



**QUALITY NATURE - QUALITY HERITAGE - QUALITY LIFESTYLE**

## **ADDENDUM ITEMS FOR ORDINARY COUNCIL MEETING 23 NOVEMBER 2022**

Notice is hereby given pursuant to Clause 7(1) of Council's Code of Meeting Practice that an **Ordinary Council Meeting** will be held in the "Memorial Hall", Urbenville, on **Wednesday 23 November 2022** commencing at **9:30 am**.

Daryl Buckingham  
**Chief Executive**

# AGENDA

## 10. URGENT, LATE & SUPPLEMENTARY ITEMS OF BUSINESS

(ITEM GOV100/22) QUARTERLY BUDGET REVIEW STATEMENT - SEPTEMBER  
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<b>Department:</b>	<b>Office of the Chief Corporate Officer</b>
<b>Submitted by:</b>	Roy Jones, Manager Finance & Technology
<b>Reference:</b>	<b>ITEM GOV100/22</b>
<b>Subject:</b>	<b>QUARTERLY BUDGET REVIEW STATEMENT - SEPTEMBER 2022</b>

**LINKAGE TO INTEGRATED PLANNING AND REPORTING FRAMEWORK**

<b>CSP Goal:</b>	<b>Leadership</b> - Council is a transparent, financially-sustainable and high-performing organisation, delivering valued services to the Community.
<b>CSP Strategy:</b>	Ensure Council operates in an effective and financially sustainable manner to deliver affordable services.
<b>CSP Delivery Program</b>	Ensure that financial sustainability and the community's capacity to pay inform adopted community service levels.

**SUMMARY**

The purpose of this Report is to provide Council with a Quarterly Budget Review Statement in accordance with Regulation 203 of the Local Government (General) Regulation 2005 (the Regulation).

**OFFICER'S RECOMMENDATION:****That Council:**

**Adopts the September 2022 Quarterly Budget Review Statement and recommendations therein that:**

- a) No additional operating or capital expenditure outside of the recommendations in this review be approved by Council unless they are offset by other savings (e.g. with road works such as re-sheeting, with a plan to reduce maintenance costs) or grant funded, and even then only where there will be no additional operating costs as a result of the expenditure i.e. if capital related expenditure, it should be for the replacement of existing assets only, not new assets;**
- b) Acknowledge the ongoing governance and treasury management difficulties Council faces with the current structure of many grant and disaster funding payments, and advocate for changes to the timing of these cash payments from State and Federal governments.**
- c) Council continues to explore increases in operational income by considering selling assets and reassessing commercial lease agreements to increase cash flow to meet requirements for the financial year in line with original budget.**

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## BACKGROUND

Regulation 203 of the Regulation states that:

- (1) Not later than two months after the end of each quarter (except the June quarter), the Responsible Accounting Officer of a Council must prepare and submit to the Council a Budget Review Statement that shows, by reference to the estimate of income and expenditure set out in the Council's Statement of Revenue Policy included in the Operational Plan for the relevant year, a revised estimate of the income and expenditure for that year.
- (2) A Budget Review Statement must include or be accompanied by:
  - (a) a Report as to whether or not the Responsible Accounting Officer believes that the statement indicates that the financial position of the Council is satisfactory, having regard to the original estimate of income and expenditure, and
  - (b) if that position is unsatisfactory, recommendations for remedial action.
- (3) A Budget Review Statement must also include any information required by the Code to be included in such a statement.

The Code referred to is the Code of Accounting Practice and Financial Reporting. While earlier versions of the Code had an Appendix that listed minimum requirements, these were removed a few years ago as they are of no relevance to the Financial Statements (which is the main purpose of the Code).

In the absence of any instructions in the Code, the Quarterly Budget Review Statement publication issued in 2010 by the then Division of Local Government, NSW Department of Premier and Cabinet has been used as a guide to the preparation of this Quarterly Budget Review.

The quarterly review should act as a barometer of Council's financial health during the year and it is also a means by which Councillors can ensure that Council remains on track to meet its objectives, targets and outcomes as set out in its Operational Plan.

## REPORT:

The original budget adopted by Council indicated that the Net Operating Deficit at the end of the 2022/23 financial year was expected to be **(\$1,266,008)**. The Operating Deficit was **(\$904,893)** when capital grants and contributions were included. This was based on budgeted total revenue of \$23,976,002 and budgeted total operating expenditure of \$24,880,895.

**In the September 2022 Quarterly Budget Review, the net effect of changes made has resulted in a further decline of **(\$1,519,664)** from the projected deficit of the original budget, to result in a projected Net Operating Deficit of **(\$2,785,672)**.**

The Operating Performance Ratio is an example of demonstrating whether Council is making an operating surplus or deficit and can be expressed including or excluding Capital income. Both are included in this quarters' Report.

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The Operating Performance Ratio (excluding Capital income) is defined as:

Total Continuing Operating Revenue (excluding Capital grants and contributions) –  
Operating Expenses

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Total Continuing Operating Revenue

For the 2022/23 year, Council originally budgeted for a negative Operating Ratio (deficit) both including and excluding Capital income of (3.77%) and (5.36%) respectively.

As a result of the September 2022 Quarterly Budget Review, the Operating Ratios are now forecast at 56.39% including Capital income, and **(10.74%) excluding Capital income. This change has been due to grant funding capital works carried forwards from previous year of approximately \$37 Million. Further, grants carried forward for operational purposes totaled approximately \$1.7 Million.**

**Comment by the Responsible Accounting Officer:**

The report clearly indicates that the projected financial position as at 30 June 2023 is unsatisfactory. Further action needs to be taken to address this issue urgently to reduce operating deficit in this financial year and into the future years. Noting, this is primarily due to funding and timing of grants despite administrations ongoing operational deferrals.

Council's cash position has been positive predominately by the receipt of 75% advance payment of Financial Assistance Grants in the previous financial year.

As required under the Regulation, some remedial actions continue to be proposed as part of the September 2022 review, including that:

- a) No additional operating or capital expenditure outside of the recommendations in this review be approved by Council unless they are offset by other savings (e.g. with road works such as re-sheeting, with a plan to reduce maintenance costs) or grant funded, and even then only where there will be no additional operating costs as a result of the expenditure i.e. if capital related expenditure, it should be for the replacement of existing assets only, not new assets;
- b) Acknowledge the ongoing governance and treasury management difficulties Council faces with the current structure of many grant and disaster funding payments, and advocate for changes to the timing of these cash payments from State and Federal governments.
- c) Council continues to explore increase in operational income by considering selling assets and to reassess current commercial lease agreements.

While the above will not return the operating position to surplus by 30 June 2023, the aim is to continue to ensure the financial sustainability of Council in the longer term.

It is recommended that Council focuses on increasing own source funding and minimising the reliance on external loans in the future.

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**Intention to apply for Special Rate Variation:**

Council recognises it must address its current financial sustainability and level of service to address community expectation. Over the last several years, and as recently as March 2022 as part of the quarterly budget review process Council resolved:

*"(e) That a plan be developed to increase operational income and further reduce operational expenditure as per previous discussions and comments in Council Reports, may include a Special Rates Variation request with a view to returning Council's operating position to surplus." (resolution 103/22).*

On 26 October 2022 Council resolved (237/22) to request the Chief executive Officer to notify the Independent Pricing and Regulatory Tribunal of its intent to apply under section 508A of the Local Government Act 1993 for a Special Rate Variation of 43% (including the rate peg) in 2023/2024 and 43% (including the rate peg) in 2024/2025 to be a permanent increase retained within the rate base, for the purpose of maintaining current service levels, maintenance and renewal of assets and enhancing financial sustainability.

As a result of above Council is currently preparing its application submission to IPART which will be tabled at the next Council meeting.

**Operational Budget Review:**

Council once again reduced budgets significantly and deferring operational expenditure as part of the 2022/23 budget process. This included a detailed review of the operational expenditure by the Executive Management Team and a further review of capital income and expenditure with a view to align the budget with the Original adopted budget. As shown in the September Quarterly Budget Review, the unsatisfactory financial position continues to be a risk to Council's financial sustainability.

Operational expenses (e.g. equipment and materials) continue to be impacted by inflation and therefore are rising at a rate that far exceeds Council's increase in revenue each year (for both General fund services, as well as Waste, Water and Sewer operations). The rate peg and cost shifting from the State Government to councils has also had an impact on Council's bottom line as has our success in obtaining grant funding.

Council's depreciation costs have increased substantially over the past few years as new infrastructure has been built on the back of a significant increase in grant funds (depreciation costs were \$6.072 million in 2017/18 and is currently estimated at \$8.311 million for 2022/23).

Council as part of the finalisation of Annual Financial Statements 2021/22 was required to undertake an indexation activity by the Audit Office of New South Wales applicable for infrastructure assets. This resulted in a net impact of \$41.6 million added in Council's balance sheet. The impact of this indexation to depreciation expense will be reflected in an increase in expense this financial year for end of year and will need to be budgeted for next financial year.

Council also continues to face challenges in treasury management of cash-flow due to the many grant-funded and disaster recovery (DRFA) works being funded in arrears (wherein cash is received after expenditure has been incurred).

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The claim for the DRFA March 2021 storms and floods, to the value of \$3.052 million (out of a total cost of \$3.121 million), has been finalised and cash paid to Council, with \$3.002 million being recognised as 2021/22 income, and the remaining amount of \$50,482 being shown in the current year.

The claim for the DRFA November 2021 severe weather events - is in progress and it is currently estimated that Council should receive reimbursement of approximately \$930,000 (out of total costs \$1.004 million).

The September 2022 budget review has increased the Operational Expenditure budget by \$3.844 million, of which \$2.493 million is from the DRFA works which have been added to the budget (shown below). There is also \$927,716 in carried-forward budgets for operational grants from 2021/22 (detailed in the attachment).

<b>Service Area</b>	<b>Disaster Event</b>	<b>Budget</b>
Transport Network	DRFA February 2022 Severe Weather & Flooding Immediate Recovery Works (IRW)	\$ 2,493,157

Several new operational grants which Council has received have been added to the operational expenditure budget, totaling \$487,458 as below:

<b>Service Area</b>	<b>Grant Project</b>	<b>Grant Funded Budget</b>
Community Development	Reconnecting Regional NSW Community Events Program	\$ 301,708
Community Development	Children & Young People Wellbeing Recovery Initiative Grant	\$ 10,000
Library Services	Library Tech Savvy Seniors Grant	\$ 5,750
Environmental Management	National Landcare Program Bushfire Recovery Project - Priority & Environmental Weed Control	\$ 80,000
Environmental Management	New Weed Incursion Grant - Black Knapweed	\$ 10,000
Planning and Regulation	NSW Planning Portal API Grant	\$ 80,000

There has also been additional operational expenditure budgets added in several areas, as a result of cost increases e.g. \$56,859 in insurance costs (spread across several service areas). Budgets have been nominated for a number of works that are involved in insurance claims, and the costs should therefore be in large part covered by future reimbursement from the insurer (less excess amounts).

The Senior Management Team along with relevant line managers further deferred operational expenses of \$679,000 after the initial budget review draft was presented to them. The intention of this deferral activity aims to ensure that Council does not exceed its current proposed borrowing.

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However, the final loan amount will be dependent on factors outside Councils direct control such as inflationary environment and additional expenses for urgent maintenance and repair works.

Additional Operational income of \$2,324,387 has been incorporated in the budget in this review, which is mostly comprised of the expected future reimbursement amounts for the current DRFA February 2022 works program.

It is important to note that a reduction of \$1.071 million was made to the Financial Assistance Grant budgets, due to the Advance payment received in the 2021/22 financial year being 75% of this year's total, instead of the normal 50% of prior years. As a result, a greater proportion of this year's allocated grant to Council was recognised as part of 2021/22 income in the financial statements, and therefore reduces the income for the 2022/23 year.

Two positive impacts to Council's operational income is the receipt of an insurance settlement to the Waste Management area of \$159,219 for the Boonoo Boonoo Landfill fire from the 2020/21 year; and increasing the Interest on Investments income budget by almost \$360,000 due to interest rate rises.

Note that there are several items of possible income that may be added in a future quarterly budget review depending on the outcomes of each, including the sale of the Tenterfield Airstrip, the sale of Bendall's, and the claim for additional fuel tax credits.

### Capital Budget Review:

The Capital Budget Review format allows Council to analyse any additional Capital expenditure to be incurred in the current financial year and the extent to which monies have already been expended. The report also indicates how Council is to fund the Capital expenditure for the year.

The September 2022 budget review has increased the Capital Works Expenditure budget by \$43.2 million, mainly due to the many grant projects carried-forward from the 2021/22 financial year, as well additional Council-funded works (the majority of which were planned 2021/22 projects which were either not begun or incomplete in that year).

The total value of new Capital expenditure grants added to the budget is \$4,195,795:

Service Area	Capital Grant Project	Total Project Budget
Transport Network	Local Roads & Community Infrastructure Program Round 3	\$ 2,088,670
Transport Network	Streets as Shared Spaces	\$ 500,000
Water Supply	New Grid Urbenville Water Supply Project (grant funds \$1,458,000)	\$ 1,558,000
Water Supply	Bulk Water Metering Grant (grant funds \$36,844)	\$ 49,125

Note – the new grant projects for Water Supply are majority grant-funded, but both also require a Council contribution from the Water fund to comprise the total project budget.



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### Cash and Investment Review:

The cash and investment review provides the balance of the current internal and external restrictions of Council's funds. These figures have been updated in the September Quarterly Budget Review to reflect changes to grant balances and other movement in both internally and externally restricted cash. The forecast balances for the end of the financial year are an estimate based on the assumption of all income and expenditure in the budget being fully realised. As a result, the final balances are not fully determined until the end of the financial year.

As at 30 September 2022 Council reported a **positive unrestricted cash balance of \$4,998,118**. This was a positive result and is predominately due to receipt of 75% of Financial Assistance Grants in the previous financial year. However, cash remains a major concern given that this is a very small amount and there is no ability to re-establish internally restricted funds e.g. for Employee Leave Entitlements, or Plant & Vehicle Replacement. By not having sufficient funds within internal restrictions Council is at a higher risk to use externally restricted cash for general purpose. This would result in a breach of the Local Government Act.

As a liquidity measure, the \$5,000,000 Corporate Markets Loan has not yet been established with the NAB, due to the ongoing cost to have it in place, but it can be organized if Council's cashflow requires it.

The Quarterly Budget Review also includes a reconciliation of Council's cash and investments on hand as at 30 September 2022.

This Report requires a statement in respect of whether all investments are in accordance with the requirements of Section 625 of the Local Government Act 1993, the accompanying Regulation and Council's Investments Policy. This statement, in combination with the monthly investment report, ensures that Council is complying with these statutory, regulatory and policy requirements.

Further, a declaration as to the preparation of bank reconciliations is also required. Bank reconciliations occur on a daily basis with a full reconciliation performed on a monthly basis. The full reconciliation for the September 2022 quarter occurred on 6 October 2022.

### Developer Contributions

The balances of the Developer Contribution reserves as of 30 September 2022 are:

Plan Preparation and Administration	\$ 11,462
Roads	\$ 332,384
Emergency Services	\$ 22,672
Community and Civic Facilities	\$ 11,575
Open Space, Sporting and Recreation	\$ 4,163
New Multi-Residential Development (7.12)	\$ 3,492
Waste Fund	\$ 40,103
Stormwater Fund	\$ 4,009

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Water Fund	\$ 37,565
Sewer Fund	\$ 41,455
<b>TOTAL</b>	<b>\$ 528,880</b>

### Contracts:

The Reporting Framework requires the identification of contracts entered into in the preceding quarter, which exceed specified expenditure limits. The limit for reporting contracts in the QBRS is one percent (1%) of revenue from continuing operations, or \$50,000, whichever is less.

### Consultancy and Legal Expenses:

The current expenditure as at 30 September 2022 on qualifying consultancies and legal fees are identified in the QBRS and this expenditure is budgeted for and, given the size and nature of Council's operations, is considered reasonable.

### COUNCIL IMPLICATIONS:

#### 1. Community Engagement / Communication (per engagement strategy)

Nil.

#### 2. Policy and Regulation

- Local Government Act 1993
- Local Government (General) Regulation 2005
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Circulars

#### 3. Financial (Annual Budget & LTFP)

It is important for Council to note that the adoption of this budget review approves the variations identified in the attached Report and that the cumulative effect of the budget variations should be considered when reviewing this budget.

In the September 2022 Quarterly Budget Review, the forecast Operating Position has been revised to a surplus of \$37,140,845 (including capital grants) and an **Operating Deficit of (\$2,785,672) (excluding capital grants)**.

As indicated in the report, the deficit excluding capital grants is not a satisfactory outcome and therefore remedial action has been proposed in accordance with the Local Government (General) Regulation 2005.

#### 4. Asset Management (AMS)

Nil.

#### 5. Workforce (WMS)

Nil.

#### 6. Legal and Risk Management

The Budget Review is submitted to Council in accordance with Clause 203(1) of the Local Government (General) Regulation 2005.

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### **7. Performance Measures**

The impact of the recommended budget variations on Council's main key performance indicator is detailed in the Quarterly Budget Review Statement. Due to year end accounting adjustments other performance ratios won't be available until the Audited Financial Statements are completed.

### **8. Project Management**

Nil.

**Kylie Smith**  
**Chief Corporate Officer**

Prepared by staff member:	Roy Jones, Manager Finance & Technology
Approved/Reviewed by Manager:	Kylie Smith, Chief Corporate Officer
Department:	Office of the Chief Corporate Officer
Attachments:	<b>1</b> Budget Review for the Quarter ended - 30 September 2022 <b>13</b> Pages