

Audited Financial Reports for the year ended 30 June 2024

Responsible Officer: Group Manager Organisational Services (Helen McNeil)

Recommendation

That Council:

1. Receive the 2023/24 Audited Financial Reports, and the Engagement Closing Report for the year ended 30 June 2024 prepared by the NSW Audit Office,
2. Fix the date for presenting the 2023/24 Audited Financial Reports to the public at an extraordinary meeting of Council on 20 November 2024 to be held at 11:00am,
3. Provide at least seven (7) days' prior public notice, containing the matters outlined in section 418(3) *Local Government Act 1993*, of the meeting at item (2) above and invite both inspection and submissions from the public,
4. Authorise the Chairperson and Deputy Chairperson to sign the "Statement by Councillors and Management" prepared in accordance with section 215 *Local Government (General) Regulation 2021* for both the General-Purpose Financial Reports and the Special-Purpose Financial Reports on behalf of Council, and
5. Forward a copy of the 2023/24 Audited Financial Reports to the Office of Local Government.

Background

Council's 2023/24 financial reports have been completed ([Attachment 2](#)) and the Engagement Closing Report ([Attachment 1](#)) received from the NSW Audit Office (NSWAO).

To comply with the provisions of the *Local Government Act 1993* (LG Act) and *Local Government (General) Regulation 2021* (LG Reg), the following actions must be implemented to allow for the finalisation of the year end accounts:

- a) 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 31 October.¹
- b) The financial reports must be accompanied by a statement of Council's opinion made pursuant to a resolution and signed by the Chairperson, at least one other councillor, General Manager and the Responsible Accounting Officer.²
- c) Council must fix a meeting date to present the financial reports to the public and advertise, for a minimum of seven (7) days prior to the meeting, that the financial reports and the auditor's report are available for public inspection.³

Provided Council accepts the financial reports as presented, it is proposed that public advertising will commence from 30 October 2024 for a minimum of seven days and public presentation of the final reports will occur at the 20 November 2024 extraordinary Council meeting.

¹ Sections 413, 415, and 416 *Local Government Act 1993*.

² Section 215 *Local Government (General) Regulation 2021*.

³ Section 418 *Local Government Act 1993*.

Financial Summary

Council's Net Operating Result for the financial year ended 30 June 2024 was a deficit of \$0.15M, which includes Capital Income of \$5.1M. This compares to a surplus in 2023 of \$4.2M (including Capital Income of \$5.2M).

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

	2023/24 (\$000's)	2022/23 (\$000's)	2021/22 (\$000's)
Operating Results			
Operating Result (Deficit) before Capital Amounts	(5,250)	(971)	(2,268)
Operating Result Adjusted for Capital Revenue	(148)	4,205	3,363
Performance Measures			
Unrestricted Current Ratio (Benchmark: > 1.5x)	3.62:1	4.02:1	4.26:1
Debt Service Cover Ratio (Benchmark: > 2x)	0.95:1	1.71:1	1.65:1
Building & Infrastructure Renewals Ratio (Benchmark: > 100%)	68.60%	97.05%	61.95%
Performance Measure (including Capital Revenue)			
Debt Service Ratio (Benchmark: > 2x)	1.98:1	2.71:1	2.73:1
Cash on Hand	34,210	37,772	40,554
Plus: Receivables	4,188	4,326	2,994
Less: Payables	(4,075)	(3,598)	(2,907)
Sub Total	34,323	38,500	40,641
Indebtedness	21,530	25,355	28,960
Restrictions			
External	6,039	4,755	5,428
Internal	25,443	30,288	32,421
Total	31,482	35,043	37,849
Equity			
Accumulated Surplus	252,319	252,467	248,262
IPPE Revaluation Reserve	358,720	330,325	273,921
Total Equity (including Revaluations)	611,039	582,792	522,183

The yearly operating performance is monitored and reported to Council through the Quarterly Budget Review Statement process and integrated with Council's long-term financial plan.

Key Movements from Interim Financial Statements

Interim Financial Statements to 31 March 2024 were prepared ahead of the interim external audit and a preliminary 2023/24 end of financial year summary was reported to Council's 21 August 2024 meeting.

In addition to the additional 3 months of transactions to 30 June 2024, key end of financial year adjustments included: -

- A reduction in revenue due to capital grant revenue of \$872K re-allocated to Contract Liabilities.
- An increase to employee costs of \$715K for transactions previously held in Capital 'work in progress' (WIP).

- An increase to employee costs of \$395K for additional employee leave provisions.
- Loss on disposal of assets of \$341K.

Major Income Statement Movements

Revenue

Bulk water revenue provides the majority of Council's operating revenue at \$23.8M or 61% of total revenue. This increased by 4.5% compared to last year.

Total Kilolitres used during 2023/24 decreased by 11.1% from the prior year.

Table 2: Total Bulk Water Sales in Kilolitres

	2023/24	2022/23	2021/22
Bulk Water Charge (nominal per kilolitre)*	\$2.2873	\$2.1579	\$2.0023
Total Bulk Water Sales Income	\$23,837,700	\$22,808,100	\$21,215,500
Bulk Water Consumption in Kilolitres			
Ballina Shire Council	3,278,314	3,658,201	3,675,654
Byron Shire Council	2,191,412	2,311,496	2,427,908
Lismore City Council	2,573,342	2,979,799	3,001,977
Richmond Valley Council	530,501	593,244	601,307
Rous Retail Customers	802,817	878,868	888,504
	9,376,386	10,421,608	10,595,350

* 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 11 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 \$98,200 to \$2.8M (3.6%) while revenue received from filling stations increased by \$153,800 (50.2%).

Interest revenue from cash and investments increased by \$584,500 to \$1.7M (49.5%) compared to the previous year. The weighted average return on investments has increased from 0.48% in 2023/24 to 4.56%, due to the current level of 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 improvement program and general economic activity. Grants and contributions increased by \$392K (5.3%) compared to the previous year, with an increase in both operating and capital grants of \$2.4M, offset by a reduction in Section 64 Developer Contributions of \$2.0M.

Developer Contributions revenue decreased by \$2.0M (-40.1%) when compared to 2023/24, with the majority of contributions received from Ballina Shire Council (\$1.2M) and Byron Shire Council (\$910K):

Table 3: Developer Contributions

Constituent Council	2023/24 (\$)	ET's 2023/24*	2022/23 (\$)	ET's 2022/23*
Ballina Shire Council	1,234,245	124.85	2,492,980	271.76
Byron Shire Council	916,516	106.28	810,264	88.32
Lismore City Council	442,800	30.06	1,161,849	128.09
Richmond Valley Council	305,658	31.07	579,670	62.63
Rous County Council	201,914	19.58	130,894	15.00
TOTAL	3,101,133	311.83	5,175,657	565.79

* ET = \$9,951 in the 2023/24 financial year.

Expenditure

Employee benefits and on-costs increased by \$3.1M from \$11.4M to \$14.5M (27.5%) compared to the previous year's actuals. In previous years Rous has typically had several vacant positions and a salary saving of \$472K was factored into the original budget of \$12.4M due to this. The actual result represents an increase of \$2.1M from the original budget of from \$12.4M that was adopted in June 2023. Further costs increases have been incurred due to a correction from Capital WIP of \$715K, an adjustment for leave provisions of \$395K, and additional other costs (including superannuation, payroll tax, workers compensation etc) of \$342K.

Additionally, staff costs for the Northern Rivers Joint Organisation (NRJO) are processed by Rous and later reimbursed. In 2023/24 employee and associated costs for the NRJO were \$361K, an increase of \$270K from the previous year. Total employee costs increased by \$754K on project works, increased by \$154K on grant projects, with the remaining increases relating to business-as-usual work.

Materials and services increased by \$3.4M to \$14.2M (32.6%) when compared to 2022/23, the majority of the increase was due to planned project expenditure and further increases to 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 \$3.5M (9.4%) compared to last year. This was due to planned expenditures.

Infrastructure, Property, Plant and Equipment

\$10.8M was spent on capital works projects during the year. The major projects capitalised in terms of value were:

- St Helena stage 2 upgrade (\$738K)
- Richmond Hill reticulation project (\$842K)
- Grace Road reticulation projects (\$528K) and plant
- Equipment upgrades (\$1.2M).

As at 30 June 2024, \$8.2M remained in WIP.

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 building assets after this project was deferred in the previous year.

As a result of the revaluation and the indexation of other asset classes the carrying amount of the assets was increased by \$28.4M, which was recognised in the asset revaluation reserve. This is largely due to increased asset values for buildings and fair value indexation on water supply and flood mitigation assets.

Contract Liabilities

Total contract liabilities have increased by \$872K (171.8%) from the previous year. This relates to capital grant funds that were received but are yet to be spent.

Borrowings

Council's net borrowing position decreased by \$3.8M (15.1%) during the year, as no new loans were sourced.

Cash reserve targets for the year ending 30 June 2024

Rous' primary cash reserve target is six months of forecast operating expenditure less depreciation. This relates to a covenant over Rous' NSW TCorp loan funding. The target from the original budget including carryovers for 2024/25 is \$15,214,950 with total cash reserves at 30 June 2024 of \$34,210,657 exceeding this target by \$18,995,707.

Council adopted [12/24] the [Financial Reserves policy](#) at the 17 April 2024 Council meeting. The policy provides target reserve balances for cash reserves. The targets identify the minimum balance of the reserve and are viewed as a guide rather than a mandatory benchmark. The target rationale for each reserve is detailed in the policy.

The cash reserves for each Reporting Unit compared to their targets are shown in Table 4.

Table 4: Reserves Scorecard for Year Ending 30 June 2024

Cash Reserves Compared to Targets							
Reporting Unit	Whole Organisation	Bulk Water	Retail Water	Flood Mitigation	Weeds Bio	Property	Fleet
2023/24 operating expenditure	38,675,200	29,387,100	3,665,500	2,348,000	2,536,400	429,700	1,323,800
2023/24 depreciation	8,473,000	6,796,300	262,200	859,600	28,800	83,900	442,200
Target	6 months opex less depreciation	4 months opex less depreciation + ELE and REERP reserves	4 months opex less depreciation	4 months opex less depreciation	4 months opex less depreciation	4 months opex less depreciation	4 months opex less depreciation
Target reserve balance	15,101,100	8,593,499	1,134,433	496,133	835,867	115,267	293,867
Cash reserve balance at 30/06/2024 (excludes external restrictions)	28,171,857	25,471,814	298,958	520,996	515,780	997,975	366,333
Result	Above	Above	Below	Above	Below	Above	Above
External restrictions	6,038,800	5,038,100	-	274,800	725,900	-	-
Total reserves	34,210,657	30,509,914	298,958	795,796	1,241,680	997,975	366,333
Bulk Water Notional Reserves							
Bulk Water - Employee Leave Entitlement Reserve							
Cash reserve balance at 30/06/2024							2,845,136
Bulk Water - Renewable Energy and Emissions Reduction Plan							
Cash reserve balance at 30/06/2024							344,562

The scorecard in Table 4 shows that actual cash reserve balances as at 30 June 2024 for Rous as a Whole Organisation, Bulk Water, Weeds Biosecurity and Property were above their targets while Retail Water, Flood Mitigation and Fleet were below their targets. These funds operate on tight budgets and can struggle to meet internal targets. Retail Water in particular has been impacted by the expenditure on key projects such as smart metering and backflow.

The scorecard shows that Rous as a whole organisation has healthy cash reserves and will continue to be able to meet its future obligations.

Consultation

The Financial Statements were presented to the Audit, Risk and Improvement Committee held on 14 October 2024. The Committee recommended that the reports be presented to Council at its 30 October 2024 meeting.

Council will display the Financial Statements for a minimum period of seven (7) days from the date of the meeting (as soon as practicable) and invite submissions and responses from the public.

Comment

As per Note E2-1 Audit fees in the Financial Statements, audit fees payable for the past two years have been \$86,000 in 2023/2024 and \$71,000 in 2022/2023.

The NSWAO will be conducting the external audit for Rous for the year ending 30 June 2025. An indicative estimated cost places the audit fee at between \$85,000 and \$90,000.

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.

Attachments

1. Engagement Closing Report
2. Annual Financial Statements for the year ended 30 June 2024