 3: Developer contributions revenue increased by \$396,000 (7.5%) when compared to 2020/21, with the majority of contributions received from Ballina Shire Council (\$3.2M), Lismore City Council (\$942k) and Byron Shire Council (\$638kM):

Table 3: Developer Contributions

Constituent Council	2021/22 (\$)	ET's 2021/22*	2020/21 (\$)	ET's 2020/21*
Ballina Shire Council	3,241,206	362.43	2,623,967	295.81
Byron Shire Council	638,124	77.40	1,060,825	119.59
Lismore City Council	942,437	104.37	1,221,940	137.73
Richmond Valley Council	363,975	40.70	141,952	16.00
Rous County Council	444,491	54.29	139,402	16.50

TOTAL	5,630,233	639.19	5,188,086	585.63
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* ET = \$8,943 in the 2021/22 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 \$1.09M (11.9%) compared to the previous year. This was largely attributable to additional staff (such as Future Water, Innovation and Change and other project related roles).

Materials and services increased by \$2.33M (25.7%) when compared to 2020/21, with the majority of the increase due to expenses related to the completion of a 'one off' grant for the March 2021 flood.

Generally operational expenditure was in line with budget.

Major Statement of Financial Position Movements

Cash and Investments

Cash and investments have decreased by \$8.82M (17.8%) compared to last year. This is primarily due to the purchase of property and large capital projects.

Infrastructure, Property, Plant and Equipment

Council capitalised \$17.3M of assets during the year. Work continued on the St Helena upgrade with stage 2 (\$7.6M), land (\$3.3M), buildings (\$3.5M), plant and equipment upgrades (\$330,000), information technology upgrades (\$73,000) and flood mitigation upgrades (\$12,000). As at 30 June 2022, \$3.1M remained in 'work in progress'.

The Office of Local Government, through the Local Government Code of Accounting Practice and Financial Reporting Guidelines, has recommended that full revaluations of water infrastructure assets are conducted no later than at five yearly intervals.

APV Pty Ltd were engaged to conduct an independent review of Council's water infrastructure assets. Due to the volume and location of assets across multiple local government areas, the valuers were unable to conduct physical inspections of all assets. Instead, reliance was placed on condition assessment and attribute date maintained within Council's asset management and GIS system. A number of assets from each category were selected for physical inspections.

As a result of the revaluation the carrying amount of the assets was decreased \$8.76M, which was recognised in the asset revaluation reserve. This is a result of a number of factors including revised replacement cost calculations and extended useful life estimates.

Contract Liabilities

Total contract liabilities have decreased by \$769,000 (77%) from the previous year. The majority of this relates to funds Council holds on behalf of the NSW Department of Primary Industries.

Borrowings

Council's net borrowing position decreased by \$3.39M (10%) during the year, as no new loans were sourced.

Reserves Scorecard for Year ending 30 June 2022

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 Reporting Unit. For example, if income ceased the Reporting Unit 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 2022.

Late report

Table 4: Reserves Scorecard for Year Ending 30 June 2022

Internal Reserves Compared to Budget Shocks Target									
The target reserve balance is a percentage of the Reporting Units annual operating expenses. The percentage is based on the reliability of the Reporting Units financial transactions. Where the transactions are reliable the reserve target is a lower percentage than if the transactions are unreliable.									
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	Property	Fleet	Bulk Water Combined	Whole Organisation	
Operating Income	1	1	3	2	1	1	1	1	1
Operating Expense	2	1	3	2	1	1	2	2	2
Capital Income	1	1	1	1	1	1	1	1	1
Capital Expense	1	1	1	1	3	1	2	2	2
Reliability Total (in months)	5	4	8	6	6	4	6	6	6
2021/22 Operating Expense	2,811,900	1,604,000	3,067,700	1,268,500	351,000	906,600	23,031,900	33,041,600	
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	6 over 12
Target Reserve Balance	1,172,000	535,000	2,045,000	634,000	176,000	302,000	11,516,000	16,521,000	
Actual Internal Reserve Balance 30/06/22 (excludes external restricted)	788,300	1,435,900	3,014,000	262,300	1,910,900	1,508,100	26,205,900	35,125,400	
Result	Fail	Pass	Pass	Fail	Pass	Pass	Pass	Pass	Pass
External Reserves	424,800	437,400	-	-	-	-	4,566,500	5,428,700	
Total Reserves	1,213,100	1,873,300	3,014,000	262,300	1,910,900	1,508,100	30,772,400	40,554,100	

The scorecard in Table 4 above, shows that actual internal reserve balances as at 30 June 2022 for all Reporting Units, except Flood Mitigation and Richmond Water Laboratories (RWL), exceed the target reserve balances.

As at 30 June 2022, Flood Mitigation had Natural Disaster Relief and Recovery Arrangements grant funding of approximately \$970,000 outstanding. When these funds are received from the NSW Government through their agent, Public Works Advisory the reserve balance will be greatly improved.

RWL operating results were significantly impacted by the flood events in March 2022 which has culminated in the Council decision to close this Reporting Unit [Resolution 60/22]

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

Governance

- **Finance**

Detailed in the body of this report.

- **Legal**

Detailed in the body of the report

Consultation

Council's *Annual Financial Reports and Audit Report for the year ended 30 June 2022* together with the *Financial Statements year ended 30 June 2022*, were presented to the Audit, Risk and Improvement Committee at its meeting on 17 October 2022.

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 2022
2. Rous County Council 2021/22 Financial Statements for the year ended 30 June 2022

Late report

Rous County Council

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2022



Late report

Rous County Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2022



Rous County Council

General Purpose Financial Statements

for the year ended 30 June 2022

Contents	Page
Statement by Councillors and Management	3
Primary Financial Statements:	
Income Statement	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
Independent Auditor's Reports:	
On the Financial Statements (Sect 417 [2])	58
On the Financial Statements (Sect 417 [3])	59

Late report

Rous County Council

General Purpose Financial Statements

for the year ended 30 June 2022

Statement by Councillors and Management made pursuant to Section 413 (2c) of the *Local Government Act 1993* (NSW)

The attached general purpose financial statements have been prepared in accordance with:

- the *Local Government Act 1993* and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these statements:

- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 19 October 2022.

Robert Mustow
Chairperson
19 October 2022

Sharon Cadwallader
Deputy Chairperson
19 October 2022

Phillip Rudd
General Manager
19 October 2022

Guy Bezrouchko
Responsible Accounting Officer
19 October 2022

Rous County Council

Income Statement

for the year ended 30 June 2022

Original unaudited budget 2022 \$ '000		Notes	Actual 2022 \$ '000	Actual 2021 \$ '000
	Income from continuing operations			
22,322	User charges and fees	B2-1	22,501	20,892
2,560	Other revenues	B2-2	2,648	2,397
1,132	Grants and contributions provided for operating purposes	B2-3	3,419	1,163
4,080	Grants and contributions provided for capital purposes	B2-3	5,631	5,235
358	Interest and investment income	B2-4	237	368
179	Other income	B2-5	126	205
1,689	Net gain from the disposal of assets	B4-1	–	315
32,320	Total income from continuing operations		34,562	30,575
	Expenses from continuing operations			
10,270	Employee benefits and on-costs	B3-1	10,191	9,100
11,615	Materials and services	B3-2	11,373	9,043
1,555	Borrowing costs	B3-3	1,520	1,381
7,417	Depreciation, amortisation and impairment of non-financial assets	B3-4	9,063	6,727
5	Other expenses	B3-5	9	–
–	Net loss from the disposal of assets	B4-1	193	–
30,862	Total expenses from continuing operations		32,349	26,251
1,458	Operating result from continuing operations		2,213	4,324
1,458	Net operating result for the year attributable to Council		2,213	4,324
(2,622)	Net operating result for the year before grants and contributions provided for capital purposes		(3,418)	(911)

The above Income Statement should be read in conjunction with the accompanying notes.

Rous County Council

Statement of Comprehensive Income

for the year ended 30 June 2022

	Notes	2022 \$ '000	2021 \$ '000
Net operating result for the year – from Income Statement		2,213	4,324
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-6	<u>4,542</u>	<u>3,062</u>
Total items which will not be reclassified subsequently to the operating result		4,542	3,062
Total other comprehensive income for the year		4,542	3,062
Total comprehensive income for the year attributable to Council		6,755	7,386

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Late report

Rous County Council

Statement of Financial Position

as at 30 June 2022

	Notes	2022 \$ '000	2021 \$ '000
ASSETS			
Current assets			
Cash and cash equivalents	C1-1	3,054	10,880
Investments	C1-2	36,000	38,000
Receivables	C1-4	2,994	2,082
Inventories	C1-5	460	436
Other		614	679
Total current assets		43,122	52,077
Non-current assets			
Investments	C1-2	1,500	500
Receivables	C1-4	–	13
Inventories	C1-5	1,118	1,162
Infrastructure, property, plant and equipment (IPPE)	C1-6	509,348	497,086
Investment property	C1-7	–	795
Intangible assets	C1-8	506	772
Right of use assets	C2-1	34	293
Total non-current assets		512,506	500,621
Total assets		555,628	552,698
LIABILITIES			
Current liabilities			
Payables	C3-1	2,907	2,440
Contract liabilities	C3-2	228	997
Lease liabilities	C2-1	50	312
Borrowings	C3-3	3,605	3,398
Employee benefit provisions	C3-4	2,409	2,225
Total current liabilities		9,199	9,372
Non-current liabilities			
Lease liabilities	C2-1	–	49
Borrowings	C3-3	25,355	28,960
Employee benefit provisions	C3-4	41	39
Total non-current liabilities		25,396	29,048
Total liabilities		34,595	38,420
Net assets		521,033	514,278
EQUITY			
Accumulated surplus	C4-1	247,112	244,899
IPPE revaluation reserve	C4-1	273,921	269,379
Total equity		521,033	514,278

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Rous County Council

Statement of Changes in Equity

for the year ended 30 June 2022

	Notes	2022			2021		
		Accumulated surplus \$ '000	IPPE revaluation reserve \$ '000	Total equity \$ '000	Accumulated surplus \$ '000	IPPE revaluation reserve \$ '000	Total equity \$ '000
Opening balance at 1 July		244,899	269,379	514,278	240,575	269,517	510,092
Correction of prior period errors		-	-	-	-	(3,200)	(3,200)
Opening balance		244,899	269,379	514,278	240,575	266,317	506,892
Net operating result for the year		2,213	-	2,213	4,324	-	4,324
Other comprehensive income							
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-6	-	4,542	4,542	-	3,062	3,062
Other comprehensive income		-	4,542	4,542	-	3,062	3,062
Total comprehensive income		2,213	4,542	6,755	4,324	3,062	7,386
Closing balance at 30 June		247,112	273,921	521,033	244,899	269,379	514,278

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Rous County Council

Statement of Cash Flows

for the year ended 30 June 2022

<i>Original unaudited budget 2022 \$ '000</i>		Notes	<i>Actual 2022 \$ '000</i>	<i>Actual 2021 \$ '000</i>
	Cash flows from operating activities			
	Receipts:			
22,322	User charges and fees		21,904	20,895
358	Interest received		260	564
6,778	Grants and contributions		8,255	7,701
1,173	Other		2,475	2,488
	Payments:			
(10,270)	Payments to employees		(9,869)	(9,141)
(11,620)	Payments for materials and services		(10,710)	(8,946)
(1,555)	Borrowing costs		(1,559)	(1,391)
–	Other		191	(560)
7,186	Net cash flows from operating activities	G1-1	10,947	11,610
	Cash flows from investing activities			
	Receipts:			
–	Redemption of term deposits		38,000	35,000
–	Sale of investment property		850	–
1,686	Sale of real estate assets		7	4,268
2	Proceeds from sale of IPPE		214	165
	Payments:			
–	Acquisition of term deposits		(37,000)	(43,000)
(34,353)	Payments for IPPE		(17,193)	(10,142)
(2,525)	Purchase of real estate assets		–	(1,748)
–	Purchase of intangible assets		1	(535)
(35,190)	Net cash flows from investing activities		(15,121)	(15,992)
	Cash flows from financing activities			
	Receipts:			
–	Proceeds from borrowings		–	13,500
	Payments:			
(3,414)	Repayment of borrowings		(3,398)	(2,701)
–	Principal component of lease payments		(254)	(230)
(3,414)	Net cash flows from financing activities		(3,652)	10,569
(31,418)	Net change in cash and cash equivalents		(7,826)	6,187
1,334	Cash and cash equivalents at beginning of year		10,880	4,693
(30,084)	Cash and cash equivalents at end of year	C1-1	3,054	10,880
35,418	plus: Investments on hand at end of year	C1-2	37,500	38,500
5,334	Total cash, cash equivalents and investments		40,554	49,380

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Rous County Council

Contents for the notes to the Financial Statements for the year ended 30 June 2022

A About Council and these financial statements	11
A1-1 Basis of preparation	11
B Financial Performance	13
B1 Functions or activities	13
B1-1 Functions or activities – income, expenses and assets	13
B1-2 Components of functions or activities	14
B2 Sources of income	15
B2-1 User charges and fees	15
B2-2 Other revenues	15
B2-3 Grants and contributions	16
B2-4 Interest and investment income	18
B2-5 Other income	18
B3 Costs of providing services	19
B3-1 Employee benefits and on-costs	19
B3-2 Materials and services	20
B3-3 Borrowing costs	20
B3-4 Depreciation, amortisation and impairment of non-financial assets	21
B3-5 Other expenses	22
B4 Gains or losses	23
B4-1 Gain or loss from the disposal, replacement and de-recognition of assets	23
B5 Performance against budget	24
B5-1 Material budget variations	24
C Financial position	26
C1 Assets we manage	26
C1-1 Cash and cash equivalents	26
C1-2 Financial investments	26
C1-3 Restricted and allocated cash, cash equivalents and investments	28
C1-4 Receivables	30
C1-5 Inventories	31
C1-6 Infrastructure, property, plant and equipment	32
C1-7 Investment properties	35
C1-8 Intangible assets	35
C2 Leasing activities	36
C2-1 Council as a lessee	36
C2-2 Council as a lessor	39
C3 Liabilities of Council	41
C3-1 Payables	41
C3-2 Contract Liabilities	41
C3-3 Borrowings	42
C3-4 Employee benefit provisions	43
C4 Reserves	44

Rous County Council

Contents for the notes to the Financial Statements for the year ended 30 June 2022

C4-1 Nature and purpose of reserves	44
D Risks and accounting uncertainties	45
D1-1 Risks relating to financial instruments held	45
D2-1 Fair value measurement	47
D3-1 Contingencies	50
E People and relationships	52
E1 Related party disclosures	52
E1-1 Key management personnel (KMP)	52
E1-2 Councillor and Mayoral fees and associated expenses	52
E2 Other relationships	53
E2-1 Audit fees	53
F Other matters	54
F1-1 Statement of Cash Flows information	54
F2-1 Commitments	54
F3-1 Events occurring after the reporting date	55
F4 Statement of developer contributions as at 30 June 2022	56
F4-1 S64 contributions	56
F5 Statement of performance measures	57
F5-1 Statement of performance measures – consolidated results	57

A About Council and these financial statements

A1-1 Basis of preparation

These financial statements were authorised for issue by Council on 19 October 2022. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (Act)* and *Local Government (General) Regulation 2021 (Regulation)*, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity. The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain infrastructure, property, plant and equipment and investment property.

Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of investment properties – refer Note C1-7
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note C1-6
- (iii) employee benefit provisions – refer Note C3-4.

Significant judgements in applying the Council's accounting policies

- (i) Determination of whether performance obligations are sufficiently specific and whether the contract is within the scope of AASB 15 *Revenue from Contracts with Customers* and / or AASB 1058 *Income of Not-for-Profit Entities* – refer to Notes B2-3.
- (ii) Determination of the lease term, discount rate (when not implicit in the lease) and whether an arrangement contains a lease – refer to Note C2-1.

Monies and other assets received by Council

The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993*, all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following activities have been included as part of the Consolidated Fund:

- Water service
- Flood mitigation services
- Biological weeds management.

A1-1 Basis of preparation (continued)

The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies.

Trust monies and property subject to Council's control have been included in these reports.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

Volunteer services

Council has no volunteer services.

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2022 reporting period.

Council has elected not to apply any of these pronouncements in these financial statements before their operative dates.

As at the date of authorisation of these financial statements Council does not consider that any of these new (and still to be applied) standards and interpretations are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

New accounting standards adopted during the year

During the year Council adopted all accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from the first time at 30 June 2022. None of these standards had a significant impact on reported position or performance.

B Financial Performance

B1 Functions or activities

B1-1 Functions or activities – income, expenses and assets

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note B1-2.

Functions or activities	Income		Expenses		Operating result		Grants and Contributions		Carrying amount of assets	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Bulk Water Supply	27,063	23,068	22,916	18,472	4,147	4,596	1,763	–	397,376	406,088
Commerical Property	116	1,287	296	420	(180)	867	–	–	2,898	3,364
Fleet Operations	96	153	5	47	91	106	–	–	2,364	2,207
Flood Mitigation	1,251	949	3,191	1,946	(1,940)	(997)	502	189	124,197	125,464
Retail Water Supply	3,056	2,620	3,069	3,014	(13)	(394)	–	–	13,388	12,475
Richmond Water Laboratories	955	789	1,268	826	(313)	(37)	–	–	452	749
Weeds Biosecurity	2,025	1,709	1,604	1,526	421	183	1,154	875	2,101	2,351
Other	–	–	–	–	–	–	–	–	12,853	–
Total functions and activities	34,562	30,575	32,349	26,251	2,213	4,324	3,419	1,064	555,629	552,698

B1-2 Components of functions or activities

Details relating to the Council's functions or activities as reported in B1-1 are as follows:

Bulk Water Supply

The regional water supply authority providing water in bulk to the local government areas of Lismore (excluding Nimbin), Ballina (excluding Wardell), Byron (excluding Mullumbimby) and Richmond Valley (excluding land to the west of Coraki).

Commerical Property

Real estate development and various rental properties.

Fleet Operations

All functions relating to vehicle investment, improving efficiency and productivity.

Flood Mitigation

Responsible for the construction, replacement and routine maintenance of various flood mitigation infrastructure. This includes floodgates and some rural drains and canals. In addition, we also have a key role in relation to an urban levee designed to protect the central business district of Lismore.

Retail Water Supply

Retail water services that are directly connected to Council's trunk main system.
Water filling stations.

Richmond Water Laboratories

Analyse water to assess drinking water quality, and offer a range of tests designed for rainwatertanks and bores. Also test the environmental quality of waste water and effluent, as well as run off and leachates from contaminated landfill sites.

Weeds Biosecurity

Wide range of activities to combat the spread of targeted weeds across the Northern Rivers region of NSW.

B2 Sources of income

B2-1 User charges and fees

	<i>Timing</i>	2022 \$ '000	2021 \$ '000
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Water supply services	1	22,423	20,840
Total specific user charges		22,423	20,840
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Private works – section 67	2	31	10
Regulatory/ statutory fees	2	47	42
Total fees and charges – statutory/regulatory		78	52
Total other user charges and fees		78	52
Total user charges and fees		22,501	20,892
Timing of revenue recognition for user charges and fees			
User charges and fees recognised over time (1)		22,423	20,840
User charges and fees recognised at a point in time (2)		78	52
Total user charges and fees		22,501	20,892

Accounting policy

Revenue arising from user charges and fees is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service or in some cases, the customer is required to pay a deposit in advance. There is no material obligation for Council in relation to refunds or returns.

Prepaid filling station keys granted by Council are all either short-term or low value and all revenue is recognised at the time that the key is granted.

B2-2 Other revenues

	<i>Timing</i>	2022 \$ '000	2021 \$ '000
Assessment on other councils	2	1,567	1,472
Water testing	2	953	785
Other	2	128	140
Total other revenue		2,648	2,397
Timing of revenue recognition for other revenue			
Other revenue recognised over time (1)		–	–
Other revenue recognised at a point in time (2)		2,648	2,397
Total other revenue		2,648	2,397

Accounting policy for other revenue

Where the revenue is earned the provision of specified goods / services under an enforceable contract, revenue is recognised when or as the obligations are satisfied.

Statutory fees and fines are recognised as revenue when the service has been provided, the payment is received or when the penalty has been applied, whichever occurs first.

Other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

B2-3 Grants and contributions

		Operating 2022 \$ '000	Operating 2021 \$ '000	Capital 2022 \$ '000	Capital 2021 \$ '000
	<i>Timing</i>				
Special purpose grants and non-developer contributions (tied)					
Cash contributions					
Previously specific grants:					
Weed biosecurity	2	1,154	875	–	–
Flood mitigation	2	369	189	–	–
Water	2	1,751	–	–	–
Previously contributions:					
Bulk supply network	2	12	17	1	47
Flood mitigation	2	133	82	–	–
Total special purpose grants and non-developer contributions – cash		3,419	1,163	1	47
Total special purpose grants and non-developer contributions (tied)		3,419	1,163	1	47
Total grants and non-developer contributions		3,419	1,163	1	47
Comprising:					
– State funding		3,274	1,064	–	–
– Other funding		145	99	1	47
		3,419	1,163	1	47

Developer contributions

		Operating 2022 \$ '000	Operating 2021 \$ '000	Capital 2022 \$ '000	Capital 2021 \$ '000
	<i>Notes</i>				
Developer contributions:					
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 64 – water supply contributions	2	–	–	5,630	5,188
Total developer contributions		–	–	5,630	5,188
Total grants and contributions		3,419	1,163	5,631	5,235
Timing of revenue recognition for grants and contributions					
Grants and contributions recognised over time (1)		402	130	–	–
Grants and contributions recognised at a point in time (2)		3,017	1,033	5,631	5,235
Total grants and contributions		3,419	1,163	5,631	5,235

B2-3 Grants and contributions (continued)

Unspent grants and contributions

Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner or in a future period but which are not yet spent in accordance with those conditions are as follows:

	Operating 2022 \$ '000	Operating 2021 \$ '000	Capital 2022 \$ '000	Capital 2021 \$ '000
Unspent grants				
Unspent grants at 1 July	180	35	-	-
Add: Funds recognised as revenue in the reporting year but not yet spent in accordance with the conditions	1,930	180	-	-
Less: Funds received in prior year but revenue recognised and funds spent in current year	(180)	(35)	-	-
Unspent grants at 30 June	1,930	180	-	-

Water grants:

- Northern Rivers March 2022 Flood Water/Sewerage Program funding from the Northern Rivers Reconstruction Corporation.

Weed grants:

- Miconia funding from the Queensland Department of Agriculture & Fisheries.
- Tropical Soda Apple landholder engagement program from NSW Department of Primary Industries

Flood grants:

- Preparing Australian Communities

Contributions

Unspent contributions at 1 July	180	152	-	-
Add: contributions recognised as revenue in the reporting year but not yet spent in accordance with the conditions	89	88	-	-
Less: contributions recognised as revenue in previous years that have been spent during the reporting year	(46)	(60)	-	-
Unspent contributions at 30 June	223	180	-	-

Flood Fund receives a number of operating contribution each year. They consist of:

- Private landholder contributions
- Constituent Council contributions for drainage union maintenance

Accounting policy

Grants and contributions – enforceable agreement with sufficiently specific performance obligations

Grant and contribution revenue from an agreement which is enforceable and contains sufficiently specific performance obligations is recognised as or when control of each performance obligations is transferred.

The performance obligations vary according to the agreement. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Performance obligations may be satisfied either at a point in time or over time and this is reflected in the revenue recognition pattern. Point in time recognition occurs when the beneficiary obtains control of the goods / services at a single time, whereas over time recognition is where the control of the services is ongoing throughout the project.

Where control is transferred over time, generally the input methods being either costs or time incurred are deemed to be the most appropriate methods to reflect the transfer of benefit.

B2-3 Grants and contributions (continued)

Capital grants

Capital grants received by Council under an enforceable contract for the acquisition or construction of infrastructure, property, plant and equipment to identified specifications which will be under Council's control on completion are recognised as revenue as and when the obligation to construct or purchase is completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project.

For acquisitions of assets, the revenue is recognised when the asset is acquired and controlled by the Council.

Developer contributions

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979* (EP&A Act).

While Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and, accordingly, would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required, but Council may apply contributions according to the priorities established in work schedules for the contribution plan.

Other grants and contributions

Assets, including cash, received from other grants and contributions are recognised at fair value when the asset is received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

Once the assets and liabilities have been recognised then income is recognised for any remaining asset value at the time that the asset is received.

B2-4 Interest and investment income

	2022 \$ '000	2021 \$ '000
Interest on financial assets measured at amortised cost		
– Overdue user fees and charges	3	1
– Cash and investments	234	367
Total interest and investment income (losses)	237	368

Accounting policy

Interest income is recognised using the effective interest rate at the date that interest is earned.

B2-5 Other income

	2022 \$ '000	2021 \$ '000
Fair value increment on investment properties	–	5
Rental income	126	200
Total other income	126	205

B3 Costs of providing services

B3-1 Employee benefits and on-costs

	2022 \$ '000	2021 \$ '000
Salaries and wages	7,536	6,664
Employee leave entitlements (ELE)	1,688	1,426
Superannuation	891	810
Workers' compensation insurance	129	127
Fringe benefit tax (FBT)	29	31
Payroll tax	308	237
Training costs (other than salaries and wages)	149	175
Other	150	128
Total employee costs	10,880	9,598
Less: capitalised costs	(689)	(498)
Total employee costs expensed	10,191	9,100

Accounting policy

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note D3-1 for more information.

B3-2 Materials and services

	Notes	2022 \$ '000	2021 \$ '000
Raw materials and consumables		5,955	5,426
Contractor and consultancy costs		4,589	2,781
Audit Fees	E2-1	73	81
Councillor fees and associated expenses	E1-2	96	109
Advertising		5	5
Bank fees		1	4
Electricity		24	31
Insurance		291	256
Postage		2	14
Printing and stationery		6	11
Subscriptions and publications		54	52
Telephone		36	36
Internal audit		13	31
Water billing and collection		53	64
Other expenses		56	75
Legal expenses:			
– Other		49	4
Expenses from leases of low value assets		70	63
Total materials and services		11,373	9,043

Accounting policy

Expenses are recorded on an accruals basis as the Council receives the goods or services.

B3-3 Borrowing costs

	2022 \$ '000	2021 \$ '000
(i) Interest bearing liability costs		
Interest on leases	2	14
Interest on loans	1,518	1,367
Total borrowing costs expensed	1,520	1,381

Accounting policy

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed as incurred.

B3-4 Depreciation, amortisation and impairment of non-financial assets

	Notes	2022 \$ '000	2021 \$ '000
Depreciation and amortisation			
Plant and equipment		357	440
Office equipment		169	122
Furniture and fittings		31	33
Land improvements (depreciable)		73	76
Infrastructure:			
– Buildings		210	126
– Water supply network		6,612	4,937
– Flood mitigation assets		683	684
Right of use assets	C2-1	202	202
Intangible assets	C1-8	266	107
Total depreciation and amortisation costs		8,603	6,727
Impairment / revaluation decrement of IPPE			
Infrastructure:			
– Buildings	C1-6	56	–
– Water supply network		404	–
Total gross IPPE impairment / revaluation decrement costs		460	–
Total IPPE impairment / revaluation decrement costs charged to Income Statement		460	–
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR INTANGIBLES AND IPP&E		9,063	6,727

Accounting policy

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note C1-6 for IPPE assets and Note C1-8 for intangible assets and Note C2-1 for right of use assets.

Depreciation is capitalised where in-house assets have contributed to new assets.

Impairment of non-financial assets

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are not tested for impairment since these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Intangible assets not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other non-financial assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

B3-5 Other expenses

	2022 \$ '000	2021 \$ '000
Other		
Contributions and donations	9	–
Total other expenses	9	–

Accounting policy

Other expenses are recorded on an accruals basis when Council has an obligation for the expenses.

Late report

B4 Gains or losses

B4-1 Gain or loss from the disposal, replacement and de-recognition of assets

	Notes	2022 \$ '000	2021 \$ '000
Gain (or loss) on disposal of property (excl. investment property)			
Proceeds from disposal – property		168	–
Less: carrying amount of property assets sold/written off		(78)	(81)
Gain (or loss) on disposal		90	(81)
Gain (or loss) on disposal of plant and equipment			
	C1-6		
Proceeds from disposal – plant and equipment		45	165
Less: carrying amount of plant and equipment assets sold/written off		(285)	(92)
Gain (or loss) on disposal		(240)	73
Gain (or loss) on disposal of infrastructure			
	C1-6		
Proceeds from disposal – infrastructure		1	–
Less: carrying amount of infrastructure assets sold/written off		(99)	(771)
Gain (or loss) on disposal		(98)	(771)
Gain (or loss) on disposal of real estate assets held for sale			
	C1-5		
Proceeds from disposal – real estate assets		–	4,268
Less: carrying amount of real estate assets sold/written off		–	(3,174)
Gain (or loss) on disposal		–	1,094
Gain (or loss) on disposal of investment property			
	C1-7		
Proceeds from disposal – investment property		850	–
Less: carrying amount of investment property sold/written off		(795)	–
Gain (or loss) on disposal		55	–
Gain (or loss) on disposal of term deposits			
	C1-2		
Proceeds from disposal/redemptions/maturities – term deposits		38,000	35,000
Less: carrying amount of term deposits sold/redeemed/matured		(38,000)	(35,000)
Gain (or loss) on disposal		–	–
Net gain (or loss) from disposal of assets		(193)	315

Accounting policy

Gains and losses on disposals are determined by comparing proceeds with carrying amount. The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

B5 Performance against budget

B5-1 Material budget variations

Council's original budget was adopted by the Council on 16/06/2021 and is not required to be audited. The original projections on which the budget was based have been affected by a number of factors. These include state and federal government decisions, including new grant programs, changing economic activity, environmental factors, and by decisions made by Council.

While these General Purpose Financial Statements include the original budget adopted by Council, the Act requires Council to review its financial budget on a quarterly basis, so it is able to manage the variation between actuals and budget that invariably occur during the year.

Material variations of more than 10% between original budget and actual results or where the variance is considered material by nature are explained below.

Variation Key: **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2022 Budget	2022 Actual	2022 ----- Variance -----	
Revenues				
User charges and fees	22,322	22,501	179	1% F
Other revenues	2,560	2,648	88	3% F
Operating grants and contributions	1,132	3,419	2,287	202% F
Grants & contributions provided for operating purposes were \$2.28M (F) (202%) above the original budget forecast. Restoration works under the Northern Rivers March 2022 Flood Program for water infrastructure assets, accounted for \$1.6M. A number of other smaller grant funded projects were received due to the February/March 2022 flood event.				
Capital grants and contributions	4,080	5,631	1,551	38% F
Grants and Contributions provided for capital purposes resulted in an increase of \$1.5M (F) (38%) above budget. The revenue increase can be attributed to increased receipts for Section 64 Developer Contributions.				
Interest and investment revenue	358	237	(121)	(34)% U
Interest and Investment revenue was \$121k (U) (34%) below the original budget. The original budget for investment interest was based on an average portfolio balance of \$13.4M calculated on an average rate of return of 1.5%. The portfolio size remained consistently higher due to Section 64 Developer Contributions and slower than anticipated cash flow requirements for capital works, with an average held balance of \$41M. However, interest rates remained low resulting in decreased returns.				
Net gains from disposal of assets	1,689	-	(1,689)	(100)% U
Net gain from the disposal of assets was \$1.6M (U) (100%) below the original budget forecast. The expected completion and sale of Perradenya release 7 land development did not progress in 2021/22.				
Other income	179	126	(53)	(30)% U
Rental income resulted in a decrease of \$53k (U) (30%) below budget. Rental income was reduced due to 4 months of no rent due to the February/March flood events. Additionally, Council's investment property was sold in November.				

B5-1 Material budget variations (continued)

\$ '000	2022 Budget	2022 Actual	2022 ----- Variance -----		
Expenses					
Employee benefits and on-costs	10,270	10,191	79	1%	F
Materials and services	11,615	11,373	242	2%	F
Borrowing costs	1,555	1,520	35	2%	F
Depreciation, amortisation and impairment of non-financial assets	7,417	9,063	(1,646)	(22)%	U
Depreciation expense exceeded budget by \$1.6M (U) (22%) when compared to the original budget. The increase is attributed to the revaluation of infrastructure assets, capitalising of St Helena 600 assets in the previous year and the impairment of flood effected assets.					
Other expenses	5	9	(4)	(80)%	U
Other Expenses were \$4k (F) (80%) above the original budget forecast. An additional two donations were made.					
Net losses from disposal of assets	-	193	(193)	∞	U
Traditionally, Council has not provided a budget for loss on disposal of assets due to the inherent difficulty in estimating proceeds from asset disposal. As a result actual loss on disposal of assets has produced a variance of \$193k (U) (100%). This loss is comprised of loss from the disposal of Infrastructure assets \$99k (U) and Plant, Property & Equipment \$238 (U), offset by \$55k (F) Investment property and \$90 (F) operational land.					
Statement of cash flows					
Cash flows from operating activities	7,186	10,947	3,761	52%	F
Cash flows from operating activities was \$3.7M (F) (52%) above the original budget forecast. The majority of the increase relates to additional retail water and filling station sales (\$1.58M) and unanticipated grant funds (\$1.5M) received for restoration works of assets damaged during natural disaster events.					
Cash flows from investing activities	(35,190)	(15,121)	20,069	(57)%	F
Cash flows from investing activities was \$20M (F) (57%) below the original budget forecast. This was due to anticipated expenditure on future water projects, pipeline upgrades and the next stage of Council's land development not progress as expected.					
Cash flows from financing activities	(3,414)	(3,652)	(238)	7%	U

C Financial position

C1 Assets we manage

C1-1 Cash and cash equivalents

	2022 \$ '000	2021 \$ '000
Cash assets		
Cash on hand and at bank	1,026	267
Cash equivalent assets		
– Deposits at call	2,028	10,613
Total cash and cash equivalents	3,054	10,880

Reconciliation of cash and cash equivalents

Total cash and cash equivalents per Statement of Financial Position	3,054	10,880
Balance as per the Statement of Cash Flows	3,054	10,880

Accounting policy

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

C1-2 Financial investments

	2022 Current \$ '000	2022 Non-current \$ '000	2021 Current \$ '000	2021 Non-current \$ '000
Debt securities at amortised cost				
Term deposits	36,000	1,500	38,000	500
Total financial investments	36,000	1,500	38,000	500
Total cash assets, cash equivalents and investments	39,054	1,500	48,880	500

Accounting policy

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and

continued on next page ...

C1-2 Financial investments (continued)

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise trade and other receivables, term deposits and cash and cash equivalents in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

Late report

C1-3 Restricted and allocated cash, cash equivalents and investments

	2022 \$ '000	2021 \$ '000
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(a) Externally restricted cash, cash equivalents and investments

Total cash, cash equivalents and investments	40,554	49,380
Less: Externally restricted cash, cash equivalents and investments	<u>(5,428)</u>	<u>(4,081)</u>
Cash, cash equivalents and investments not subject to external restrictions	35,126	45,299

External restrictions

External restrictions – included in liabilities

External restrictions included in cash, cash equivalents and investments above comprise:

Other	227	821
Specific purpose unexpended grants – general fund	<u>–</u>	<u>176</u>
External restrictions – included in liabilities	227	997

External restrictions – other

External restrictions included in cash, cash equivalents and investments above comprise:

Specific purpose unexpended grants (recognised as revenue) – general fund	1,930	4
Other	<u>3,271</u>	<u>3,080</u>
External restrictions – other	5,201	3,084
Total external restrictions	5,428	4,081

Cash, cash equivalents and investments subject to external restrictions are those which are only available for specific use by Council due to a restriction placed by legislation or third-party contractual agreement.

	2022 \$ '000	2021 \$ '000
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(b) Internal allocations

Cash, cash equivalents and investments not subject to external restrictions	35,126	45,299
Less: Internally restricted cash, cash equivalents and investments	<u>(32,421)</u>	<u>(43,869)</u>
Unrestricted and unallocated cash, cash equivalents and investments	2,705	1,430

Internal allocations

At 30 June, Council has internally allocated funds to the following:

Flood Fund	689	802
Weeds Bio Fund	1,410	1,131
Retail Water Fund	2,914	2,564
Richmond Water Laboratories Fund	252	400
Commercial Property Fund	1,811	1,103
Fleet Fund	1,458	1,110
Bulk Fund - Building & structures	738	188
Bulk Fund - Assets & programs	16,441	30,676
Bulk Fund - Employees leave entitlement	2,339	2,264
Bulk Fund - Electricity	2,610	2,587
Bulk Fund - Office equipment & computers	1,473	936
Bulk Fund - Greenhouse gas abatement	<u>286</u>	<u>108</u>
Total internal allocations	32,421	43,869

Cash, cash equivalents and investments not subject to external restrictions may be internally allocated by resolution or

C1-3 Restricted and allocated cash, cash equivalents and investments (continued)

policy of the elected Council.

	2022	2021
	\$ '000	\$ '000
(c) Unrestricted and unallocated		
Unrestricted and unallocated cash, cash equivalents and investments	2,705	1,430

Late report

C1-4 Receivables

	2022 Current \$ '000	2022 Non-current \$ '000	2021 Current \$ '000	2021 Non-current \$ '000
User charges and fees	668	–	71	–
Accrued revenues				
– Interest on investments	99	–	122	–
– Other income accruals	1,554	–	893	–
Finance lease receivable	6	–	74	13
Government grants and subsidies	171	–	145	–
Sundry debtors	234	–	543	–
Other debtors	262	–	234	–
Total	2,994	–	2,082	13
Total net receivables	2,994	–	2,082	13

Accounting policy

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Impairment

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rates debtors, Council uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Council uses the presentation that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Council in full, without recourse by the Council to actions such as realising security (if any is held) or
- the financial assets (for non-rates debtors) are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

None of the receivables that have been written off are subject to enforcement activity.

Where the Council renegotiates the terms of receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Rates and annual charges outstanding are secured against the property.

C1-5 Inventories

	2022 Current \$ '000	2022 Non-current \$ '000	2021 Current \$ '000	2021 Non-current \$ '000
Inventories at cost				
Real estate for resale (refer to (i) below)	85	892	48	936
Stores and materials	375	226	388	226
Total inventories at cost	460	1,118	436	1,162
Total inventories	460	1,118	436	1,162

(i) Real estate development

Residential – undeveloped	85	892	48	936
Total real estate for resale	85	892	48	936

Accounting policy

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Real estate held for resale/capitalisation of borrowing costs

Real estate held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed, borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of real estate held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

C1-6 Infrastructure, property, plant and equipment

By aggregated asset class	At 1 July 2021			Asset movements during the reporting period								At 30 June 2022		
	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000	Additions renewals ¹ \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	Impairment loss / revaluation decrements (recognised in P/L) \$ '000	Transfers \$ '000	Revaluation decrements to equity (ARR) \$ '000	Revaluation increments to equity (ARR) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000
Capital work in progress	4,704	–	4,704	1,177	1,285	(549)	–	–	(3,477)	–	–	3,140	–	3,140
Plant and equipment	4,508	(3,311)	1,197	–	330	(96)	(357)	–	–	–	–	3,509	(2,435)	1,074
Office equipment	2,021	(1,663)	358	–	73	(6)	(169)	–	–	–	–	2,070	(1,814)	256
Furniture and fittings	755	(401)	354	–	–	(184)	(31)	–	–	–	–	492	(353)	139
Land:														
– Operational land	10,506	–	10,506	–	3,345	(78)	–	–	–	–	4,447	18,220	–	18,220
– Non-depreciable land improvements	2,374	–	2,374	–	–	–	–	–	–	–	576	2,951	–	2,951
– Depreciable land improvements	3,371	(963)	2,408	–	–	–	(73)	–	(168)	–	458	3,594	(969)	2,625
Infrastructure:														
– Buildings	4,555	(2,625)	1,930	–	3,505	–	(210)	(56)	4,069	–	–	13,429	(4,191)	9,238
– Water supply network	486,651	(136,958)	349,693	3,745	3,854	(90)	(6,612)	(404)	(424)	(8,768)	–	499,042	(158,048)	340,994
– Flood mitigation	136,393	(12,831)	123,562	12	–	(9)	(683)	–	–	–	7,829	144,757	(14,046)	130,711
Total infrastructure, property, plant and equipment	655,838	(158,752)	497,086	4,934	12,392	(1,012)	(8,135)	(460)	–	(8,768)	13,310	691,204	(181,856)	509,348

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

C1-6 Infrastructure, property, plant and equipment (continued)

By aggregated asset class	At 1 July 2020 ¹			Asset movements during the reporting period						At 30 June 2021		
	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000	Additions renewals ¹ \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	Transfers \$ '000	Revaluation increments to equity (ARR) ¹ \$ '000	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000
Capital work in progress	12,004	–	12,004	1,909	1,817	–	–	(11,027)	–	4,704	–	4,704
Plant and equipment	4,232	(3,077)	1,155	–	505	(92)	(440)	70	–	4,508	(3,311)	1,197
Office equipment	1,809	(1,541)	268	–	212	–	(122)	–	–	2,021	(1,663)	358
Furniture and fittings	734	(368)	366	–	21	–	(33)	–	–	755	(401)	354
Land:												
– Operational land	10,506	–	10,506	–	–	–	–	–	–	10,506	–	10,506
Land improvements – non-depreciable	2,374	–	2,374	–	–	–	–	–	–	2,374	–	2,374
Land improvements – depreciable	3,247	(887)	2,360	–	–	–	(76)	124	–	3,371	(963)	2,408
Infrastructure:												
– Buildings	4,853	(2,846)	2,007	–	104	(81)	(126)	26	–	4,555	(2,625)	1,930
– Water supply network	468,146	(132,655)	335,491	3,891	2,772	(738)	(4,937)	10,152	3,062	486,651	(136,958)	349,693
– Flood mitigation	136,357	(12,167)	124,190	84	–	(33)	(684)	5	–	136,393	(12,831)	123,562
Total infrastructure, property, plant and equipment	644,262	(153,541)	490,721	5,884	5,431	(944)	(6,418)	(650)	3,062	655,838	(158,752)	497,086

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

C1-6 Infrastructure, property, plant and equipment (continued)

Accounting policy

Initial recognition of infrastructure, property, plant and equipment (IPPE)

IPPE is measured initially at cost. Cost includes the fair value of the consideration given to acquire the asset (net of discounts and rebates) and any directly attributable cost of bringing the asset to working condition for its intended use (inclusive of import duties and taxes).

When infrastructure, property, plant and equipment is acquired by Council at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Useful lives of IPPE

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

	Useful lives
Equipment, furniture and fittings	2 - 20 yrs
Land	Infinite
Land improvements	5 - 20 yrs
Infrastructure:	
– Buildings and other structures	20 - 100 yrs
– Bulk earthworks	Infinite
– Water supply network	15 - 150 yrs
– Open space / recreational assets	5 - 20 yrs
– Flood mitigation infrastructure	20 - 100 yrs

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Revaluation model

Infrastructure, property, plant and equipment are held at fair value. Comprehensive valuations are performed at least every 5 years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Planning, Industry and Environment – Water. Flood mitigation assets have been indexed for 2022 based on indexation rates provided by an independent valuer. Operational land and non-depreciable land improvements have been indexed for 2022 based on rates provided by the Valuer General.

Increases in the carrying amounts arising on revaluation are credited to the IPPE revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against IPPE revaluation reserve to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

C1-7 Investment properties

	2022 \$ '000	2021 \$ '000
Owned investment property		
Investment property on hand at fair value	–	795
Total owned investment property	–	795
At fair value		
Opening balance at 1 July	795	790
Disposals during year	(795)	–
Net gain/(loss) from fair value adjustments	–	5
Closing balance at 30 June	–	795

Accounting policy

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the Income Statement as part of other income.

C1-8 Intangible assets

Intangible assets are as follows:

	2022 \$ '000	2021 \$ '000
Software		
Opening values at 1 July		
Gross book value	1,787	1,145
Accumulated amortisation	(1,015)	(908)
Net book value – opening balance	772	237
Movements for the year		
Purchases	–	642
Amortisation charges	(266)	(107)
Closing values at 30 June		
Gross book value	1,787	1,787
Accumulated amortisation	(1,281)	(1,015)
Total software – net book value	506	772
Total intangible assets – net book value	506	772

Accounting policy

IT development and software

Software development costs include only those costs directly attributable to the development phase (including external direct costs of materials and services, direct payroll, and payroll-related costs of employees' time spent on the project) and are only recognised following completion of technical feasibility, and where the Council has an intention and ability to use the asset. Amortisation is calculated on a straight-line basis over periods generally ranging from three to ten years.

C2 Leasing activities

C2-1 Council as a lessee

Council has leases over buildings. Information relating to the leases in place and associated balances and transactions is provided below.

Buildings

Council leases land and buildings for their corporate office; the lease is generally 5 years and includes a renewal option to allow Council to renew for up to twice the noncancellable lease term at their discretion.

The building lease contains an annual pricing mechanism based on CPI movements at each anniversary of the lease inception.

Extension options

Council includes options in the building lease to provide flexibility and certainty to Council operations and reduce costs of moving premises; and the extension options are at Council's discretion.

At commencement date and each subsequent reporting date, Council assesses where it is reasonably certain that the extension options will be exercised.

There are \$312,000 in potential future lease payments which are not included in lease liabilities as Council has assessed that the exercise of the option is not reasonably certain.

(a) Right of use assets

	<i>Administration building \$ '000</i>	<i>Total \$ '000</i>
2022		
Opening balance at 1 July	293	293
Adjustments due to re-measurement of lease liability	(57)	(57)
Depreciation charge	(202)	(202)
Balance at 30 June	34	34
2021		
Opening balance at 1 July	562	562
Adjustments due to re-measurement of lease liability	(67)	(67)
Depreciation charge	(202)	(202)
Balance at 30 June	293	293

(b) Lease liabilities

	<i>2022 Current \$ '000</i>	<i>2022 Non-current \$ '000</i>	<i>2021 Current \$ '000</i>	<i>2021 Non-current \$ '000</i>
Lease liabilities	50	-	312	49
Total lease liabilities	50	-	312	49

C2-1 Council as a lessee (continued)

(c) (i) The maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

	<i>< 1 year \$ '000</i>	<i>1 – 5 years \$ '000</i>	<i>> 5 years \$ '000</i>	<i>Total \$ '000</i>	<i>Total per Statement of Financial Position \$ '000</i>
2022					
Cash Flows	50	–	–	50	50
2021					
Cash Flows	312	52	–	364	361

(d) Income Statement

The amounts recognised in the Income Statement relating to leases where Council is a lessee are shown below:

	<i>2022 \$ '000</i>	<i>2021 \$ '000</i>
Interest on lease liabilities	2	14
Interest income from sub-leasing right of use assets	3	7
Depreciation of right of use assets	202	202
Expenses relating to low-value leases	70	63
	277	286

(e) Statement of Cash Flows

Total cash outflow for leases	157	230
	157	230

Accounting policy

At inception of a contract, Council assesses whether a lease exists – i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration?

Council has elected not to separate non-lease components from lease components for any class of asset and has accounted for payments as a single component.

At the lease commencement, Council recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where Council believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives received. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Council's incremental borrowing rate for a similar term with similar security is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured when there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

C2-1 Council as a lessee (continued)

Exceptions to lease accounting

Council has applied the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. Council recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Late report

C2-2 Council as a lessor

(a) Operating leases

Council leases out a number of properties; these leases have been classified as operating leases for financial reporting purposes and the assets are included in the Statement of Financial Position as:

- investment property – where the asset is held predominantly for rental or capital growth purposes (refer note C1-7)
- property, plant and equipment – where the rental is incidental, or the asset is held to meet Councils service delivery objective (refer note C1-6).

	2022 \$ '000	2021 \$ '000
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(i) Assets held as investment property

Investment property operating leases relate to Council owned buildings not required for the operations of Council business.

The amounts recognised in the Income Statement relating to operating leases where Council is a lessor are shown below

Lease income (excluding variable lease payments not dependent on an index or rate)	30	79
Total income relating to operating leases for investment property assets	30	79

Operating lease expenses

Direct operating expenses that generated rental income	8	9
Direct operating expenses that did not generate rental income	6	4
Total expenses relating to operating leases	14	13

Repairs and maintenance: investment property

Other	10	11
Total repairs and maintenance: investment property	10	11

(ii) Assets held as property, plant and equipment

Council provides operating leases on Council land and buildings that are currently not required for operational purposes.

Lease income (excluding variable lease payments not dependent on an index or rate)	70	113
Total income relating to operating leases for Council assets	70	113

Other leased assets expenses

Other	48	37
Total expenses relating to other leases assets	48	37

(iii) Maturity analysis of undiscounted lease payments to be received after reporting date for all operating leases:

Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:

< 1 year	55	54
Total undiscounted lease payments to be received	55	54

C2-2 Council as a lessor (continued)

(b) Finance leases

	2022 \$ '000	2021 \$ '000
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Council has sub-leased a section of the Administration building and has classified this as finance leases since the sub-lease is for the remaining life of the Council's lease to the building.

Finance income on the net investment in the lease	52	76
Total Income relating to finance leases	52	76

Maturity analysis of undiscounted lease payments to be received after reporting date for finance leases:

< 1 year	6	74
1–2 years	–	13
Total lease payments receivable	6	87

Unearned finance income	–	1
Net investment in the lease	12	86

Accounting policy

When Council is a lessor, the lease is classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When Council has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components, the non-lease components are accounted for in accordance with AASB 15 *Revenue from Contracts with Customers*.

The lease income is recognised on a straight-line basis over the lease term for an operating lease and as finance income using amortised cost basis for finance leases.

C3 Liabilities of Council

C3-1 Payables

	2022 Current \$ '000	2022 Non-current \$ '000	2021 Current \$ '000	2021 Non-current \$ '000
Goods and services	1,251	–	608	–
Capital creditors	809	–	1,224	–
Accrued expenses:				
– Borrowings	241	–	280	–
– Salaries and wages	136	–	–	–
Accrued expenses	463	–	328	–
Other	7	–	–	–
Total payables	2,907	–	2,440	–

Accounting policy

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

Payables represent liabilities for goods and services provided to Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition

C3-2 Contract Liabilities

	2022 Current \$ '000	2022 Non-current \$ '000	2021 Current \$ '000	2021 Non-current \$ '000
Funds held on behalf of other entities	228	–	926	–
Contributions received prior to performance obligation being satisfied	–	–	71	–
Total contract liabilities	228	–	997	–

Significant changes in contract liabilities

Council occasionally holds funds on behalf of other government entities.

Accounting policy

Contract liabilities are recorded when consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

C3-3 Borrowings

	2022 Current \$ '000	2022 Non-current \$ '000	2021 Current \$ '000	2021 Non-current \$ '000
Loans – secured	3,605	25,355	3,398	28,960
Total borrowings	3,605	25,355	3,398	28,960

(a) Changes in liabilities arising from financing activities

	2021		Non-cash movements				2022
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Acquisition due to change in accounting policy \$ '000	Other non-cash movement \$ '000	Closing balance \$ '000
Loans – secured	32,358	(3,398)	–	–	–	–	28,960
Lease liability (Note C2-1b)	361	(311)	–	–	–	–	50
Total liabilities from financing activities	32,719	(3,709)	–	–	–	–	29,010

	2020		Non-cash movements				2021
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Acquisition due to change in accounting policy \$ '000	Other non-cash movement \$ '000	Closing balance \$ '000
Loans – secured	21,559	(2,701)	13,500	–	–	–	32,358
Lease liability (Note C2-1b)	659	(230)	–	–	–	(68)	361
Total liabilities from financing activities	22,218	(2,931)	13,500	–	–	(68)	32,719

(b) Financing arrangements

	2022 \$ '000	2021 \$ '000
Total facilities		
Bank overdraft facilities ¹	100	100
Credit cards/purchase cards	110	110
Total financing arrangements	210	210
Undrawn facilities		
– Bank overdraft facilities	100	100
– Credit cards/purchase cards	110	110
Total undrawn financing arrangements	210	210

(1) The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

Accounting policy

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or borrowing costs.

C3-4 Employee benefit provisions

	2022	2022	2021	2021
	Current	Non-current	Current	Non-current
	\$ '000	\$ '000	\$ '000	\$ '000
Annual leave	833	–	695	–
Long service leave	1,515	41	1,486	39
TIL	61	–	44	–
Total employee benefit provisions	2,409	41	2,225	39

Current employee benefit provisions not anticipated to be settled within the next twelve months

	2022	2021
	\$ '000	\$ '000
The following provisions, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	1,701	1,546
	1,701	1,546

Accounting policy

Employee benefit provisions are presented as current liabilities in the Statement of Financial Position if Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur and therefore all annual leave and vested long service leave (or that which vests within 12 months) is presented as current.

Short-term obligations

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

On-costs

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation, payroll tax and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

C4 Reserves

C4-1 Nature and purpose of reserves

IPPE Revaluation reserve

The infrastructure, property, plant and equipment (IPPE) revaluation reserve is used to record increments and decrements in the revaluation of infrastructure, property, plant and equipment.

Late report

D Risks and accounting uncertainties

D1-1 Risks relating to financial instruments held

Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The finance team manages the cash and Investments portfolio with the assistance of independent advisors. Council has an investment policy which complies with the s 625 of the Act and the Ministerial Investment Order. The policy is regularly reviewed by Council and a monthly investment report is provided to Council setting out the make-up performance of the portfolio as required by local government regulations.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the finance team under policies approved by the Councillors.

The fair value of Council's financial assets and financial liabilities approximates their carrying amount.

The risks associated with the financial instruments held are:

- interest rate risk – the risk that movements in interest rates could affect returns
- liquidity risk – the risk that Council will not be able to pay its debts as and when they fall due.
- credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument, resulting in a financial loss to the Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees. Council also seeks advice from independent advisers before placing any cash and investments.

(a) Market risk – interest rate and price risk

	2022 \$ '000	2021 \$ '000
--	-----------------	-----------------

The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

Impact of a 1% movement in interest rates – Equity / Income Statement	401	494
--	-----	-----

(b) Credit risk

Council's major receivables comprise user charges and fees, contributions from constituent councils and sundry debtors.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Credit risk on annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts - that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue annual charges and fees at higher than market rates which further encourages the payment of debt.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

D1-1 Risks relating to financial instruments held (continued)

Receivables - non-rates and annual charges

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses, which permits the use of the lifetime expected loss provision at inception. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision is determined as follows. The expected credit losses incorporate forward-looking information.

	Not yet overdue \$ '000	Overdue debts				Total \$ '000
		0 - 30 days \$ '000	31 - 60 days \$ '000	61 - 90 days \$ '000	> 91 days \$ '000	
2022						
Gross carrying amount	2,804	–	–	–	190	2,994
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	26.00%	1.65%
ECL provision	–	–	–	–	49	49
2021						
Gross carrying amount	2,008	–	3	56	28	2,095
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	100.00%	1.34%
ECL provision	–	–	–	–	28	28

(c) Liquidity risk

Payables, lease liabilities and borrowings are both subject to liquidity risk; that is, the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels, and by maintaining an adequate cash buffer. Payment terms can be extended, and overdraft facilities drawn upon in extenuating circumstances.

Borrowings are also subject to interest rate risk: the risk that movements in interest rates could adversely affect funding costs. Council manages this risk through diversification of borrowing types, maturities and interest rate structures.

The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

The amounts disclosed in the table are the undiscounted contracted cash flows for non-lease liabilities (refer to Note C2-1(b) for lease liabilities) and therefore the balances in the table may not equal the balances in the Statement of Financial Position due to the effect of discounting.

	Weighted average interest rate %	Subject to no maturity \$ '000	payable in:			Total cash outflows \$ '000	Actual carrying values \$ '000
			≤ 1 Year \$ '000	1 - 5 Years \$ '000	> 5 Years \$ '000		
2022							
Payables	0.00%	–	1,859	–	–	1,859	2,907
Borrowings	6.02%	–	4,955	17,864	12,744	35,563	28,960
Total financial liabilities		–	6,814	17,864	12,744	37,422	31,867
2021							
Payables	0.00%	–	2,440	–	–	2,440	2,440
Borrowings	6.02%	–	4,955	19,184	16,378	40,517	32,358
Total financial liabilities		–	7,395	19,184	16,378	42,957	34,798

D2-1 Fair value measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Infrastructure, property, plant and equipment
- Investment property

Fair value hierarchy

All assets and liabilities measured at fair value are assigned to a level in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

The table below shows the assigned level for each asset and liability held at fair value by Council:

\$ '000	Notes	Fair value measurement hierarchy							
		Date of latest valuation		Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
		2022	2021	2022	2021	2022	2021	2022	2021
Recurring fair value measurements									
Investment property C1-7									
Commercial property		31/10/21	30/06/21	–	795	–	–	–	795
Total investment property				–	795	–	–	–	795
Infrastructure, property, plant and equipment C1-6									
Buildings		30/06/18	30/06/18	–	–	9,238	1,930	9,238	1,930
Land		30/06/18	30/06/18	–	–	18,220	10,506	18,220	10,506
Non-depreciable land improvements		30/06/17	30/06/17	–	–	2,951	2,374	2,951	2,374
Depreciable land improvements		31/12/21	30/06/17	–	–	2,625	2,408	2,625	2,408
Water infrastructure: water distribution assets		31/12/21	30/06/17	–	–	166,313	175,531	166,313	175,531
Water infrastructure: dams and treatment assets		31/12/21	30/6/17	–	–	174,681	174,161	174,681	174,161
Flood mitigation infrast.		30/06/20	30/6/20	–	–	130,711	123,562	130,711	123,562
Total infrastructure, property, plant and equipment				–	–	504,739	490,472	504,739	490,472

Valuation techniques

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Investment property

For Investment property, council obtains external valuations by independent valuers on an annual basis.

Council sold its only listed Investment property during the year. At present there are no other building assets classified as Investment property.

D2-1 Fair value measurement (continued)

Infrastructure, property, plant and equipment (IPPE)

For land, buildings and infrastructure council obtains external valuations by independent valuers every five years. The last revaluation was performed by:

- Water Infrastructure – APV Valuers & Asset Management for the 2021/22 financial year. APV Valuers & Asset Management is an independent entity and is not an employee of Council.
- Flood Mitigation Infrastructure – Assetic for the 2019/20 financial year. Assetic is an independent entity and is not an employee of Council.
- Land & Buildings – Taylor Byrne Pty Ltd for the 2017/18 financial year. Taylor Byrne Pty Ltd is an independent entity and is not an employee of Council.

At the end of each reporting period a fair value assessment is made on any movements since the last revaluation, and a determination as to whether any adjustments need to be made. These adjustments are made by way of application of indices.

In accordance with AASB 13 Fair Value Measurement no assets have been found to have a higher and better use than their current use. Highest and best use takes account of use that is physically possible, legally permissible and financially feasible.

The following non-current assets categorised above have been measured as either level 2 or level 3 based on the following valuation techniques and inputs:

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Council considers information from a variety of sources, including:

- Current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.
- Discounted cash flow projections based on reliable estimates of future cash flows.
- Capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

All resulting fair value estimates for properties are included in level 3.

Specialised buildings were valued using the cost approach using professionally qualified Registered Valuers. The approach estimated replacement cost for each building componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on square metres could be supported from market evidence (level 2) other inputs (such as estimates of useful life, pattern of consumption and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs.

Newly Completed Buildings are categorised as level 2, as the initial measurement is recognised at cost and is represented accordingly until subject to revaluation. This is considered appropriate as, once assets are brought into use, there is no longer an identical correlation with the "shelf product". Council did not have any of these assets at reporting date.

For infrastructure, many assets are of a specialised nature or use, and thus the most appropriate valuation method is current replacement cost. These assets are included as Level 3 as these assets have a high level of unobservable inputs.

For non-specialised assets with short useful lives, AASB 13 allows recognition at depreciated historical cost as an acceptable surrogate for fair value as differences are considered immaterial.

Water Infrastructure Assets

Council's water infrastructure assets include Distributions Assets (such as water pipelines), Treatment Assets (such as treatment plants) and Source Assets (such as Rocky Creek Dam) and Catchment Assets.

These assets are valued by an external valuer every 5 years using the cost approach.

In between full revaluations, these assets are indexed each year in line with the NSW Reference Rates Manuals as published by the NSW Office of Water.

Whilst the unit rates based on linear metres of certain diameter pipes and prices per unit per pit or similar capacity can be supported by market evidence (Level 2), other inputs (such as estimates or residual value, useful life, pattern of consumption and asset condition) require extensive professional judgement and impact significantly on the final determination of fair value.

D2-1 Fair value measurement (continued)

As such, this asset class is classified as being valued using Level 3 inputs. There has been no change to the valuation process during the reporting period.

The current replacement cost of each asset is calculated to assess fair value. The current replacement cost of the individual infrastructure assets is assessed by referencing to building costs in external publications such as the Rawlinson's Australian Construction Handbook and with allowances made for the regional locations as well as internal project costs for similar assets. The useful economic life of the assets is assessed in accordance with Council's Asset Capitalisation Policy as described in Note A1-1. The remaining economic life is assessed based upon physical depreciation and obsolescence. The council provides details to the valuer, of any known structural faults and future planning which may involve the demolition or removal of an asset. Any new assets constructed in between full revaluation years are included and where refurbishment has been undertaken the capital expenditure is reflected in the remaining life of the asset.

Construction costs used to establish gross replacement cost are not expected to have significant variations, unless new construction is impacted by building/construction variations. Sensitivity to changes in unobservable inputs may significantly impact on fair value. Council's exposure to sensitivity of the unobservable inputs is generally limited to the projected increase in infrastructure construction costs which has historically been in the range of 2-5% per annum. Disclosure of additional quantitative information about significant unobservable inputs is considered immaterial.

Flood Mitigation Infrastructure

The current replacement cost of each asset is calculated to assess fair value. The current replacement cost of the individual infrastructure assets is assessed by referencing to building costs in external publications such as the Rawlinson's Australian Construction Handbook and with allowances made for the regional locations as well as internal project costs for similar assets. The useful economic life of the assets is assessed in accordance with Council's Asset Capitalisation Policy as described in Note A1-1. The remaining economic life is assessed based upon physical depreciation and obsolescence. The council provides details to the valuer, of any known structural faults and future planning which may involve the demolition or removal of an asset. Any new assets constructed in between full revaluation years are included and where refurbishment has been undertaken the capital expenditure is reflected in the remaining life of the asset.

Construction costs used to establish gross replacement cost are not expected to have significant variations, unless new construction is impacted by building/construction variations. The Council is not aware of any sensitivity to changes in unobservable inputs that may significantly impact on fair value.

Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.

D3-1 Contingencies

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.
- Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.
- The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

Description of the funding arrangements.

Pooled Employers are required to pay future service employer contributions and past service employer contributions to the Fund.

The future service employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current future service employer contribution rates are:

Division B	1.9 times member contributions for non-180 Point Members; Nil for 180 Point Members*
Division C	2.5% salaries
Division D	1.64 times member contributions

* For 180 Point Members, Employers are required to contribute 7.5% of salaries for the year ending 30 June 2022 (increasing to 8.0% in line with the increase in the Superannuation Guarantee) to these members' accumulation accounts, which are paid in addition to members' defined benefits.

The past service contribution for each Pooled Employer is a share of the total past service contributions of \$40.0 million for 1 July 2019 to 31 December 2021 and \$20.0 million per annum for 1 January to 31 December 2024, apportioned according to each employer's share of the accrued liabilities as at 30 June 2021. These past service contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan

As stated above, each sponsoring employer (Council) is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

There is no provision for allocation of any surplus which may be present at the date of withdrawal of an employer.

D3-1 Contingencies (continued)

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2022 was \$62,627.35. The last valuation of the Scheme was performed by the Fund Actuary, Richard Boyfield FIAA, and covers the period ended 30 June 2021.

Council's expected contribution to the plan for the next annual reporting period is \$49,806.24.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2022 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	2,376.6	
Past Service Liabilities	2,380.7	99.8%
Vested Benefits	2,391.7	99.4%

* excluding member accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$18,911.76 as at 30 June 2022.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment return	5.5% per annum
Salary inflation *	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group.

Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Funds Actuary, the final end of year review, which will be a triennial actuarial investigation will be completed by December 2022.

E People and relationships

E1 Related party disclosures

E1-1 Key management personnel (KMP)

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

	2022	2021
	\$ '000	\$ '000
Compensation:		
Short-term benefits	336	321
Post-employment benefits	24	23
Other long-term benefits	25	3
Total	385	347

E1-2 Councillor and Mayoral fees and associated expenses

	2022	2021
	\$ '000	\$ '000
The aggregate amount of Councillor and Mayoral fees and associated expenses included in materials and services expenses in the Income Statement are:		
Chairperson's fee	14	17
Councillors' fees	69	81
Councillors' (incl. Chairperson) expenses	13	11
Total	96	109

E2 Other relationships

E2-1 Audit fees

	2022 \$ '000	2021 \$ '000
During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms		
Auditors of the Council - NSW Auditor-General:		
(i) Audit and other assurance services		
Audit and review of financial statements	73	81
Remuneration for audit and other assurance services	73	81
Total Auditor-General remuneration	73	81
Non NSW Auditor-General audit firms		
Total audit fees	73	81

Late report

F Other matters

F1-1 Statement of Cash Flows information

Reconciliation of net operating result to cash provided from operating activities

	2022 \$ '000	2021 \$ '000
Net operating result from Income Statement	2,213	4,324
Add / (less) non-cash items:		
Depreciation and amortisation	8,603	6,727
(Gain) / loss on disposal of assets	193	(315)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investment property	–	(5)
– Revaluation decrements / impairments of IPP&E direct to P&L	460	–
Movements in operating assets and liabilities and other cash items:		
(Increase) / decrease of receivables	(899)	503
(Increase) / decrease of inventories	13	(11)
(Increase) / decrease of other current assets	65	(123)
Increase / (decrease) in payables	643	103
Increase / (decrease) in accrued interest payable	(39)	(10)
Increase / (decrease) in other accrued expenses payable	271	(664)
Increase / (decrease) in other liabilities	7	(6)
Increase / (decrease) in contract liabilities	(769)	913
Increase / (decrease) in employee benefit provision	186	174
Net cash flows from operating activities	10,947	11,610

F2-1 Commitments

Capital commitments (exclusive of GST)

	2022 \$ '000	2021 \$ '000
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	257	83
Plant and equipment	26	197
Infrastructure	6,603	12,940
Land development	106	157
Total commitments	6,992	13,377

Details of capital commitments

Council has committed to progressing the St Helena 600 upgrade.

F3-1 Events occurring after the reporting date

The financial impact of COVID-19 on Council has not been material, with service levels to the constituent councils and members of the public maintained.

As at 30 June 2022, Council assessed the impact of COVID-19 on the fair value of its non-current physical and financial assets. These assets include land, buildings, infrastructure and receivables. This was based on historical sales information, expectation of macroeconomic conditions and outlook at the time of assessment. Given continued uncertainty of the COVID-19 factor, it is possible that post 30 June 2022 there may be some new evidence that impacts this fair value assessment materially.

There are no other known events that would impact on the Council or have a material impact on the financial statements.

Late report

F4 Statement of developer contributions as at 30 June 2022

Under the Environmental Planning and Assessment Act 1979, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas. It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

F4-1 S64 contributions

	Opening balance at 1 July 2021 \$ '000	Contributions received during the year		Interest and investment income earned \$ '000	Amounts expended \$ '000	Internal borrowings \$ '000	Held as restricted asset at 30 June 2022 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000					
S64								
S64 contributions	–	5,630	–	–	(5,630)	–	–	–
Total	–	5,630	–	–	(5,630)	–	–	–

Late report

F5 Statement of performance measures

F5-1 Statement of performance measures – consolidated results

\$ '000	Amounts 2022	Indicator 2022	Indicators 2021	Indicators 2020	Benchmark
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(2,765)	(9.56)%	(4.92)%	(8.08)%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	28,931				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	25,512	73.82%	78.85%	81.07%	> 60.00%
Total continuing operating revenue ¹	34,562				
3. Unrestricted current ratio					
Current assets less all external restrictions	39,194	4.26x	7.03x	5.24x	> 1.50x
Current liabilities less specific purpose liabilities	9,199				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	7,358	1.42x	1.59x	1.54x	> 2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	5,172				
5. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	40,554	19.01	25.80	18.31	> 3.00
Monthly payments from cash flow of operating and financing activities	2,133	months	months	months	months

(1) Excludes fair value increments on investment properties, reversal of revaluation decrements, reversal of impairment losses on receivables, net gain on sale of assets and net share of interests in joint ventures and associates using the equity method and includes pensioner rate subsidies

(2) Excludes impairment/revaluation decrements of IPPE, fair value decrements on investment properties, net loss on disposal of assets and net loss on share of interests in joint ventures and associates using the equity method

End of the audited financial statements

Rous County Council

General Purpose Financial Statements

for the year ended 30 June 2022

Independent Auditor's Reports:

On the Financial Statements (Sect 417 [2])

Independent Auditor's Report

Please uplift Council's Audit Report PDF (opinion) for inclusion in the GPFS report (via the Home screen).

Late report

Rous County Council

General Purpose Financial Statements

for the year ended 30 June 2022

Independent Auditor's Reports: (continued)

On the Financial Statements (Sect 417 [3])

Independent Auditor's Report

Please uplift Council's Audit Report PDF (commentary) for inclusion in the GPFS report (via the Home screen).

Late report

Late report

Rous County Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2022



Rous County Council

Special Purpose Financial Statements

for the year ended 30 June 2022

Contents	Page
Statement by Councillors and Management	3
Special Purpose Financial Statements:	
Income Statement of water supply business activity	4
Income Statement of Land	5
Income Statement of Commercial Property	6
Statement of Financial Position of water supply business activity	7
Statement of Financial Position of Land	8
Statement of Financial Position of Commercial Property	9
Note – Significant Accounting Policies	10
Auditor's Report on Special Purpose Financial Statements	13

Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Rous County Council

Special Purpose Financial Statements

for the year ended 30 June 2022

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government *Code of Accounting Practice and Financial Reporting*,
- the NSW Office of Water *Best-Practice Management of Water and Sewerage Guidelines*.

To the best of our knowledge and belief, these statements:

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 19 October 2022.

Robert Mustow
Chairperson
19 October 2022

Sharon Cadwallader
Deputy Chairperson
19 October 2022

Phillip Rudd
General Manager
19 October 2022

Guy Bezrouchko
Responsible Accounting Officer
19 October 2022

Rous County Council

Income Statement of water supply business activity

for the year ended 30 June 2022

	2022 \$ '000	2021 \$ '000
Income from continuing operations		
User charges	22,470	20,882
Interest and investment income	212	336
Grants and contributions provided for operating purposes	1,763	18
Other income	139	155
Total income from continuing operations	24,584	21,391
Expenses from continuing operations		
Employee benefits and on-costs	8,431	7,354
Borrowing costs	1,520	1,381
Materials and services	7,787	7,006
Depreciation, amortisation and impairment	8,221	5,911
Net loss from the disposal of assets	22	666
Other expenses	9	–
Total expenses from continuing operations	25,990	22,318
Surplus (deficit) from continuing operations before capital amounts	(1,406)	(927)
Grants and contributions provided for capital purposes	5,632	5,235
Surplus (deficit) from continuing operations after capital amounts	4,226	4,308
Surplus (deficit) from all operations before tax	4,226	4,308
Surplus (deficit) after tax	4,226	4,308
Plus accumulated surplus	124,007	119,699
Plus/less: Correction of error	–	–
Plus adjustments for amounts unpaid:		
Less:		
Closing accumulated surplus	128,233	124,007
Return on capital %	0.0%	0.1%
Subsidy from Council	184	–
Calculation of dividend payable:		
Surplus (deficit) after tax	4,226	4,308
Surplus for dividend calculation purposes	4,226	4,308
Potential dividend calculated from surplus	2,113	2,154

Rous County Council

Income Statement of Land

for the year ended 30 June 2022

	2022 Category 2 \$ '000	2021 Category 2 \$ '000
Income from continuing operations		
Net gain from the disposal of assets	–	771
Total income from continuing operations	–	771
Expenses from continuing operations		
Materials and services	45	43
Calculated taxation equivalents	28	28
Total expenses from continuing operations	73	71
Surplus (deficit) from continuing operations before capital amounts	(73)	700
Surplus (deficit) from continuing operations after capital amounts	(73)	700
Surplus (deficit) from all operations before tax	(73)	700
Less: corporate taxation equivalent (26%) [based on result before capital]	–	(182)
Surplus (deficit) after tax	(73)	518
Plus accumulated surplus	446	(282)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	28	28
– Corporate taxation equivalent	–	182
Closing accumulated surplus	401	446
Subsidy from Council	73	–

Rous County Council

Income Statement of Commercial Property

for the year ended 30 June 2022

	2022 Category 2 \$ '000	2021 Category 2 \$ '000
Income from continuing operations		
Interest and investment income	10	–
Net gain from the disposal of assets	55	–
Other income	106	186
Total income from continuing operations	171	186
Expenses from continuing operations		
Employee benefits and on-costs	20	19
Materials and services	217	213
Depreciation, amortisation and impairment	67	57
Net loss from the disposal of assets	2	–
Calculated taxation equivalents	3	3
Total expenses from continuing operations	309	292
Surplus (deficit) from continuing operations before capital amounts	(138)	(106)
Surplus (deficit) from continuing operations after capital amounts	(138)	(106)
Surplus (deficit) from all operations before tax	(138)	(106)
Surplus (deficit) after tax	(138)	(106)
Plus accumulated surplus	2,080	2,183
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	3	3
Add:		
Closing accumulated surplus	1,945	2,080
Subsidy from Council	138	106

Rous County Council

Statement of Financial Position of water supply business activity

as at 30 June 2022

	2022 \$ '000	2021 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	2,597	10,310
Investments	31,197	33,780
Receivables	2,340	1,536
Inventories	316	326
Other	614	679
Total current assets	37,064	46,631
Non-current assets		
Right of use assets	34	293
Investments	1,500	500
Receivables	-	661
Inventories	226	226
Infrastructure, property, plant and equipment	378,528	372,402
Intangible assets	507	769
Total non-current assets	380,795	374,851
Total assets	417,859	421,482
LIABILITIES		
Current liabilities		
Contract liabilities	-	30
Lease liabilities	50	312
Payables	2,629	1,645
Borrowings	3,605	3,398
Employee benefit provisions	2,409	2,225
Total current liabilities	8,693	7,610
Non-current liabilities		
Lease liabilities	-	49
Borrowings	25,355	28,960
Employee benefit provisions	41	39
Total non-current liabilities	25,396	29,048
Total liabilities	34,089	36,658
Net assets	383,770	384,824
EQUITY		
Accumulated surplus	128,232	124,007
Revaluation reserves	255,538	260,817
Total equity	383,770	384,824

Rous County Council

Statement of Financial Position of Land

as at 30 June 2022

	2022 Category 2 \$ '000	2021 Category 2 \$ '000
ASSETS		
Current assets		
Receivables	293	293
Inventories	85	13
Total current assets	378	306
Non-current assets		
Inventories	1,152	1,432
Total non-current assets	1,152	1,432
Total assets	1,530	1,738
LIABILITIES		
Current liabilities		
Payables	458	631
Total current liabilities	458	631
Non-current liabilities		
Borrowings	671	661
Total non-current liabilities	671	661
Total liabilities	1,129	1,292
Net assets	401	446
EQUITY		
Accumulated surplus	401	446
Total equity	401	446

Rous County Council

Statement of Financial Position of Commercial Property

as at 30 June 2022

	2022 Category 2 \$ '000	2021 Category 2 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	137	173
Investments	1,773	1,030
Receivables	10	76
Total current assets	1,920	1,279
Non-current assets		
Receivables	-	13
Investment property	-	795
Total non-current assets	-	808
Total assets	1,920	2,087
LIABILITIES		
Current liabilities		
Payables	38	7
Total current liabilities	38	7
Total liabilities	38	7
Net assets	1,882	2,080
EQUITY		
Accumulated surplus	1,882	2,080
Total equity	1,882	2,080

Note – Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the special purpose financial statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these special purpose financial statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with the *Local Government Act 1993 (Act)*, the *Local Government (General) Regulation 2005 (Regulation)* and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, fair value of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 NSW Government Policy statement titled 'Application of National Competition Policy to Local Government'. *The Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, and returns on investments (rate of return and dividends paid).

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

Water

Provision of safe drinking water to the Constituent Councils and their consumers.

Category 2

(where gross operating turnover is less than \$2 million)

Land development

Residential land development incorporating low impact environmental features including water and energy.

Commercial properties

Incorporates commercial rental properties at Carrington Street, Conway Street and subleases at Molesworth Street.

Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs. However, where Council does not pay some taxes, which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in special purpose financial statements. For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – 25% (20/21 26%)

Note – Significant Accounting Policies (continued)

Land tax – the first \$822,000 of combined land values attracts **0%**. For the combined land values in excess of \$822,000 up to \$5,026,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$5,026,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **4.85%** on the value of taxable salaries and wages in excess of \$1,200,000.

In accordance with the Department of Planning, Industry & Environment – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the Best Practice Management of Water Supply and Sewer Guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the Act.

Achievement of substantial compliance to the DPIE – Water guidelines is not a prerequisite for the payment of the tax equivalent charges; however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level – gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 25% (20/21 26%).

Income tax is only applied where a gain from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional – that is, it is payable to the 'Council' as the owner of business operations – it represents an internal payment and has no effect on the operations of the Council.

Accordingly, there is no need for disclosure of internal charges in the SPFS. The rate applied of 25% is/is not the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

Local government rates and charges

A calculation of the equivalent rates and charges for all Category 1 businesses has been applied to all assets owned, or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that Council business activities face 'true' commercial borrowing costs in line with private sector competitors. In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(i) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed. Subsidies occur where Council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations. The overall effect of subsidies is contained within the Income Statements of business activities.

(ii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 3.57% at 30/6/22.

Note – Significant Accounting Policies (continued)

(iii) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply businesses are permitted to pay an annual dividend from its water supply business surplus.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply assessments at 30 June 2020 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best Practice Management of Water Supply and Sewer Guidelines, a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.

Late report

Rous County Council

Special Purpose Financial Statements

for the year ended 30 June 2022

Late report

Late report

Rous County Council

SPECIAL SCHEDULES
for the year ended 30 June 2022



Rous County Council

Special Schedules

for the year ended 30 June 2022

Contents

Page

Special Schedules:

Report on infrastructure assets as at 30 June 2022

3

Late report

Rous County Council

Report on infrastructure assets as at 30 June 2022

Asset Class	Asset Category	<i>Estimated cost to bring assets to satisfactory standard</i>		<i>Estimated cost to bring to the agreed level of service set by Council</i>		2021/22 Required maintenance ^a	2021/22 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000					1	2	3	4	5
Buildings	Buildings	180	368	187	85	4,877	7,772	5.0%	43.0%	40.0%	12.0%	0.0%		
	Council works depot	830	1,659	646	405	4,361	5,657	0.0%	45.0%	35.0%	20.0%	0.0%		
	Sub-total	1,010	2,027	833	490	9,238	13,429	2.9%	43.8%	37.9%	15.4%	0.0%		
Water supply network	Water supply network	7,580	15,175	2,941	2,159	340,994	499,042	49.0%	34.0%	16.0%	1.0%	0.0%		
	Sub-total	7,580	15,175	2,941	2,159	340,994	499,042	49.0%	34.0%	16.0%	1.0%	0.0%		
Flood mitigation network	Flood mitigation	180	182	523	345	130,711	144,757	20.0%	43.0%	28.0%	9.0%	0.0%		
	Sub-total	180	182	523	345	130,711	144,757	20.0%	43.0%	28.0%	9.0%	0.0%		
Total – all assets		8,770	17,384	4,297	2,994	480,943	657,228	41.7%	36.2%	19.1%	3.1%	0.0%		

(a) Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

#	Condition	Integrated planning and reporting (IP&R) description
1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Rous County Council

Report on infrastructure assets as at 30 June 2022

Infrastructure asset performance indicators (consolidated) *

\$ '000	Amounts 2022	Indicator 2022	Indicators		Benchmark
			2021	2020	
Buildings and infrastructure renewals ratio					
Asset renewals ¹	4,934	61.95%	90.06%	92.77%	>= 100.00%
Depreciation, amortisation and impairment	7,965				
Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	8,770	1.81%	1.37%	1.42%	< 2.00%
Net carrying amount of infrastructure assets	484,083				
Asset maintenance ratio					
Actual asset maintenance	2,994	69.68%	97.14%	84.86%	> 100.00%
Required asset maintenance	4,297				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	17,384	2.65%	4.24%	4.02%	
Gross replacement cost	657,228				

(*) All asset performance indicators are calculated using classes identified in the previous table.

(1) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Mr Phillip Rudd
General Manager
Rous County Council
PO Box 230
LISMORE NSW 2480

Contact: Gearoid Fitzgerald
Phone no: 02 9275 7392
Our ref: D/1821

XX October 2022

Dear Mr Rudd

Draft Management Letter on the Final Phase of the Audit for the Year Ended 30 June 2022

The final phase of our audit for the year ended 30 June 2022 is complete. This letter outlines:

- matters of governance interest we identified during the current audit
- unresolved matters identified during previous audits
- matters we are required to communicate under Australian Auditing Standards.

We planned and carried out our audit to obtain reasonable assurance the financial statements are free from material misstatement. Because our audit is not designed to identify all matters that may be of governance interest to you, there may be other matters that did not come to our attention.

For each matter in this letter, we have included our observations, risk assessment and recommendations. The risk assessment is based on our understanding of your business. Management should make its own assessment of the risks to the organisation.

We have kept management informed of the issues included in this letter as they have arisen. A formal draft of this letter was provided on 14 October 2022. This letter includes management's formal responses, the person responsible for addressing the matter and the date by which this should be actioned.

The Auditor-General may include items listed in this letter in the Report to Parliament. We will send you a draft of this report and ask for your comments before it is tabled in Parliament.

If you would like to discuss any of the matters raised in this letter, please contact me on 9275 7392 or Mr Richard Watkinson from Thomas Noble & Russell on 02 6626 3000.

Yours sincerely

Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

cc: Cr Keith Williams, Chair
Mr Brian Wilkinson, Chair of the Audit, Risk and Improvement Committee

Late report

Final management letter

for the year ended 30 June 2022

Rous County Council

Late report







We have rated the risk of each issue as 'Extreme', 'High', 'Moderate' or 'Low' based on the likelihood of the risk occurring and the consequences if the risk does occur.

The risk assessment matrix used is based on principles within the risk management framework in [TPP12-03 'Risk Management Toolkit for the NSW Public Sector'](#).

This framework may be used as better practice for councils.

		CONSEQUENCE			
		Low	Medium	High	Very high
LIKELIHOOD	Almost certain	M	M	H	E
	Likely	L	M	H	H
	Possible	L	M	M	H
	Rare	L	L	M	M

The risk level is a combination of the consequences and likelihood. The position within the matrix corresponds to the risk levels below.

RISK LEVELS	MATRIX REFERENCE
 Extreme:	E
 High:	H
 Moderate:	M
 Low:	L

For each issue identified, the principles within the consequence and likelihood tables, which are based on the principles within [TPP12-03](#) have been used to guide our assessment.

Consequence levels and descriptors

When assessing the consequence of each issue, we have regard to the length of time the issue remains unresolved. The lack of timeliness in resolving issues may indicate systemic issues and/or poor governance practices, which warrant an increase in the consequence level. As such, unresolved or unaddressed issues from prior periods are re-assessed annually. This re-assessment may lead to an increase in the risk rating adopted.

Consequence level	Consequence level description
Very high	<ul style="list-style-type: none"> Affects the ability of the entire entity to achieve its objectives and may require third party intervention; Arises from a fundamental systemic failure of governance practices and/or internal controls across the entity or across a critical/significant part of the entity; or May result in an inability for the auditor to issue an audit opinion or issue an unqualified audit opinion, and/or significant management workarounds and substantive tests of details was required in order to issue an unqualified opinion.
High	<ul style="list-style-type: none"> Requires coordinated management effort at the executive level; Arises from a widespread failure of governance practices and/or internal controls affecting most parts of the entity or across a significant/important part of the entity (eg. as demonstrated through a lack of timely resolution of unresolved/repeat issues); or May result in an inability for the auditor to issue an unqualified audit opinion, and/or significant management workarounds and substantive tests of details was required in order to issue an unqualified opinion.
Medium	<ul style="list-style-type: none"> Requires management effort from areas outside the business unit; or Arises from ineffective governance practices and/or internal controls affecting several parts or a key part of the entity (eg. as demonstrated through a lack of timely resolution of unresolved/repeat issues).
Low	<ul style="list-style-type: none"> Can be managed within normal management practices; or Arises from isolated ineffective governance practices and/or internal controls affecting a small part of the entity that are largely administrative in nature.

Likelihood levels and descriptors

When assessing the likelihood of each issue, we have regard to the length of time the issue remains unresolved because the longer the risk remains unresolved the greater the chance the weakness could be exploited, or an adverse event or events could occur. As such, unresolved or unaddressed issues from prior periods are reassessed annually. This reassessment may lead to an increase in the risk rating adopted.

Likelihood level	Frequency	Probability
Almost certain	The event is expected to occur in most circumstances, and frequently during the year	More than 99 per cent
Likely	The event will probably occur once during the year	More than 20 per cent and up to 99 per cent

Possible	The event might occur at some time in the next five years	More than 1 per cent and up to 20 per cent
Rare	The event could occur in exceptional circumstances	Less than 1 per cent

Late report

Summary of issues

Issue	Detail	Likelihood	Consequence	Risk assessment
Prior year matters not resolved by management				
1	<u>Procurement - lack of segregation of duties in procurement process</u>	Almost Certain	Medium	⊖ Moderate
2	<u>Corporate Governance - conflicts of interest register</u>	Almost Certain	Medium	⊖ Moderate
3	<u>Completeness of contracts register</u>	Possible	Medium	⊖ Moderate
4	<u>Purchase orders approved after goods or services have been received (confirming orders)</u>	Almost Certain	Medium	⊖ Moderate
5	<u>Absence of an asset renewal policy</u>	Likely	Low	⬇ Low


Appendix

Review of matters raised in prior management letters that have been addressed

Late report

Prior year matters not resolved by management

Issue 1: Procurement - lack of segregation of duties in procurement process

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Almost Certain	Medium	Yes	Operational	 Moderate

Observation

The same employee has the ability to raise and authorise purchase orders as well as receive goods.

Implications

Lack of segregation of duties increases the risk of fraud and error.

We acknowledge that management have implemented a procurement compliance review process requiring supervisors to review a minimum quantity of purchase orders per quarter, as well as implementing cost centre budget reviews to mitigate some of the risk.

Recommendation

Management should ensure segregation of duties is enforced in key areas of risk in the procurement process. Where this cannot be achieved, additional controls need to be implemented to prevent fraud and error.

Management response

Agree.

An internal working group has been established to facilitate the changes in Microsoft Dynamics NAV and the change in process will be documented as a procedure.

Due to the February/March 2022 flood events impacting Council, the timeframe for the recommendation to be actioned has been delayed.

Person responsible:


Finance Manager

Date (to be) actioned:

Original action date: 31 March 2022

Revised action date: 30 September 2022

Issue 2: Corporate Governance - conflicts of interest register

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Almost Certain	Medium	No	Governance	 Moderate

Observation

The Council does not maintain a conflict-of-interest register.

Implications

Employees may have unrecorded conflicts of interests that could influence, or be perceived to influence, their behavior or decisions in the course of their work at the Council.

Recommendation

Declared conflicts should be recorded in a central register and be reviewed by an independent officer for appropriate action to manage the conflicts.

Management response

Agree.

This recommendation will be finalised in conjunction with the review of Council's Code of Conduct, Code of Conduct Procedures and delegations, which must be completed within the first 12 months following the local government elections. In the interim, Council has in place controls to ensure conflicts of interest are declared within high-risk areas such as procurement, recruitment and decision-making by its governing body such as mandatory declarations and internal and external staff training.

A revised Code of Conduct and Code of Conduct Procedures were adopted by Council at its June 2022 meeting.


Person responsible:

Governance and Risk Manager

Date (to be) actioned:

Original action date: 4 December 2022

Issue 3: Completeness of contracts register

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Possible	Medium	No	Governance / Operational / Reporting	 Moderate

Observation

Our review of Council's contract management framework identified that:

- Council does not have a documented contract management policy and procedure
- the contracts register does not include all procurement contracts (those below the Government Information (Public Access) Act reporting threshold of \$150,000 or are not class 2 or class 3 contracts)
- the contracts register does not contain details of other contracts Council is a party to, including revenue contracts with customers, leasing contracts and loan agreements.

Implications

Without a robust contract management framework, there is an increased risk that:

- contracts are entered into and managed in a manner which does not facilitate Council operations
- obligations under the contracts are not performed and/or monitored properly
- potential inefficiencies may arise in financial reporting and accounting for revenue and leases under AASB 15 *Revenue with contracts with customers*, AASB 1058 *Income of Not-for-profit Entities* and AASB 16 *Leases* as additional manual procedures and registers are required to be maintained.

Recommendation

Management should:

- develop a documented contract management policy and procedure
- implement a central contracts register which contains all contracts where Council is a party to allow for appropriate governance and oversight.

Management response

Agree.

Will be included in phased implementation of improvements to procurement and contracts / contractor management processes in response to Procure to Pay internal audit and other identified improvements.

Due to the vacancy up to January 2022 in the role of Procurement Advisor (successor of Procurement and Properties Coordinator role) and the February/March 2022 flood events impacting Council, the timeframe for the recommendation to be actioned has been delayed.

Person responsible:


Governance and Risk Manager

Date (to be) actioned:

Original action date: 30 June 2022

Revised action date: 31 December 2022

Issue 4: Purchase orders approved after goods or services have been received (confirming orders)

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Almost Certain	Medium	Yes	Operational	 Moderate

Observation

Purchase orders created in Navision are approved electronically by a staff member with appropriate delegated authority. This is an important internal control.

Prior years audit testing identified 6 out of 29 samples where the purchase order was raised on or after the date of the invoice.

Current year audit testing has identified 4 out of 29 samples where the purchase order was raised on or after the date of the invoice.

This indicated that a portion of purchase orders were raised and approved after the Council had committed to the expenditure transaction and goods or services had been received (confirming orders).

We also identified a further 5 instances where purchase orders were raised after invoice dates, but due to the nature of these expenses (including utilities or various direct debit arrangements), Council's current practice is to raise the purchase order on receipt of invoice. This is not considered in Council's Procurement Policy.

Implications

Non-compliance with Council's procurement procedure, including procuring and authorising purchases without pre-approved purchase orders, increases the risk of loss or misappropriation of Council assets. This may include the purchase of goods outside of prescribed delegation limits or the purchase of goods which are not bona fide purchases for Council.

Further, without an approved purchase order being created prior to ordering goods or services, there is a risk that Council's committed costing system may be materially misstated.

Recommendation

Council should implement procedures to ensure confirming orders are not recurring. This may involve:

- providing further training to staff so they are aware of Council's procurement procedures
- performing monthly exception reporting using the procurement system to identify the extent of confirming orders
- analysis of the underlying causes of confirming orders and consider whether these can be addressed
- providing letters to suppliers requesting they do not provide goods without a valid purchase order
- considering whether the accepted practice of raising confirming orders in certain circumstances remains appropriate. The Procurement Policy should be updated to reflect the specific situations in which this is acceptable and also to ensure consistency of application.

Management response

Partially Agree.

Improvements to procurement compliance review procedures have been undertaken by Management.

Staff with a financial delegation are already provided with NAV training which has been expanded to address better practice procurement principles;

Monthly PO compliance reports and reviews are already conducted - refer to Council's 'Procurement and Contractor Compliance' Procedure;

Council's 'Procurement' Procedure is currently undergoing review in order to update the exceptions relating to the payment of utilities, insurance, and engagements covered by an existing contract.

Management considers that issuing letters to suppliers places a disproportionate administrative burden on staff for little value or recourse if the supplier chooses not to observe the request. We therefore do not propose to adopt this particular recommendation.

Person responsible:

Governance and Risk Manager


Date (to be) actioned:

Original action date: 30 June 2022

Revised action date: 31 August 2022

Late report

Issue 5: Absence of an asset renewal policy

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Likely	Low	No	Governance	 Low

Observation

The 'Local Government Code of Accounting Practice and Financial Reporting' requires Councils to classify asset additions into 'asset renewals' and 'new asset' components.

Council currently does not have a policy or any other guidance to assist Council's staff to determine if asset additions are 'asset renewals' or 'new assets'.

Implications

This may result in inaccurate classification in the financial statement and also impacts on the infrastructure asset performance indicators in the Report on Infrastructure Assets within the Special Schedules.

Recommendation

Council should develop and implement an 'asset renewal policy' to provide guidance to staff around the appropriate identification of assets as new assets or asset renewals with particular attention to assets which may be 'part renewal' and 'part new asset'.

Management response

Agree.

Council has an existing Asset Capitalisation policy, which includes asset renewal guidance.

The existing policy is being reviewed and updated to reflect useful life changes identified in the recent water infrastructure revaluation. During this review the classification will be expanded for renewal of assets and new assets to be more descriptive in the existing policy.

The Finance Manager is the staff member responsible for all financial asset information in the financial reporting system. The Finance Manager utilises the Asset Capitalisation policy, along with, budget submission forms to classify the capital expenditure as an asset renewal or new assets.

Person responsible:

Finance Manager

Date (to be) actioned:





Original action date: 31 March 2022

Revised action date: **31 August 2022**

Appendix

Review of matters raised in prior management letters that have been addressed

The issues in this appendix were raised in previous management letters. For each of these issues, we have determined how management has addressed the issue in the current year.

Prior issues raised	Risk assessment	Assessment of action taken	Recommendation
Fraud prevention awareness	 Moderate	Management have implemented 2 of the 3 recommendations. Management believe annual attestations by staff of fraud awareness is not required and is dealt with through staff attestation of having read and understood the Code of Conduct. Matter has been addressed by management	Nil as matter has been addressed
Quality control review of financial statements	 Moderate	Matter has been addressed by management	Management should consider preparing and submitting Pro-forma Financial Statements for ARIC to review as part of the ongoing year-end process
IPP&E - valuation of assets	 Moderate	Matter has been addressed by management	Nil as matter has been addressed by management
Lack of formal documented procedure for verifying the validity of accounts payable Masterfile change requests	 Low	Management formalised a Standard Operating Procedures (SOP) document to include audit recommendations	Nil as matter has been addressed by management