
Annual Financial Reports and Audit Report for year ended 30 June 2023

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

Report Author: Finance Manager (Jonathan Patino)

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 2022/23 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. Advertise the presentation of the draft 2022/23 Financial Reports to the public from 20 October 2023 for seven days and invite both inspection and submissions.
3. Forward a copy of the 2022/23 Audited Financial Reports to the Office of Local Government.
4. Present the 2022/23 Audited Financial Reports to the public at Council's 13 December 2023 meeting.

Background

Council's 2022/23 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 18 October 2023 and present the report on the audit of Council's accounts for the 2022/23 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.

Provided Council accepts the financial reports as presented in this report, then the public advertising in the prescribed format will occur from 20 to 27 October 2023. Council at its next meeting can then publicly present the 2022/23 financial reports.

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 2023 was a surplus of \$4.20M, which includes Capital Income of \$5.17M. This compares to a surplus in 2022 of \$3.36M (including Capital Income of \$5.63M).

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

	2022/23 (\$000's)	2021/22 (\$000's)	2020/21 (\$000's)
Operating Results			
Operating Result (Deficit) before Capital Amounts	(971)	(2,268)	(911)
Operating Result Adjusted for Capital Revenue	4,205	3,363	4,324
Performance Measures			
Unrestricted Current Ratio (Benchmark: > 1.5x)	4.02 : 1	4.26 : 1	7.03 : 1
Debt Service Cover Ratio (Benchmark: > 2x)	1.71 : 1	1.65 : 1	1.59 : 1
Building & Infrastructure Renewals Ratio (Benchmark: > 100%)	97.05%	61.95%	90.06%
Performance Measures (including Capital Revenue)			
Debt Service Ratio (Benchmark: > 2x)	2.71:1	2.73:1	2.81:1
Net Working Capital			
Cash Assets	37,772	40,554	49,380
Plus: Receivables	4,326	2,994	2,095
Less: Payables	(3,598)	(2,907)	(2,440)
Sub Total	38,500	40,641	49,035
Indebtedness	25,355	28,960	32,358
Restrictions			
External	4,755	5,428	4,081
Internal	30,288	32,421	43,869
Total	35,043	37,849	47,950
Equity			
Accumulated Surplus	252,467	248,262	244,899
IPPE Revaluation Reserve	330,325	273,921	269,379
Total Equity (including Revaluations)	582,792	522,183	514,278

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. 8

Major Income Statement Movements

Revenue

Bulk water revenue provides the majority of Council's operating revenue at \$22.8M or 63% of total revenue. This increased by 7.5% compared to last year. Total Kilolitres used during 2022/23 decreased by 1.64% from the prior year.

Table 2: Total Bulk Water Sales in Kilolitres

	2022/23	2021/22	2020/21
Bulk Water Charge (nominal per kilolitre)*	\$2.1579	\$2.0023	\$1.7157
Total Bulk Water Sales Income	\$22,808,100	\$21,215,500	\$19,827,600
Bulk Water Consumption in Kilolitres			
Ballina Shire Council	3,658,201	3,675,654	3,988,841
Byron Shire Council	2,311,496	2,427,908	2,610,810
Lismore City Council	2,979,799	3,001,977	3,171,566
Richmond Valley Council	593,244	601,307	675,568
Rous Retail Customers	878,868	888,504	1,109,973
	10,421,608	10,595,350	11,556,758

* 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 in the previous year relating to the March 2022 flood events 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 February 2023. The data in the table above has been annualised for the full year.

Revenue received from retail water customers increased by \$86,900 to \$2.7M (3.29%) while revenue received from filling stations decreased by \$17,000 (-5.26%).

Interest revenue from cash and investments increased by \$948,400 to \$1.2M (408.73%) compared to the previous year. The weighted average return on investments has increased from 0.75% in 2021/22 to 4.08%, due to the increased cash rate.

Council receives operating grants and contributions from various sources. The revenue received each year is influenced by the nature and extent of Council's improvements program and general economic activity. Grants and contributions decreased by \$1.65M (-18.25%) compared to the previous year, driven by 'one off' funding for the March 2022 flood that was previously received.

Table 3: Developer contributions revenue increased by decreased by \$454,576 (-8.0%) when compared to 2021/22, with the majority of contributions received from Ballina Shire Council (\$2.49M), Lismore City Council (\$1.16M) and Byron Shire Council (\$810K):

Table 3: Developer Contributions

Constituent Council	2022/23 (\$)	ET's 2022/23*	2021/22 (\$)	ET's 2021/22*
Ballina Shire Council	2,492,980	271.76	3,241,206	362.43
Byron Shire Council	810,264	88.32	638,124	77.40
Lismore City Council	1,161,849	128.09	942,437	104.37
Richmond Valley Council	579,670	62.63	363,975	40.70
Rous County Council	130,894	15.00	444,491	54.29
TOTAL	5,175,657	565.79	5,630,233	639.19

* ET = \$9,256 in the 2022/23 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 \$1.18M to \$11.4M (11.57%) compared to the previous year. This was largely attributable to additional staff employed for project related works and increases in award rates and superannuation.

Materials and services increased by \$457K to \$10.7M (4.47%) when compared to 2021/22, the majority of the increase was due to planned expenditure and increased pricing on chemicals and electricity costs.

Generally operational expenditure was in line with or under budget.

Major Statement of Financial Position Movements

Cash and Investments

Cash and investments have decreased by \$2.78M (7.08%) compared to last year. This was due to planned expenditures.

Infrastructure, Property, Plant and Equipment

Council capitalised \$10.92M of assets during the year. The major projects in terms of value were the St Helena stage 2 upgrade (\$4.8M), West Coraki levee (\$1.15M) and plant and equipment upgrades (\$1.185M). As at 30 June 2023, \$5.6M 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 assets are conducted at five yearly intervals.

APV Pty Ltd were engaged to conduct an independent review of Council's land and building assets. Due to issues with the data supplied the comprehensive valuation of building assets was deferred until the 2023/24 financial year with land and site improvement assets revalued in 2022/23.

As a result of the revaluation and the indexation of other asset classes the carrying amount of the assets was increased by \$56.40M, which was recognised in the asset revaluation reserve. This is largely due to a significant increase in land values and fair value indexation on water supply and flood mitigation assets.

Contract Liabilities

Total contract liabilities have increased by \$280,000 (122.81%) from the previous year. This relates to funds Council holds on behalf of the NSW Department of Primary Industries.

Borrowings

Council's net borrowing position decreased by \$3.61M (12.45%) during the year, as no new loans were sourced.

Reserves Scorecard for Year ending 30 June 2023

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 2023.

Table 4: Reserves Scorecard for Year Ending 30 June 2023

Internal Reserves compared to Budget Shocks Target									
The target reserve balance is a percentage of the Funds annual operating expenses. The percentage is based on the reliability of the Funds financial transactions. Where the 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	Commercial 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
2022/23 Operating Expense	1,586,311	2,379,775	3,274,832	501,185	366,041	209,933	23,226,769	31,544,800	
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	661,000	793,000	2,183,000	251,000	183,000	70,000	11,613,000	15,772,000	
Actual Reserve Balance 30/06/23 (excludes restricted)	544,323	1,086,524	2,710,315	-	1,605,452	1,142,772	25,927,038	33,016,424	
Result	Fail	Pass	Pass	Fail	Pass	Pass	Pass	Pass	Pass
External Reserves	416,851	771,452	-	-	-	-	3,566,858	4,755,161	
Total Reserves	961,174	1,857,976	2,710,315	-	1,605,452	1,142,772	29,493,896	37,771,585	

The scorecard in Table 4 above, shows that actual internal reserve balances as at 30 June 2023 for all Reporting Units, except Flood Mitigation and Richmond Water Laboratories (RWL), exceed the target reserve balances.

As at 30 June 2023, Flood Mitigation still has significant Natural Disaster Relief and Recovery Arrangements grant funding outstanding. When these funds are received from the NSW Government through their agent, Public Works Advisory the reserve balance will be greatly improved.

RWL ceased operation during the financial year [Resolution 60/22] and as such the remaining reserve balance of \$35,988 was transferred to Bulk Water Reserves.

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

Finance

Detailed in the body of this report.

Legal

Detailed in the body of this report.

Consultation

Council's *Annual Financial Reports and Audit Report for the year ended 30 June 2023* together with the *Financial Statements year ended 30 June 2023*, were presented to the Audit, Risk and Improvement Committee at its meeting on 16 October 2023.

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 Office NSW: Engagement Closing Report for the year ended 30 June 2023
2. Rous County Council 2022/23 Financial Statements for the year ended 30 June 2023