

LATE AGENDA ITEM

13.4. 2024/25 OPERATING POSITION AND MANAGEMENT MEASURES TO MITIGATE NEGATIVE OPERATING RESULTS

REPORT DETAIL

Report Author: General Manager Infrastructure and Environment

Department: Infrastructure and Environment

EXECUTIVE SUMMARY

At the 24 July 2025 Ordinary Council meeting, Councillor Cardew had as a result of the discussion that took place in relation to *Item-13.1 Preliminary Financial Report – June 2025* requested that General Managers provide an account of any overruns that have occurred in the 2024/25 financial year to Councillors.

With the 2024/25 financial statements now finalised a net Surplus position of \$16.35M has been achieved and cash balances have increased by \$2M. These statements are presented to Council as part of the annual report at this November meeting.

Following the completion of financial year end activities, the requested operating budget overrun report is now presented.

In 2024/25, the budgeted operating position was a deficit of -\$1.49M. The year end actual position was higher than budgeted, at -\$3.54M deficit; a variance to budget of \$2.05M.

The main contributors to the \$2.05M variance were:

- Adjustments required to employee related oncost provisions (long service leave, annual leave, sick leave etc.) of \$703k
- Employee related expenses for labour hire, overtime, allowances and wages overspend of \$812k
- Depreciation expenses increased by \$1.169m
- Contractor expenses increased by \$722k.

The executive leadership team is implementing several measures to assist in managing the operational result to achieve a zero-deficit position in 2025/26 and beyond. These measures include the following, and further detail is provided in the body of this report:

- Improved service level financial reporting, management and accountability
- More frequent / regular review of provisions for employee related expenses
- Ongoing improvements to asset management
- Increased focus and attention on procurement arrangements and activities
- Continued focus on efficiency improvements

OFFICER'S RECOMMENDATION

"That Council receive and note the report providing an account of overruns leading to a greater than budgeted 2024/25 deficit operating position, and details of the measures underway to assist with delivering future zero-deficit or surplus operating results."

BACKGROUND

At the 24 July 2025 Ordinary Council meeting, following presentation of *Item-13.1 Preliminary Financial Report – June 2025*, Councillor Cardew requested that General Managers provide an account of any overruns that contributed to the greater than budgeted deficit operating position in the 2024/25 financial year.

On the 29th October 2025, the financial year audit was completed, the financial statements were signed and submitted to the Queensland Audit Office. As required by Division 3 of the Local Government Regulation 2012, an Annual Report, containing audited financial statements must be adopted within 1 month after the day the Auditor General's report is received. The Auditor General's report is also presented to the November 2025 council meeting to receive and note. With these steps now finalised, the requested operating budget deficit report has now been finalised.

2024/25 Operating Position

In 2024/25 Tablelands regional Council achieved a surplus net position of \$16.3M, but an operating deficit position of -\$3.54M. The operating position is calculated by subtracting all operational expenses from the operational revenue in a financial year.

Council provides 44 different services to the community and each of these services are provided through many different activities, which are separately budgeted for. When these activities are delivered throughout the year some of the actual costs may be less or more than budgeted and many of these over and under expenditures are minor and cancel each other out.

The adopted budget for 2024/25 planned for an operational deficit position of -\$1.49M. The final actual position was a deficit of \$3.54M, a variance to budget of \$2.05M.

The main reasons for the final operating position were:

- An adjustment to increase oncost provisions by \$703k. Oncost percentages were adjusted from 38% to 40% of total salaries, to ensure adequate funds are set aside as provisions to cover staff leave entitlements (long service leave, annual leave, sick leave etc).
- Employee related expenses for labour hire, overtime, allowances and wages exceeded budget by \$812k, which is due to a lower than budgeted allocation of employee wages to capital projects (rather than operating expense), together with an increased need for overtime to respond to afterhours call outs, etc.
- Depreciation expense increased by \$1.169M, as a result of capitalisation catchup and value indexation.
- Contractor expenses increased by \$722k with the majority of this relating to waste, water and road services.
 - Contracted waste services costs increased when they were retendered and due to increased service demands (including expansion of the areas serviced by waste collection, an increase in the number of bins collected from premises, addition of street bins to the waste collection contract and increased costs for bin replacements). This increased level of service resulted in an increase to the costs for that service.
 - Costs for contracted water services increased due to an increase in reactive maintenance requirements.
 - Costs for contracted road services increased due to the accelerated road and drainage maintenance program requested by council to improve road performance and condition after a prolonged wet season.

Initiatives to mitigate future overruns

The operational budget is generally developed several months before the start of the financial year it applies to. At time of budgeting, assumptions are made to estimate the expected revenue and expenditure associated with all 44 services provided by Council. These assumptions are based on a variety of factors, many of which Council has limited to no control over, including:

- Development and growth
- Revenue from external works
- Interest rates
- External funding
- Price increases (inflation)

- Market conditions (i.e. availability of contractors and competitive nature of tender/quote prices received)
- Regulatory requirements and changes to regulations and legislation
- Weather and disaster impacts
- Service expenses such as electricity, insurance and fuel

As such, it is impossible to completely prevent the possibility of positive or negative budget variances or to ensure that deficits never occur, but there are measures available to limit the impact of these factors on the overall operating position. Some key initiatives are detailed below.

Financial reporting, management and accountability

The executive leadership team has formalised the presentation and review of service level financial reports to the quarterly Audit, Risk and Improvement Committee, requiring reporting and explanation of any actual or anticipated variances for each service by the respective service managers. These discussions will also include details of measures to be applied to manage variances and limit the impacts on the operating position of Council. The objective is to achieve at a minimum a zero-deficit result in 2025/26 and beyond. Improved analysis, reporting and accountability will allow early intervention, either through budget revision or changes to services or service levels, when actuals vary from the adopted budget.

When developing the 2025/26 budget Council officers have analysed the causes of the expenditure increases experienced in the 2024/25 year and adjusted their budget assumptions to ensure appropriate budget allocation for costs of ongoing contracts and to deliver increased levels of service requested by Council (e.g. road and drainage maintenance). This will improve the understanding of revenue requirements to adequately support these services.

Employee related expenses

There are several measures being implemented or improved that assist with ensuring actual employee related expenses align with budget.

The first measure is to ensure the staff time spent on capital projects is costed appropriately to these capital projects. This ensures that the true costs of delivering capital projects are reflected in the capital expenditure, improved alignment of capital expenditure against budget at the end of the financial year (noting that the capital budget was underspent by \$6.2M for 2024/25) and that the operating result is not adversely impacted by costs that are not operational in nature.

The second measure involves the reduction and ongoing management of outstanding leave, 'rostered days off' and 'time off in lieu' balances. It is essential that these balances are managed in accordance with the limits set in our enterprise agreement, to manage staff fatigue and

promote health and wellbeing. It further reduces the liability to pay out leave when it is taken a number of years later at higher pay rates than were applicable when the balances were accumulated. The executive leadership team has set a hard deadline for employees to reduce leave balances to the maximum limits.

The third measure involves reducing overtime costs. Overtime is often not discretionary but can be minimised, for example by ensuring appropriate staff levels, improving asset condition to reduce failures requiring after hours response and by ensuring only critical incidents and failures are responded to after hours. Improved technology to allow remote control and response to asset and process failures will further reduce overtime expenses in the longer term.

The executive leadership team further manages employee related expenses by critically reviewing requisitions to fill vacancies and extend temporary employment arrangements.

Asset management

Most of Council's operating cost are associated with its the assets used to provide services for the community. The operation and maintenance of assets is expensive and ensuring Council acquires the right assets at the right time, renews and upgrades them to ensure they remain in good condition and fit for purpose, and disposes of them when they are no longer serviceable or (well) used is critical to manage the associated costs in line with budget and affordability.

Council's project decision framework (as part of its project management framework) provides processes and procedures that assist with assessing the need for and viability of capital project proposals and ensures Council invests in the right new and upgraded assets at the right time.

The Community Project Request policy and procedure intends to achieve the same outcome for community proposed projects that have the potential to increase the whole of life cost to Council and impact its operational result for years to come. It is critical that these frameworks, policies and procedures are applied and that asset acquisition decisions are informed by the associated recommendations provided.

Council is investing in asset condition assessments to better understand asset life to determine asset renewal investment requirements and depreciation expenditure. Timely renewal of assets ensures they remain in good condition, which in turn reduces asset failure and maintenance expenditure. Improving the understanding of asset lives provides an opportunity to amend and possibly reduce depreciation expenditure, which has a significant impact on Council's operating position.

Timely divestment of assets that are no longer fit for purpose, well used or in poor condition reduces depreciation, operating and maintenance expenditure. Divestment can be achieved in various ways, including demolition, sale and removal or disposal to a new owner (tenure

arrangement). Asset divestment is a priority project for the executive leadership team, which will achieve operational savings over the longer term.

Efficiency improvements

The executive leadership team is actively working to improve procurement practices to create greater value for money and efficiency when procuring external services. Requesting quotes and tenders with well-defined scopes and specifications instead of engaging contractors based on hourly rates alone ensures Council receives the required service with the right quality and shares responsibility for delivery, liability and work health and safety with the supplier. This reduces the requirement for TRC staff to attend work sites to instruct and supervise works.

Establishing registers of pre-qualified suppliers, for example for trade services, rather than issuing repeated small value purchase orders for similar activities to (often) the same contractor(s) increases efficiency, reduces duplicated effort (for both TRC officers and contractors) required to comply with contractor management requirements and improves compliance with procurement legislation.

Implementation of Council's energy management plan reduces energy related costs either through regular tariff reviews or operational and capital improvements that improve the energy efficiency of its building and equipment assets.

In conjunction with the asset divestment initiative Council officers are also conducting a review of its insured assets. Officers have developed an assets criticality rating system (star rating) that assists with prioritising maintenance and renewal of facility assets. This system can also inform the assets that Council would either replace or repair with its own funds or not replace or repair at all when damaged or destroyed and therefore which assets may not need to be covered by costly insurance.

Transitioning from a reactive to a planned maintenance approach provides opportunities to achieve significant efficiency improvements and cost reductions. Well planned and scheduled work is generally delivered more efficiently as it assists with ensuring all required staff and resources are available for the job on hand and reduces the need for overtime. Improved understanding of asset condition and asset consumption rates assists with planning of required maintenance activities and scheduling works is now also better supported by our upgraded enterprise management system (Technology One). A planned maintenance approach further allows better coordination of maintenance, renewal and restoration works to reduce double up and rework. Significant operational efficiencies can be achieved by improved coordination of different works performed in the same area. This could involve coordination of works delivered by different service groups (e.g. road and water maintenance or renewal) or different types of

works delivered within or by the same service group (e.g. road maintenance, renewal and restoration of essential public assets (REPA)) at the same location.

Improving plant, equipment and fleet utilisation is another measure being implemented to achieve operational efficiencies. Historically different service groups have treated plant and fleet as their assets and sharing of resources has been minimal resulting in low utilisation when compared to industry standards. Improved sharing increases utilisation and reduces the need to hire externally and for additional plant, equipment and fleet in the future.

PROJECT OBJECTIVE AND SCOPE

N/A

LINK TO CORPORATE PLAN

Governance & Financial Sustainability

- Long-term legislated financial ratio indicators are met.
- Unqualified annual external audit reports are achieved.
- Service provision is financially sustainable through the Service Management Framework with services meeting agreed and affordable levels of service.
- Funding agreed critical renewals in the annual budget.
- Good governance is modelled.
- A high-performance culture is developed.

LINK TO STRATEGIES, POLICIES AND PLANS

Long term financial plan

CONSULTATION

Internal

A councillor information session in relation to the 2024/25 financial statements was held on 13 November 2025. No Councillor declared a conflict of interest.

Manager Finance

General Manager Corporate and Community Services

Chief Executive Officer

External

N/A

LEGAL IMPLICATIONS

N/A

HUMAN RIGHTS CONSIDERATIONS

Under the *Human Rights Act 2019 (Qld)*, Council must not make a decision that is incompatible with human rights. Council must also give proper consideration to any human rights relevant to its decision.

Officers consider that there are no human right implications relevant to Council's decision in this matter.

POLICY IMPLICATIONS

N/A

FINANCIAL & RESOURCE IMPLICATIONS

Capital

N/A

Operating

N/A

Is the expenditure included in the current annual budget?

N/A

COST BENEFIT ANALYSIS

N/A

RISK/SUSTAINABILITY ASSESSMENT

Budget management to achieve a zero deficit or positive operating position is essential for Council to ensure its long-term financial sustainability and to service the significant operational and capital investments required over at least the next 10 years.

IMPLEMENTATION/COMMUNICATION

All financial / budget management measures discussed in this report are lead and monitored by the executive leadership team.

ATTACHMENTS

1. N/A

Date Prepared: 25 November 2025