

NOTICE OF MEETING



EXTRAORDINARY AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING

An Extraordinary Audit, Risk and Improvement Committee Meeting of Byron Shire Council will be held as follows:

Venue	Conference Room, Station Street, Mullumbimby
Date	Thursday, 21 October 2021
Time	2.00pm

Vanessa Adams
Director Corporate and Community Services

*I2021/1645
Distributed 14/10/21*

CONFLICT OF INTERESTS

What is a “Conflict of Interests” - A conflict of interests can be of two types:

Pecuniary - an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person or another person with whom the person is associated.

Non-pecuniary – a private or personal interest that a Council official has that does not amount to a pecuniary interest as defined in the Code of Conduct for Councillors (eg. A friendship, membership of an association, society or trade union or involvement or interest in an activity and may include an interest of a financial nature).

Remoteness – a person does not have a pecuniary interest in a matter if the interest is so remote or insignificant that it could not reasonably be regarded as likely to influence any decision the person might make in relation to a matter or if the interest is of a kind specified in the Code of Conduct for Councillors.

Who has a Pecuniary Interest? - a person has a pecuniary interest in a matter if the pecuniary interest is the interest of the person, or another person with whom the person is associated (see below).

Relatives, Partners - a person is taken to have a pecuniary interest in a matter if:

- The person’s spouse or de facto partner or a relative of the person has a pecuniary interest in the matter, or
- The person, or a nominee, partners or employer of the person, is a member of a company or other body that has a pecuniary interest in the matter.

N.B. “Relative”, in relation to a person means any of the following:

- (a) the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descends or adopted child of the person or of the person’s spouse;
- (b) the spouse or de facto partners of the person or of a person referred to in paragraph (a)

No Interest in the Matter - however, a person is not taken to have a pecuniary interest in a matter:

- If the person is unaware of the relevant pecuniary interest of the spouse, de facto partner, relative or company or other body, or
- Just because the person is a member of, or is employed by, the Council.
- Just because the person is a member of, or a delegate of the Council to, a company or other body that has a pecuniary interest in the matter provided that the person has no beneficial interest in any shares of the company or body.

Disclosure and participation in meetings

- A Councillor or a member of a Council Committee who has a pecuniary interest in any matter with which the Council is concerned and who is present at a meeting of the Council or Committee at which the matter is being considered must disclose the nature of the interest to the meeting as soon as practicable.
- The Councillor or member must not be present at, or in sight of, the meeting of the Council or Committee:
 - (a) at any time during which the matter is being considered or discussed by the Council or Committee, or

- (b) at any time during which the Council or Committee is voting on any question in relation to the matter.

No Knowledge - a person does not breach this Clause if the person did not know and could not reasonably be expected to have known that the matter under consideration at the meeting was a matter in which he or she had a pecuniary interest.

Non-pecuniary Interests - Must be disclosed in meetings.

There are a broad range of options available for managing conflicts & the option chosen will depend on an assessment of the circumstances of the matter, the nature of the interest and the significance of the issue being dealt with. Non-pecuniary conflicts of interests must be dealt with in at least one of the following ways:

- It may be appropriate that no action be taken where the potential for conflict is minimal. However, Councillors should consider providing an explanation of why they consider a conflict does not exist.
- Limit involvement if practical (eg. Participate in discussion but not in decision making or vice-versa). Care needs to be taken when exercising this option.
- Remove the source of the conflict (eg. Relinquishing or divesting the personal interest that creates the conflict)
- Have no involvement by absenting yourself from and not taking part in any debate or voting on the issue as of the provisions in the Code of Conduct (particularly if you have a significant non-pecuniary interest)

RECORDING OF VOTING ON PLANNING MATTERS

Clause 375A of the Local Government Act 1993 – Recording of voting on planning matters

- (1) In this section, **planning decision** means a decision made in the exercise of a function of a council under the Environmental Planning and Assessment Act 1979:
- (a) including a decision relating to a development application, an environmental planning instrument, a development control plan or a development contribution plan under that Act, but
- (b) not including the making of an order under that Act.
- (2) The general manager is required to keep a register containing, for each planning decision made at a meeting of the council or a council committee, the names of the councillors who supported the decision and the names of any councillors who opposed (or are taken to have opposed) the decision.
- (3) For the purpose of maintaining the register, a division is required to be called whenever a motion for a planning decision is put at a meeting of the council or a council committee.
- (4) Each decision recorded in the register is to be described in the register or identified in a manner that enables the description to be obtained from another publicly available document, and is to include the information required by the regulations.
- (5) This section extends to a meeting that is closed to the public.

BYRON SHIRE COUNCIL
BUSINESS OF MEETING

1. APOLOGIES

2. DECLARATIONS OF INTEREST – PECUNIARY AND NON-PECUNIARY

3. ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

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ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

Report No. 3.1 Adoption of Minutes from Audit, Risk, and Improvement Committee meeting of 19 August 2021

5

Directorate: Corporate and Community Services

Report Author: Alexandra Keen, Audit, Risk & Improvement Coordinator

File No: I2021/1452

10

RECOMMENDATION:

That the minutes of the Audit, Risk and Improvement Committee Meeting held on 19 August 2021 be confirmed.

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Attachments:

1 Minutes of ARIC meeting 19 August 2021, I2021/1313 , page 9 [9](#)

20

Report

The attachment to this report provides the minutes of the Audit, Risk and Improvement Committee Meeting of 19 August 2021 .

Report to Council

- 5 The minutes were reported to Council on **Comments**

In accordance with the Committee Recommendations, Council resolved the following:

21-390 **Resolved** that Council notes the minutes of the Audit, Risk and Improvement Committee Meeting held on 19 August 2021 at Attachment 1 (I2021/1313).

21-391 **Resolved** that Council adopts the following Committee Recommendation:

Committee Recommendation 3.1.1

That the minutes of the Audit, Risk and Improvement Committee Meeting held on 20 May 2021 be confirmed.

21-392 **Resolved** that Council adopts the following Committee Recommendation:

Report No. 4.2 NSW Auditor-General Annual Work Program 2021-2024

File No: I2021/1292

Committee Recommendation 4.2.1

That ARIC note the NSW Auditor-General's Annual Work Program for 2021-2024 (#E2021/100974).

21-393 **Resolved** that Council adopts the following Committee Recommendation:

Report No. 4.4 Delivery Program 6-monthly Report and 2020/21 Operational Q4 Report - to 20 June 2021

File No: I2021/1234

Committee Recommendation 4.4.1

That the Audit, Risk, and Improvement Committee notes the Delivery Program 6-monthly Report and 2020/21 Operational Plan Fourth Quarter Report for the period ending 30 June 2021 (#E2021/97874).

BYRON SHIRE COUNCIL

ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1

21-394 **Resolved** that Council adopts the following Committee Recommendation:

**Report No. 4.5 AASB1059 - Service Concession Arrangements:
Grantors**

File No: I2021/1241

Committee Recommendation 4.5.1

That the Audit, Risk and Improvement Committee consider the requirements of AASB1059 Service Concession Arrangements: Grantors and concur with the view that the requirements of AASB 1059 have no application to Byron Shire Council and therefore no disclosure obligations in the financial statements.

21-395 **Resolved** that Council adopts the following Committee Recommendation:

Report No. 5.1 Internal Audit Report - June 2020-21

File No: I2021/1192

Committee Recommendation 5.1.1

That the Audit, Risk and Improvement Committee:

1. Notes the Internal Audit Status Report – June 2021 (#E2021/95033)
2. Endorses the recommendations from the Executive Team to close off 10 recommendations in Appendices A and B of the Internal Audit Status Report (#E2021/95033)
2. Requests management to implement the recommendations made in the Internal Audit of Procurement (Tendering) – June 2021 (#E2021/76376)

21-396 **Resolved** that Council adopts the following Committee Recommendation:

Report No. 5.2 Internal Audit Plan 2021-2024

File No: I2021/1096

Committee Recommendation 5.2.1

That the Committee endorses the Internal Audit Plan for 2021 - 2024 (#E2021/97611) for approval by Council.

21-397 **Resolved** that Council adopts the following Committee Recommendation:

Report No. 5.3 Risk Management Update

BYRON SHIRE COUNCIL

ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1

File No: I2021/1097

Committee Recommendation 5.3.1

That the Audit, Risk and Improvement Committee notes the strategic and operational risk reports for the quarter ending 30 June 2021 (#E2021/88532).

21-398 **Resolved** that Council adopts the following Committee Recommendation:

Report No. 5.4 2020-2021 Continuous Improvement Pathway Program

File No: I2021/1106

Committee Recommendation 5.4.1

That Audit Risk and Improvement Committee notes the results of the CIP 2020-2021 workbook (#E2021/86609).

21-399 **Resolved** that Council adopts the following Committee Recommendations:

Report No. 5.5 Cyber Security and System Outages Quarterly Update

File No: I2021/1196

Committee Recommendation 5.5.1

That the Audit Risk and Improvement Committee:

1. Notes the report and attached security reports:
 - a) ARIC Security Incident Report 2021 Q2. (#E2021/95614)
 - b) ARIC Incident Outage Report 2021 Q2. (#E2021/95613)
2. Receives ongoing cyber security and system outage status reports.

21-400 **Resolved** that Council adopts the following Committee Recommendation:

Report No. 5.6 External Audit Actions Quarter 4 2020-2021 Update

File No: I2021/1246

Committee Recommendation 5.6.1

That the Audit, Risk and Improvement Committee notes the external audit update (including the closure of four issues) for the quarter ending 30 June 2021 (#E2021/100193).

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

Report No. 4.1 Proposed ARIC Work Plan for 2022

Directorate: Corporate and Community Services

5 **Report Author:** Alexandra Keen, Audit, Risk & Improvement Coordinator

File No: I2021/1578

Summary:

A proposed Audit, Risk, and Improvement Committee (ARIC) Work Plan has been prepared for 2022 for ARIC's consideration and approval.

10

RECOMMENDATION:

15 **That the Audit, Risk and Improvement Committee approve the draft Audit Risk and Improvement Committee Work Plan for 2022 at Attachment 1 (E2021/120219).**

Attachments:

20 1 Draft ARIC Work Plan 2022, E2021/120219 , page 21 [↓](#)

Report

A draft Work Plan for 2022 (Work Plan) has been prepared at Attachment 1 to assist in guiding the Audit, Risk, and Improvement Committee (ARIC) deliberations for 2022.

5 The Work Plan provides for a minimum of four meetings per year (as per the Constitutional requirements of ARIC) and has allocated reports and updates to be provided to the ARIC at each meeting. A fifth, extraordinary, meeting has been proposed in order for ARIC to consider and review the externally audited financial reports which Council has experienced delays in receiving in the past.

10 The preparation and review by ARIC of the Work Plan addresses the request of ARIC members raised at the ARIC meeting of 19 August 2021.

Due to the timing of the Local Government elections occurring on 4 December 2021, and the need to reconvene the ARIC with new membership, it is expected the first ARIC meeting for 2022 will be held in March.

Key issues

15 The Work Plan has been prepared to meet the minimum topics within ARIC's remit in accordance with s428A(2) of the *Local Government Act 1993*, which is expected to commence by June 2022, being:

The Committee must keep under review the following aspects of the council's operations—

20 (a) *compliance,*

(b) *risk management,*

(c) *fraud control,*

(d) *financial management,*

(e) *governance,*

25 (f) *implementation of the strategic plan, delivery program and strategies,*

(g) *service reviews,*

(h) *collection of performance measurement data by the council,*

(i) *any other matters prescribed by the regulations.*

30 (3) *The Committee is also to provide information to the council for the purpose of improving the council's performance of its functions.*

Next steps

ARIC to consider the Work Plan and advise of any proposed amendments. The Work Plan will then be used by ARIC and Council staff to guide their work and reporting timeframes for 2022.

5 Strategic Considerations

Community Strategic Plan and Operational Plan

CSP Objective	CSP Strategy	DP Action	Code	OP Activity
Community Objective 5: We have community led decision making which is open and inclusive	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	5.6.7.4	Coordinate the Audit Risk and Improvement program

Consultation and Engagement

- Manager Finance
- Governance Coordinator
- 10 • Manager Corporate Services
- Corporate Planning and Improvement Coordinator.

Report No. 4.2 Office of Local Government - Risk Management and Internal Audit for Local Councils in NSW: Guidelines

Directorate: Corporate and Community Services

5 **Report Author:** Alexandra Keen, Audit, Risk & Improvement Coordinator

File No: I2021/1451

Summary:

10 This report provides options for the Audit, Risk and Improvement Committee to consider with respect to making a submission to the Office for Local Government on the draft *Risk Management and Internal Audit for Local Councils in NSW: Guidelines*.

RECOMMENDATION:

15 **That the Audit, Risk and Improvement Committee approves:**

- 17 i) **the drafting of a submission to the Office of the Local Government on the *Draft Risk Management and Internal Audit for Local Councils in NSW - Guidelines* on behalf of Byron Shire Council, based on the matters at Attachment 3 (E2021/115947)**
- 20 ii) **the consideration of the draft submission at the next Audit, Risk, and Improvement Committee meeting on 11 November 2021 prior to going to Council for endorsement on 25 November 2021.**

Attachments:

- 25 1 Draft Risk Management and Internal Audit Framework for Local Councils in NSW: Guidelines, E2021/112230 , page 28[↓](#)
- 2 2 Summary Guide of the Discussion Paper, E2021/112229 , page 141[↓](#)
- 3 3 Proposed issues for inclusion in a submission to the Office for Local Government, E2021/115947 , page 144[↓](#)

30

Report

5 The Office of Local Government (OLG) issued the third draft of the *Risk Management and Internal Audit for Local Councils in NSW: Guidelines* (the Guidelines) (refer Attachment 1) on 24 August 2021. The Guidelines are out for consultation and feedback until close of business 26 November 2021. The Guidelines will form part of the *Local Government Act Regulations* pursuant to section 428A of the *Local Government Act 1993*. The summary document which accompanied the Guidelines is at Attachment 2. Both documents were circulated to ARIC members via email on 30 August 2021.

10 The OLG advises that it is expected the Guidelines will be proclaimed for commencement by June 2022.

Key issues

15 The Guidelines set out a new framework for local councils in NSW for internal audit, risk management, and the establishment of Audit, Risk, Improvement Committees (ARIC). The intent appears to be to ensure there is greater oversight, consistency, and process around these core functions. The Guidelines propose a staged approach to the implementation of key requirements by councils, namely:

- **4 June 2022** – establish an ARIC
- **30 June 2024** – adoption of risk management framework and internal audit functions
- 20 • **June 2027** – ARIC compliance with membership and reporting requirements

25 It should be noted that Byron Shire Council currently broadly complies with several of the proposed requirements including for example having an ARIC, a risk management framework, and internal audit functions. There are a number of specific processes and requirements which will need to be implemented by Council over the next six years to ensure full compliance with the Guidelines.

Options

There are several options available to Council and ARIC with respect to the Guidelines:

30 **Option 1:** Prepare a submission to the OLG to raise key issues or concerns in respect of the Guidelines based on suggestions at Attachment 3. This is the recommended option.

Option 2: Accept the Guidelines as currently drafted, and not provide a submission.

Option 3: Reject the Guidelines as currently drafted and provide a submission to this effect.

Next steps

A draft submission to the OLG will be presented to the ARIC meeting of 11 November 2021, with a view to providing the submission to Council for endorsement at its meeting of 25 November 2021.

5 Strategic Considerations

Community Strategic Plan and Operational Plan

CSP Objective	CSP Strategy	DP Action	Code	OP Activity
Community Objective 5: We have community led decision making which is open and inclusive	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	5.6.7.4	Coordinate the Audit Risk and Improvement program
Community Objective 5: We have community led decision making which is open and inclusive	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	5.6.7.1	Evaluate and improve risk management framework
Community Objective 5: We have community led decision making which is open and inclusive	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	5.6.7.2	Implement training and development program to improve the risk management culture in the organisation

Financial Considerations

10 The Guidelines in their current form have the potential to impose a significant increase in financial costs to Council associated with member fees, resourcing of the ARIC (including the requirement for a budget or process to obtain external expertise when required), and to meet increased reporting requirements.

Consultation and Engagement

The Audit, Risk and Improvement Coordinator canvassed the views of other Northern Rivers Councils at the Northern Rivers Risk Management Group (NRRMG) meeting on 21 September 2021.

- 5 Most member councils had not had sufficient opportunity to digest the changes to the Guidelines, however, Rous County Council indicated it would be providing a submission which would likely focus on the practical application of the Guidelines, rather than seeking changes.

- 10 Internal consultation has occurred with the Executive Team and Manager Corporate Services who are supportive of tabling the list of potential issues (Attachment 3) at this ARIC meeting for further consideration.

Report No. 4.3 Draft 2020/2021 Financial Statements

Directorate: Corporate and Community Services

Report Author: James Brickley, Manager Finance

File No: I2021/1642

5 **Summary:**

The Draft 2020/2021 Financial Statements have been prepared, and at the time of writing this report, subject to external audit, which is still in progress, albeit close to finalisation. Council's file has been lodged with the NSW Audit Office for review and has been subject to audit review by the contracted auditor, Thomas Noble and Russell.

10 This report recommends that the Audit, Risk and Improvement Committee recommends to Council the adoption of the Draft 2020/2021 Financial Statements as prepared and the completion of the statutory steps outlined in Section 418 to 420 of the Local Government Act 1993.

15

RECOMMENDATION:

That the Audit, Risk and Improvement Committee recommend to Council:

- 20
1. That Council adopts the Draft 2020/2021 Financial Statements incorporating the General Purpose Financial Statements (#E2021/127421) and Special Purpose Financial Statements (#E2021/127426).
 - 25 2. That Council approves the signing of the "Statement by Councillors and Management" in accordance with Section 413(2)(c) of the Local Government Act 1993 and Section 215 of the Local Government (General) Regulation 2021 in relation to the 2020/2021 Draft Financial Statements.
 - 30 3. That the Audited Financial Statements and Auditors Report be presented to the public at the Ordinary Meeting of Council scheduled for 25 November 2021 in accordance with Section 418(1) of the Local Government Act 1993.

Attachments:

- 35
- 1 Draft 2020-2021 General Purpose Financial Statements, E2021/127421 , page 162 [↓](#)
 - 2 Draft 2020-2021 Special Purpose Financial Statements, E2021/127426 , page 244 [↓](#)

Report

5 The Draft 2020/2021 Financial Statements have been prepared, and at the time of writing this report, subject to external audit which is still in progress. Council's file has been lodged with the NSW Audit Office for review and has been subject to prior audit review by the contracted auditor to the NSW Audit Office, Thomas Noble and Russell.

10 This report recommends that the Audit, Risk and Improvement Committee recommends to Council, following consideration, the adoption of the Draft 2020/2021 Financial Statements as prepared and the completion of the statutory steps outlined in Section 418 to 420 of the Local Government Act 1993. It is anticipated that the report on the Conduct of the Audit will also be made available prior to this Committee Meeting and will be distributed by separate cover.

15 The Financial Statements are a statutory requirement and provide information on the financial performance of Council over the previous twelve-month period.

The Draft 2020/2021 Financial Statements provided in the attachments are broken down into:

- 20 - General Purpose Financial Statements – Attachment 1
- Special Purpose Financial Statements – Attachment 2

25 As in previous years, Council produces Special Schedules that are not audited (except Permissible Income for General Rates). However, from the 2018/2019 financial year, whilst the Special Schedules are still produced and submitted to the Office of Local Government, they are no longer required to be published as part of Council's Financial Statements, except for the Special Schedules relating to Permissible Income for General Rates and Report on Infrastructure Assets.

30 Brief explanations for each item follow:

General Purpose Financial Statements

35 These Statements provide an overview of the operating result, financial position, changes in equity and cash flow movement of Council as at 30 June 2021 on a consolidated basis with internal transactions between Council's General, Water and Sewerage Funds eliminated. The notes included with these reports provide details of major items of income and expenditure with comparisons to the previous financial year. The notes also highlight the cash position of Council and indicate which funds are externally restricted (i.e., may be used for a specific purpose only), and those that may be used at Council's discretion.

Special Purpose Financial Statements

45 These Statements are a result of the implementation of the National Competition Policy and relate to those aspects of Council's operations that are business oriented and compete with other businesses with similar operations.

Mandatory disclosures in the Special Purpose Financial Reports are Water and Sewerage.

5 Additional disclosures relate to Council business units that Council deems 'commercial'. In this regard Council has traditionally reported its caravan park operations, being Suffolk Beachfront Holiday Park and First Sun Holiday Park, on a combined basis. These financial reports must also classify business units in the following categories:

- 10
- Category 1 – operating turnover is greater than \$2million
 - Category 2 – operating turnover is less than \$2million

All Council's business units are classed as Category 1 with all having operating turnover greater than \$2 million.

15 Another feature of the Special Purpose Financial Reports is to build taxes and charges, where not physically incurred, into the financial results in order that the results can be measured on a level playing field with other organisations operating similar businesses, who *are* required to pay these additional taxes and charges. These taxes and charges include:

- 20
- Land tax – Council is normally exempt from this tax, so notional land tax is applied.
 - Income tax – Council is exempt from income tax and in regard to these reports, company tax. Any surplus generated has a notional company tax applied to it.
 - Debt guarantee fees – Generally due to the low credit risk associated with Councils, Councils can often borrow loan funds at lower interest rates than the private sector. A debt guarantee fee inflates the borrowing costs by incorporating a notional cost between interest payable on loans at the interest rate borrowed by Council and one that would apply commercially.
- 25

30 The Special Purpose Financial Reports are prepared on a non-consolidated basis - in other words they are grossed up to include any internal transactions with the General Fund.

Specific Items relating to 2020/2021 Draft Financial Statements

35 Before consideration is given to actual financial outcome, it needs to be pointed out that the Office of Local Government restructured the Local Government Code of Accounting Practice and Financial Reporting for the 2020/2021 financial year. This means that the notes to the General Purpose Financial Statements are now broken into Sections as follows:

40

- Section A – About Council and these Financial Statements
- Section B – Financial Performance
- Section C – Financial Position
- 45 • Section D – Council Structure
- Section E – Risks and Accounting Uncertainties
- Section F – People and Relationships
- Section G – Other Matters

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

- Section H – Additional Council Disclosures

Some line items previously within certain notes have been moved to other notes.

- 5 The Draft 2020/2021 Financial Statement results have been impacted by the following items that require explanation:

- Operating Result from Continuing Operations

- 10 The 2020/2021 financial year has seen a positive overall financial result. Council recorded a \$9.468million surplus compared to the \$23.778million surplus in 2019/2020. This result incorporates the recognition of capital revenues such as capital grants and contributions for specific purposes and asset dedications amounting to \$23.404 million, compared to \$32.021million in 2019/2020. Capital grants and contributions in 2019/2020 were significantly influenced by additional grant funding i.e., from the Election Commitment Grant which has continued in 2020/2021 and recognising asset values for the former Byron Hospital over and above the \$1 purchase price.

- 20 A more important indicator is the operating result before capital grants and contributions. This result was a deficit of \$13.936 million in 2020/2021 compared to a deficit of \$8.243million in 2019/2020, representing an increase of \$5.693million between financial years. This indicates Council's operating expenditures exceeded its operating revenues. Whilst operating revenues, excluding capital grants and contributions, grew by \$4.571million, overall operating expenses grew by \$10.264million. Major contributors to additional operating expenditure as non-cash expenses were due to the increase in depreciation expense (\$1.844million) and increase in net losses from disposal of assets (\$5.062million).

- 30 With reference to the Income Statement to the General Purpose Financial Reports included at Attachment 1, the following table indicates the major changes between 2020/2021 and 2019/2020 by line item:

Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
Income			
Rates & Annual Charges	+\$6,784	Increase	Reflects imposition of the final year of the 7.50% Special Rate Variation and changes in annual charges from Council's adopted 2020/2021 Revenue Policy.
User Charges and Fees	-\$489	Decrease	A contributor to this change was the change in residential sewerage charging to remove the volumetric charge in favour

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
			of a fixed charge. The volumetric charge was classified as a user charge and fee. Further information is available in Note B2-2 to Attachment 1.
Other Revenues	+\$184	Increase	The major increase in this item relates to fine revenues.
Grants & Contributions – Operating	-\$712	Decrease	Overall operating grants and contributions decreased by \$712k. Major difference is one-off stimulus funding Council received in 2019/2020 following the 2020 Bushfires. Further information is available in Note B2-4 to Attachment 1.
Grants & Contributions – Capital	-\$8,617	Decrease	Revenue decrease in this item mainly relates to the fact that in 2019/2020 Council recognised former Byron Hospital assets at fair value compared to the purchase price of \$1 (\$8.4million). Other than that capital grants and contributions have remained consistent. Further information is available in Note B2-4 to Attachment 1.
Interest and Investment Revenue	-\$1,145	Decrease	Interest rates during 2020-2021 have remained at historic lows, plus liquidity measures by the Reserve Bank during COVID-19 have reduced investment rates significantly, lowering the return on Council's investments. Cashflow around scale of works and recovering grant payments has also been an influence.
Other Income	-\$51	Decrease	Principally relates to change in disclosure regarding Byron Shire Council's share of a surplus for Richmond Tweed Regional Library for 2019/2020. For 2020/2021 this is allocated straight to the Statement of Comprehensive Income and Statement of Changes in Equity and was a loss of \$64k.
Total Income Change	-\$4,046	Decrease	
<u>Expenditure</u>			
Employee	+\$1,687	Increase	Decreased leave entitlement expenses of

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
Benefits and Oncosts			\$287k reflect an emphasis on controlling leave balances and the impact of declining interest rates on present value of liability calculations. A \$348k increase on superannuation payments. An increase of \$1,915k of employee costs capitalised on capital works in 2020/2021 compared to 2019/2020 and gross salary and wages increased \$3,349k. More information is provided at Note B3-1 to Attachment 1.
Borrowing Costs	-\$297	Decrease	Reduction due to ongoing repayment of existing loans and borrowing of new loans at lower interest rates given current market conditions.
Materials & Services	+\$1,793	Increase	Materials and Services increased \$1,793k overall. Changes include an additional \$116k in legal expenses (\$701k for the year), \$164k in insurance costs, \$170k for IT software costs, \$494k in waste contract costs, \$665k increase in temporary employment costs. Other changes can be found at Note B3-2 to Attachment 1.
Depreciation	+\$1,844	Increase	Respective changes between asset classes are outlined at Note B3-4 to Attachment 1. Essentially major increase is due to the revaluation of transport assets in 2019/2020 now flowing through with increased depreciation expense.
Other Expenses	+\$175	Increase	Overall small but there were variations in line items as disclosed at Note B3-5 to Attachment 1. The major item is an increased contribution to Richmond Tweed Regional Library of \$92k.
Net Losses from Disposal of Assets	+\$5,062	Increase	Reflects the written down value of assets disposed of at the end of financial year and is contingent upon the extent of assets disposed and their written down value at the time of disposal which can vary. For 2020/2021, Council has significantly more disposals than gains,

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
			including the disposal of infrastructure \$7,634k, reflecting the level of capital works, plant and equipment \$183k gain. Further details can be found at Note B4-1 to Attachment 1
Total Expenditure Change	+\$10,264	Increase	
Change in Result	-\$14,310	Decrease	Decrease in overall surplus between financial years.

Following from the operating results, are the performance ratios at Note H1-1 to the General Purpose Financial Statements. These have been derived following the financial assessments undertaken by NSW Treasury Corporation on all NSW Councils in 2012 and are now incorporated into the latest update to the Code of Accounting Practice and Financial Reporting that determines the content of Council's Financial Statements. These ratios present either a stable or improving result for Council except for the following:

1. Operating Performance Ratio reflects Council's operating result. The benchmark is to be greater than 0% but in 2019/2020 Council's ratio was -7.08% and in 2020/2021 it was -6.87%, a slight improvement. This ratio was impacted by some one-off items i.e., demolition costs of the former Mullumbimby Hospital and revenue losses due to COVID-19. Additionally in 2020/2021 it was significantly influenced by Council recognising over \$1.8million in expenditure restoring damaged infrastructure from the December 2020 and March 2021 natural disaster events but not recognising any corresponding revenues. Council has not gained funding approval for this expenditure at 30 June 2021 and therefore cannot recognise it even though the Council area was included in the declaration by State. Council needs to improve this result back towards the benchmark.
2. Outstanding, Rates and Annual Charges – Whilst still within the industry benchmark, Council's ratio has increased to 8.33% in 2020/2021 from 7.32% in 2019/2020. The increase can be attributable not only to the last year of the special rate variation, and increases to rates plus annual charge increases but also to the impact of the COVID-19 pandemic. Through its assistance program Council has offered ratepayers extended payment arrangements and suspended debt recovery. Six months of the financial year also had interest on outstanding rates and charges set to 0% which whilst providing assistance, also reduces the incentive for people to pay.

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- Asset Revaluations

5 During 2020/2021, a revaluation of assets relating to Operational Land, Buildings, Other Structures and Open Space Assets was undertaken. These revaluations have increased Council's asset values by the following amounts:

- Operational Land – \$74.652million
- 10 • Buildings – \$4.722million
- Other Structures and Open Space Assets - \$1.420million

For the upcoming 2021/2022 financial year, Council will need to consider the revaluation of Water and Sewerage Infrastructure assets given these assets have not been revalued since 2017 and are due for revaluation, albeit they are indexed annually between revaluations.

- Asset Recognition

20 As indicated at Note C1-7 to Council's financial statements, Council expended \$40.286million on asset renewals and \$3.179million on new assets. The extent of asset renewals is significant and demonstrates ongoing commitment in that area. The depreciation expense of Council's assets for 2020/2021 was \$17.529million so it is pleasing to see that asset renewal was significantly more than the financial depreciation of Council's assets.

- Cash and Investments

30 As at 30 June 2021 as detailed at Note C1-3 to the financial statements, Council has maintained \$0.518million in unrestricted cash and investments being a reduction of \$0.206million compared to 2019/2020. This is a satisfactory result given the ongoing impacts of COVID-19 and the assistance Council has endeavoured to provide the community during these uncertain times.

35 Whilst still dealing with COVID-19 Council was not able to restore one of its short term financial goals of reaching an unrestricted cash balance of \$1million by the end of 2020/2021. All other cash and investments totalling \$71.955million at 30 June 2021 are restricted for specific purposes. Overall, the cash and investment position of Council decreased by \$4.089million during the year.

- Receivables and Contract Assets

45 As at 30 June 2021 as detailed at Note C1-4 and C1-6 to the financial statements, Council was due \$13.027million in receivables and contract assets. Of this amount \$2.946million was due from other levels of Government for grants, \$1.074million from the Commonwealth Government for Goods and Services Tax and \$0.740million in Government grants and subsidies. Overall receivables and contract assets increased by \$0.553million compared to the 2019/2020 financial year.

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- Payables, Contract Liabilities and Provisions

5 At 30 June 2021 as detailed at Note C3-1 for payables, Note C3-2 for Contract Liabilities,
Note C3-4 for Employee Benefit Provisions and Note C3-5 for Provisions, total payables
by Council were \$14.110million including \$4.323million held in security bonds, deposits
and retentions, \$0.734million in accrued expenses and \$8.384million payable to suppliers.
10 In addition at 30 June 2021, Council has accrued employee leave entitlements valued at
\$7.220million. Specific employee leave entitlements include \$2.635million for annual
leave, \$4.429million for long service leave and \$0.156million for gratuities. At 30 June
2021 Council also had \$6.274million in contract liabilities relating to unexpended capital
grants and advance bookings for its holiday parks. It has also made provisions of
15 \$7.972million for the restoration of landfill and quarry assets. In comparison to 2019/2020,
total liabilities have increased \$4.454million.

- Loan Borrowings

20 During 2020/2021 Council borrowed new loans of \$1.750million and continued to make
normal loan repayments.

Council's outstanding loans as at 30 June 2021 are \$61.058million. Total loan expenditure
for 2019/2021 included interest of \$3.046million and principal payments of \$3.527million.
25 Total expenditure in 2020/2021 related to loan repayments was \$6.573million or 7.96% of
Council's revenue, excluding all grants and contributions.

The outstanding loans by Fund totalling \$61.058million are as follows:

- General Fund \$22.858million
- 30 • Water Fund \$0 – Water Fund is debt free
- Sewerage Fund \$38.200million

- New Accounting Standards

35 The 2020-2021 financial year has required Council to implement the following new
accounting standard:

- AASB 1059 – Service Concession Arrangements: Grantors

40 A position paper was presented to the Audit, Risk and Improvement Committee on 19
August 2021 suggesting after review that this new Accounting Standard had no impact on
the financial reporting or results for Byron Shire Council.

45

Liquidity

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Council's Statement of Financial Position (balance sheet) indicates net current assets of \$46.082million. It is on this basis, in the opinion of the Responsible Accounting Officer, that the short term financial position of Council remains in a satisfactory position and that Council can be confident it can meet its payment obligations as and when they fall due.

5 That is, there is no uncertainty as to Council being considered a 'going concern'. In addition, Council's cash expense cover ratio is at 9.36 months whereas the minimum benchmark is 3 months. Council exceeds this benchmark by three times.

10 Council's Unrestricted Current Ratio has declined to 2.41, demonstrating Council has \$2.41 in unrestricted current assets compared to every \$1.00 of unrestricted current liabilities. This exceeds the benchmark of \$1.50.

15 On a longer term basis Council will need to consider its financial position carefully. Nevertheless, in isolation, the financial results for 2020/2021 continue to present a 'stable' financial position especially given the ongoing impacts of COVID-19. Effort will need to be made to manage the trend towards reducing operational deficits before capital grants and contributions. Furthermore, it will be a goal to endeavour to restore the unrestricted cash balance back to \$1million during the 2021/2022 financial year which could not be achieved during 2020/2021.

20

Strategic Considerations

Community Strategic Plan and Operational Plan

CSP Objective	L2	CSP Strategy	L3	DP Action	L4	OP Activity
Community Objective 5: We have community led decision making which is open and inclusive	5.5	Manage Council's finances sustainably	5.5.2	Ensure the financial integrity and sustainability of Council through effective planning and reporting systems (SP)	5.5.2.2	Complete annual statutory financial reports

25

Legal/Statutory/Policy Considerations

30 Section 413(2)(c) of the Local Government Act 1993 and Section 215 of the Local Government (General) Regulation 2021 requires Council to specifically form an opinion on the financial statements. Specifically Council needs to sign off an opinion on the Financial Statements regarding their preparation and content as follows:

In this regard the Financial Statements have been prepared in accordance with:

- The Local Government Act 1993 (as amended) and the Regulations made thereunder.

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- The Australian Accounting Standards and professional pronouncements.
- The Local Government Code of Accounting Practice and Financial Reporting.

And the content to the best of our knowledge and belief:

5

- Presents fairly the Council's operating result and financial position for the year.
- Accords with Council's accounting and other records.
- Management is not aware of any matter that would render the Financial Statements false or misleading in any way.

10

Section 416(1) of the Local Government Act 1993, requires a Council's annual Financial Statements to be prepared and audited within four (4) months of the end of that financial year i.e. on or before 31 October 2021.

15

Section 417(4) of the Local Government Act 1993 requires, as soon as practicable after completing the audit, the Auditor must send a copy of the Auditor's Reports to the Departmental Chief Executive and to the Council.

20

Section 417(5) of the Local Government Act 1993 requires Council, as soon as practicable after receiving the Auditor's Reports, to send a copy of the Auditor's Reports on the Council's Financial Statements, together with a copy of the Council's audited Financial Statements, to the Departmental Chief Executive before 7 November 2021.

25

Section 418(1) of the Local Government Act 1993 requires Council to fix a date for the Meeting at which it proposes to present its audited Financial Statements, together with the Auditor's Reports, to the public, and must give public notice of the date so fixed. This requirement must be completed within five weeks after Council has received the Auditor's Reports.

Financial Considerations

30 There are no direct financial implications associated with this report as the report does not involve any future expenditure of Council funds but is a report advising on Council's draft financial outcomes during the 2020/2021 financial year, which are identified in this report and attachments. These financial outcomes are also still subject to final review by the NSW Audit Office and may change.

35

Consultation and Engagement

40 Section 420 of the Local Government Act 1993 requires Council to provide the opportunity for the public to submit submissions on the Financial Statements. Submissions are to be submitted within seven days of the Financial Statements being presented to the public. In the case of the 2020/2021 Financial Statements, the closing date for submissions is expected to be 3 December 2021.

