

Notice of Meeting

Audit, Risk and Improvement Committee Meeting

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

Venue	Conference Room, Station Street, Mullumbimby
Date	Thursday, 19 October 2023
Time	2.00pm

Esmeralda Davis
Director Corporate and Community Services

I2023/1582
Distributed 13/10/23



**BYRON
SHIRE**

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)

Committee members are reminded that they should declare and manage all conflicts of interest in respect of any matter on this Agenda, in accordance with the [Code of Conduct](#).

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.

OATH AND AFFIRMATION FOR COUNCILLORS

Councillors are reminded of the oath of office or affirmation of office made at or before their first meeting of the council in accordance with Clause 233A of the Local Government Act 1993. This includes undertaking the duties of the office of councillor in the best interests of the people of Byron Shire and the Byron Shire Council and faithfully and impartially carrying out the functions, powers, authorities and discretions vested under the Act or any other Act to the best of one's ability and judgment.

BYRON SHIRE COUNCIL

BUSINESS OF MEETING

1. APOLOGIES

2. DECLARATIONS OF INTEREST – PECUNIARY AND NON-PECUNIARY

3. ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

- 3.1 Minutes of the Audit, Risk and Improvement Committee Meeting held 17
August 2023 6

4. STAFF REPORTS

Corporate and Community Services

- 4.1 Annual Report 2022/23 8
4.2 Draft 2022/2023 Financial Statements..... 11

ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

**Report No. 3.1 Minutes of the Audit, Risk and Improvement
Committee Meeting held 17 August 2023**

5 **Directorate:** Corporate and Community Services

Report Author: Mila Jones, Governance and Internal Audit Coordinator

File No: I2023/1276

10

RECOMMENDATION:

That the minutes of the Audit, Risk and Improvement Committee Meeting held on 17 August 2023 be confirmed.

15

BYRON SHIRE COUNCIL

ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1

Report

The unconfirmed minutes of the Audit, Risk and Improvement Committee Meeting of 17 August 2023 are available on Council's website and can be viewed via this [link](#).

Report to Council

- 5 The minutes were reported to Council on [28 September 2023](#)

Comments

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

- 23-416 Resolved** that Council notes the minutes of the Audit, Risk and Improvement Committee Meeting held on 17 August 2023. (Lyon/Hunter)
- 10 **23-001 Resolved** that Council adopts the following Committee Recommendations:
- Report No. 5.1 Internal Audit Report - Quarter 4 2022-2023**
- That Council:
1. Notes the Internal Auditors Summary of Internal Audit Recommendations for Quarter 4 2022-2023 at Attachment 1 (E2023/75611).
- 15 2. Notes that the Audit, Risk and Improvement Committee endorses the recommendations from the Executive Team to close off nine internal audit recommendations from Quarter 4 2022-2023 as listed in Table 1 of this report (which is a summary from Attachment 2 E2023/71627). (Lyon/Hunter)
- 23-418 Resolved** that Council adopts the following Committee Recommendation
- 20 **Report No. 5.3 2023 Interim Audit Management Letter**
- That the comments provided by Management in response to issues raised in the 2023 Interim Audit Management Letter (#E2023/77884) be noted by Council and the Audit, Risk and Improvement Committee. (Lyon/Hunter)

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

Report No. 4.1 Annual Report 2022/23

Directorate: Corporate and Community Services

5 **Report Author:** Amber Evans Crane, Corporate Planning and Improvement Coordinator

File No: I2023/1548

Summary:

10 Each NSW Local Government Authority is required under S428 of the *Local Government Act 1993* to prepare and submit to the Minister of Local Government an Annual Report.

The Annual Report is an opportunity for a Council to communicate back to the community how the Council has implemented its operational plan and delivered outcomes for the community.

15 The document will be presented to the 26 October 2023 Ordinary Council Meeting for Council to note the Annual Report 2022/23 and its submission to the Minister for Local Government.

A separate report on the 2022/23 Financial Statements will be prepared for the consideration of Council.

20

RECOMMENDATION:

25 **That the Audit, Risk and Improvement Committee notes the Annual Report 2022/23 at Attachment 1 (#E2023/84193) to this report, and its submission to the Minister for Local Government.**

Attachments:

1 Annual Report 2022/23, E2023/84193 

30

Report

Each Council in NSW has an obligation to prepare and submit an Annual Report. It is an opportunity to report back to the community on Council's progress.

5 The attached Annual Report has been prepared in accordance with the *Local Government Act 1993* and includes the information prescribed in the *Local Government (General) Regulation 2021*. Information that is required by the Local Government Act and Regulation, or any other legislative requirement is noted with reference to the relevant legislation in bold.

10 In addition to the information required to comply with the above, the Annual Report serves as a key point of accountability between Council and our community. The Annual Report highlights some of Council's achievements in implementing the 2022 to 2026 Delivery Program over the last year. The Annual Report also demonstrates the ways in which these activities contribute to the five overarching objectives in the Community Strategic Plan 2032:

- 15 • Effective Leadership: We have effective decision making and community leadership that is open and informed.
- Inclusive Community: We have an inclusive and active community where diversity is embraced and everyone is valued.
- Nurtured Environment: We nurture and enhance the natural environment.
- 20 • Ethical Growth: We manage growth and change responsibly.- We manage growth and change responsibly
- Connected Infrastructure: We have connected infrastructure, transport, and facilities that are safe, accessible, and reliable.

25 This is the first year of reporting on our *Byron Shire Community Strategic Plan 2032* and a progress update is included.

Strategic Considerations

Community Strategic Plan and Operational Plan

CSP Objective	CSP Strategy	DP Action	Code	OP Activity
1: Effective Leadership	1.1: Enhance trust and accountability through open and transparent leadership	1.1.2: Governance - Ensure legislative compliance and support Councillors to carry out their civic duties	1.1.2.5	Prepare and submit the 2022/23 Annual Report

Legal/Statutory/Policy Considerations

[Section 428](#) of the *Local Government Act 1993* requires Council to:

- Prepare an annual report within 5 months after the end of each year and to
- 5 • Detail its achievements in implementing its delivery program and the effectiveness of the principal activities undertaken in achieving the objectives at which those principal activities are directed.
- Include a copy of the council's audited financial reports prepared in accordance with the *Local Government Code of Accounting Practice and Financial Reporting* published by the Department, as in force from time to time
- 10 • Include a statement of the action taken by the council in relation to any issue raised by the Anti-slavery Commissioner during the year concerning the operations of the council and identified by the Commissioner as being a significant issue and steps taken to ensure that goods and services procured by and for the council during the
- 15 • Include a statement of the action taken by the council in relation to any issue raised by the Anti-slavery Commissioner during the year concerning the operations of the council and identified by the Commissioner as being a significant issue and steps taken to ensure that goods and services procured by and for the council during the year were not the product of modern slavery within the meaning of the Modern Slavery Act 2018.
- Include such other information or material as the regulations or the guidelines under section 406 may require.
- Post copy of the council's Annual Report on the council's website and provide a copy to the Minister.

20 The *Local Government (General) Regulation 2021*

[Clause 217](#) prescribes the required information to be included.

Financial Considerations

The preparation of the document was funded within existing budget allocations.

Consultation and Engagement

25 The Annual Report will be published on Council's website.

Report No. 4.2 Draft 2022/2023 Financial Statements

Directorate: Corporate and Community Services

Report Author: James Brickley, Manager Finance

File No: I2023/1574

5 Summary:

The Draft 2022/2023 Financial Statements have been prepared, and at the time of writing, are subject to external audit 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 The Audit Office of NSW is expected to issue the Audit Engagement Closing Report prior to this Audit, Risk and Improvement Committee Meeting being held and this will be circulated to Committee Members when received.

The report to the October Ordinary Meeting of Council recommends the adoption of the Draft 2022/2023 Financial Statements as prepared and the completion of the statutory
15 steps outlined in Section 418 to 420 of the Local Government Act 1993.

RECOMMENDATION:



- 20 **1. That the Audit, Risk and Improvement Committee note the Audit Engagement Closing Report for the year ended 30 June 2023 provided by the Audit Office of NSW.**
- 2. That the Audit, Risk and Improvement Committee recommend to Council:**
- 25 **(a) That Council adopts the Draft 2022/2023 Financial Statements incorporating the General Purpose Financial Statements (#E2023/106411) and Special Purpose Financial Statements (#E2023/106410).**
- (b) 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 2022/2023 Draft Financial Statements.**
- 30 **(c) That the Audited Financial Statements and Auditors Report be presented to the public at the Ordinary Meeting of Council scheduled for 23 November 2023 in accordance with Section 418(1) of the Local Government Act 1993.**
- 35

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

Attachments:

- 1 Draft 2022-2023 General Purpose Financial Statements, E2023/106411 
- 5 2 Draft 2022-2023 Special Purpose Financial Statements, E2023/106410 

Report

The Draft 2022/2023 Financial Statements have been prepared, and at the time of writing this report, are subject to external audit 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.

The Audit Office of NSW is expected to issue the Audit Engagement Closing Report prior to this Audit, Risk and Improvement Committee Meeting being held and this will be circulated to Committee Members when received.

External Audit Engagement Closing Report

This report provides information to the Audit, Risk and Improvement Committee about the audit outcome, audit findings and the audit process. A representative will on behalf of the Audit Office of NSW, provide a presentation on the Report to the Committee at the 19 October 2023 Meeting.

Financial Statements

This report recommends to Council, following consideration, the adoption of the Draft 2022/2023 Financial Statements as prepared and the completion of the statutory steps outlined in Section 418 to 420 of the Local Government Act 1993.

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

The Draft 2022/2023 Financial Statements provided in the attachments are broken down into:

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

As in previous years, Council produces Special Schedules that are not audited (except Permissible Income for General Rates). However, since the 2018/2019 financial year, 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. The Special Schedules are still produced and submitted to the Office of Local Government as part of the annual financial data return.

Brief explanations for each item is as follows:

General Purpose Financial Statements

These Statements provide an overview of the operating result, financial position, changes in equity and cash flow movement of Council as at 30 June 2023 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

5

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.

10 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:

- 15
- 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.

20

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:

25

- 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.
- 30 • 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.

35

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.

40 **Specific Items relating to 2022/2023 Draft Financial Statements**

Before consideration is given to the 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 from the 2020/2021 financial year onwards.

45 This means that the notes to the General Purpose Financial Statements are now broken into Sections as follows:

- Section A – About Council and these Financial Statements

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

- Section B – Financial Performance
- Section C – Financial Position
- Section D – Council Structure
- Section E – Risks and Accounting Uncertainties
- 5 • Section F – People and Relationships
- Section G – Other Matters
- Section H – Additional Council Disclosures

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

10

The Draft 2022/2023 Financial Statement results have been impacted by the following items that require explanation:

15

- Overall Audit Outcome

Council for the 2022/2023 financial year will receive a ‘unmodified’ or ‘clean’ audit opinion from the NSW Audit Office. For both the General Purpose and Special Purpose Financial Statements.

20

- Operating Result from Continuing Operations

25

The 2022/2023 financial year has seen a positive overall financial result. Council recorded a \$31.581million surplus compared to the \$11.073million surplus in 2021/2022. This result incorporates the recognition of capital revenues such as capital grants and contributions for specific purposes and asset dedications amounting to \$29.560 million, compared to \$20.984million in 2021/2022.

30

A more important indicator is the operating result before capital grants and contributions. This result was a surplus of \$2.021 million in 2022/2023 compared to a deficit of \$9.911million in 2021/2022, representing an increase of \$11.932million between financial years. Whilst a significant improvement, this result is influenced more so by timing of events due to revenue recognition accounting standards for operating grants such as receipt of natural disaster emergency work and immediate repair work funding with expenditure incurred in the previous financial year and receipt of 100% of the 2023/2024 Financial Assistance Grant in advance.

35

With reference to the Income Statement to the General Purpose Financial Reports included at Attachment 1, the following table indicates the major changes between 2022/2023 and 2021/2022 by line item:

40

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

Item	Change between 2022/2023 and 2021/2022 \$'000	Change Outcome	Comment
<u>Income</u>			
Rates & Annual Charges	+\$3,506	Increase	Reflects imposition of the 2022/2023 rate peg of 2.3% and changes in annual charges from Council's adopted 2022/2023 Revenue Policy.
User Charges and Fees	+\$5,771	Increase	A contributor to this change was holiday park revenues +\$1.673million and pay parking revenues +\$1.966million. Further information is available in Note B2-2 to Attachment 1.
Other Revenues	+\$1,063	Increase	The major increase in this item relates to fine revenues.
Grants & Contributions – Operating	+\$5,225	Increase	Overall operating grants and contributions increased significantly due to 100% advance payment of Financial Assistance Grant and flood recovery grants Further information is available in Note B2-4 to Attachment 1.
Grants & Contributions – Capital	+\$8,576	Increase	Revenue increase in this item mainly relates to the revenue recognition for completing grant funded capital works milestones. Further information is available in Note B2-4 to Attachment 1.
Interest and Investment Revenue	+\$2,161	Increase	Interest rates during 2022-20223 have seen significant increases to curb inflation. This has increased the return on Council's investments. Council also received additional revenue on outstanding rates and charges.
Other Income	+\$413	Increase	Principally relates to change in revenues from property leases.
Total Income Change	+\$26,715	Increase	
<u>Expenditure</u>			
Employee Benefits and Oncosts	+\$321	Increase	Overall employee costs increased in gross terms by \$1.328million but there was also an increase of \$1.007million of employee costs capitalised on capital works in 2022/2023 compared to

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

Item	Change between 2022/2023 and 2021/2022 \$'000	Change Outcome	Comment
			2021/2022. This accounts for the much lower increase in employee costs expensed. More information is provided at Note B3-1 to Attachment 1.
Borrowing Costs	-\$27	Decrease	Reduction due to ongoing repayment of existing loans and not borrowing any new loans during the financial year.
Materials & Services	+\$5,520	Increase	Materials and Services increased \$5.520million overall. Raw materials and consumables increased \$3.240million significantly due to expenditure on flood recovery works not capitalised. Further changes include an increase of \$184k in legal expenses, increase of \$177k in insurance costs, increase of \$142k for IT software costs, increase of \$989k in waste contract costs and \$483k increase in holiday park contract costs. Other changes can be found at Note B3-2 to Attachment 1.
Depreciation	+\$1,037	Increase	Respective changes between asset classes are outlined at Note B3-4 to Attachment 1. Essentially major increase is due to the ongoing revaluation and indexation of assets each year now flowing through with increased depreciation expense.
Other Expenses	-\$302	Decrease	Overall variations in line items as disclosed at Note B3-5 to Attachment 1. The major item is the fair value decrement on Council's investments. This is an ongoing changed disclosure but reflected a \$572k decrease..
Net Losses from Disposal of Assets	-\$342	Decrease	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 2022/2023, Council has significantly more disposals than gains, including the disposal of infrastructure \$3.560million, reflecting the level of

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

Item	Change between 2022/2023 and 2021/2022 \$'000	Change Outcome	Comment
			capital works disposals with plant and equipment obtaining a \$419k gain. Further details can be found at Note B4-1 to Attachment 1
Total Expenditure Change	+\$6,207	Increase	
Change in Result	+\$20,508	Increase	Increase in overall surplus between financial years.

5 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:

10 Outstanding, Rates and Annual Charges – Council's ratio has increased to 11.94% in 2022/2023 from 9.60% in 2021/2022. The increase can be attributable to rates and charges increases, the ongoing impact of the COVID-19 pandemic and the February/March 2022 flood events. Through its assistance program to the community up to 30 June 2022, Council has continued to offer ratepayers extended payment arrangements and suspended debt recovery. It further set interest on outstanding rates and charges to 0% which was to end at the end of February 2022 but following the February/March flood events, this was extended to 30 June 2022. Whilst providing assistance to ratepayers, this has also reduced the incentive for people to pay and as a consequence the rates and charges outstanding percentage has increased which has influenced the current result. Whilst there are cost of living pressures in the community, Council will need to look to increase debt recovery activity.

25 Pleasingly, Council met every other performance benchmark including the Operating Performance Ratio which it has not done so for a number of years. As a note of caution, this ratio will fluctuate with revenue recognition accounting standards now in place in that grant revenues cannot be matched against expenditure but only in accord with firstly grant approvals i.e. natural disaster funding and milestone achievement. However, Council needs to improve this result back towards the benchmark as it is a key financial sustainability indicator.

30 • Asset Revaluations

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

During 2022/2023, a revaluation of assets relating to Operational Land was undertaken. These revaluations have increased Council's asset values by the following amounts:

- Operational Land – an increase of \$29.641million

5 This represents a further significant increase and clarification was sought from the Valuer as to whether there was any potential subsequent reduction in valuation given interest rate increases but this is not the case. If anything, real estate pricing seems to be increasing again despite the interest rate environment.

- Asset Recognition, Indexation and Impairment

10 As indicated at Note C1-7 to Council's financial statements, Council expended \$42.348million on asset renewals and \$5.267million on new assets. The extent of asset renewals is still significant and demonstrates ongoing commitment in that area. The depreciation expense of Council's assets for 2022/2023 was \$20.155million so it is pleasing to see that asset renewal was more than the financial depreciation of Council's assets.

15 Council annually needs to reassess the fair value of assets not subject to a specific revaluation. Consequently across all asset classes, excluding the revaluation of Operational Land, indexation has added around \$99.219million to the value of Council's infrastructure, property, plant and equipment. With the exception of land which is not depreciated, the indexation will inflate depreciation expense further in future reporting periods that will make the ability to reduce operational deficits, especially in the General Fund, more difficult.

20 The February/March 2022 flood events have also required Council to consider any impairment on its assets. Impairment is the reflection of writing down the fair value of an asset to reassess its value following events that have a negative impact on the asset's ability to deliver its economic benefits or perform its function completely. In terms of the February/March 2022 flood events, any Council infrastructure completely destroyed has been disposed of fully writing off any carrying value. Other assets that were damaged not totally destroyed were assessed for impairment which has meant Council has reduced the carrying value of its assets by \$2.157million ranging from buildings, roads, bridges, drainage, and swimming pool assets at 30 June 2022. These impairment charges will be reversed as and when the impaired assets are later repaired and restored. As a result at 30 June 2023 due to works to restore infrastructure, \$678k of the impairment cost recognised previously has been reversed.

- Cash and Investments

35 As at 30 June 2023 as detailed at Note C1-3 to the financial statements, Council has maintained no unrestricted cash and investments. Council's goal of maintaining a \$1million unrestricted cash balance has not been able to be achieved which has been exacerbated by the ongoing impact of the February/March 2022 flood events and response to the recovery to 30 June 2023.

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

5 Council has established a flood recovery reserve, in an effort to track its expenditure for the recovery works. As at 30 June 2023, this reserve has a balance of negative \$7.834million and is indicative of expenditure incurred by Council that is yet to be reimbursed by the NSW Government through Natural Disaster funding. It needs to be clearly articulated, as it was when for the 2021/2022 financial year, that in establishing this reserve the short term funding to the flood recovery has come from Council's overall internal reserve allocations and that no externally restricted funds have been used for this purpose. It is expected that the flood recovery reserve will cease to exist when Council has completed all flood recovery works and been reimbursed fully for natural disaster funding eligible expenditure over the next few years.

10 All other cash and investments totalling \$71.955million at 30 June 2023 are restricted for specific purposes. Overall, the cash and investment position of Council decreased by \$6.351million during the year.

15

- Receivables and Contract Assets

20 As at 30 June 2023, as detailed at Note C1-4 and C1-6 to the financial statements, Council was due \$24.197million in receivables and contract assets. Outstanding rates and charges were \$7.468million. Overall receivables and contract assets increased by \$9.585million compared to the 2021/2022 financial year.

20

- Payables, Contract Liabilities and Provisions

25 At 30 June 2023, 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 \$16.784million including \$4.935million held in security bonds, deposits and retentions, \$1.877million in accrued expenses and \$8.793million payable to suppliers. In addition at 30 June 2023, Council has accrued employee leave entitlements valued at \$8.018million. Specific employee leave entitlements include \$3.206million for annual leave, \$4.691million for long service leave and \$0.121million for gratuities. At 30 June 30 2023 Council also had \$8.197million in contract liabilities relating to unexpended capital grants and advance bookings for its holiday parks. It has also made provisions of \$8.119million for the restoration of landfill and quarry assets. In comparison to 2021/2022, total liabilities have increased \$0.371million excluding loan borrowings.

30

- Loan Borrowings

35

During 2022/2023 Council did not borrow any new loans and continued to make normal loan repayments.

40 Council's outstanding loans as at 30 June 2023 are \$54.207million. Total loan expenditure for 2022/2023 included interest of \$2.728million and principal payments of \$4.562million. Total expenditure in 2022/2023 related to loan repayments was \$7.290million or 7.62% of Council's revenue, excluding all grants and contributions.

45 The outstanding loans by Fund totalling \$54.207million are as follows:

- General Fund \$21.150million

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

- Water Fund \$0 – Water Fund is debt free
- Sewerage Fund \$33.057million

- New Accounting Standards

5

The 2022-2023 financial year did not require Council to implement any new accounting standards that impacted the financial statements.

- Liquidity

10

Council's Statement of Financial Position (balance sheet) indicates net current assets of \$47.179million. 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.

15

That is, there is no uncertainty as to Council being considered a 'going concern'. In addition, Council's cash expense cover ratio is at 8.03 months whereas the minimum benchmark is 3 months. Council exceeds this benchmark by nearly three times.

20

Council's Unrestricted Current Ratio did decline to 2.52, demonstrating Council has \$2.52 in unrestricted current assets compared to every \$1.00 of unrestricted current liabilities. This exceeds the benchmark of \$1.50.

25

On a longer term basis Council will need to consider its financial position carefully. Nevertheless, in isolation, the financial results for 2022/2023 continue to present a 'stable' financial position especially given Council is now in infrastructure recovery mode following the impact of the February/March 2022 flood events and is carrying significant debt on behalf of the NSW Government. This in itself is an ongoing and serious concern.

30

Effort is needed to manage the trend towards reducing operational deficits before capital grants and contributions. Furthermore, Council needs to commence restoration of the unrestricted cash balance back towards \$1million during the 2023/2024 financial year, which could not be achieved during 2022/2023. Council will especially need to carefully manage its cash flow obligations as it starts to commit further significant expenditure in the flood recovery for Essential Public Asset Restoration (EPAR) works and the time delay for reimbursement from the NSW Government via Natural Disaster funding for the AGRN 1012 event that has been to date a frustration.

35

Strategic Considerations

Community Strategic Plan and Operational Plan

CSP Objective	CSP Strategy	DP Action	Code	OP Activity
1: Effective Leadership We have effective decision making and community leadership that is open and informed	1.3: Ethical and efficient management of resources	1.3.1: Financial Management - Ensure the financial integrity and sustainability of Council through effective financial management	1.3.1.3	Provide completion of Council's statutory annual financial statements for 2022/2023.

5

Legal/Statutory/Policy Considerations

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.
 - 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:

- 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.

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 2023.

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.

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

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

Council's Financial Statements, together with a copy of the Council's audited Financial Statements, to the Departmental Chief Executive before 7 November 2023.

5 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

10 There are no direct financial implications associated with this report as the report does not involve any future expenditure of Council funds but rather, advises on Council's draft financial outcomes during the 2022/2023 financial year, which are identified in this report and attachments. These financial outcomes are also still subject to final review by the
15 NSW Audit Office at the time of report preparation and may change.

Consultation and Engagement

20 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 made within seven days of the Financial Statements being presented to the public. In the case of the 2022/2023 Financial Statements, the closing date for submissions is expected to be 1 December 2023.