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REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2000-2001

VOLUME TWO

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4 LOCAL GOVERNMENT

Local government authorities are governed principally by the *Local Government Act 1993* as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and miscellaneous matters.

The authorities are administered by a council consisting of a number of elected members known as Councillors or Aldermen.

The major functions of the Councils are set out in *Section 20 of the Local Government Act 1993*.

The Portfolio Minister is the Premier.

SIGNIFICANT DEVELOPMENTS

Road asset valuation and depreciation

In April 2001 I sought expressions of interest from suitably qualified engineers to undertake a review of practices used by Councils for accounting for road assets and associated depreciation expense.

Recent audits had identified cases where Councils were failing to apply generally accepted accounting policies to roads assets in general and gravel roads in particular.

- Many Councils did not segregate road assets into components for accounting and depreciation purposes.

- Councils continued to adopt a wide range of useful lives.

- A number of Councils had inadequate policies for segregation of capital expenditure and maintenance expense for accounting purposes.

- A number of Councils were not depreciating gravel roads in accordance with AAS 4 "Depreciation".

- Where depreciated, depreciation rates were based on useful lives ranging from 30 to 100 years for earthworks, 20 to 80 years for sealed pavements, 7 to 50 years for road seals, 5 to 200 years for unsealed road pavements, and 6 to 80 years for unsealed road surfaces.

Specific issues considered by the consultant included:

- Do accounting and depreciation practices reflect actual engineering practice and recorded engineering data?

- Are road asset valuations based on current replacement costs and do those costs reflect fair value?

- Are road asset components segregated for accounting and depreciation purposes?

- Are useful lives of road asset components reasonable given engineering construction and maintenance practices?

- Are methods for determining remaining useful lives of road asset components appropriate?

The consultant reported in the following terms:

- Accounting and depreciation practices generally reflect engineering practice and recorded data, however assumptions and methodologies used vary greatly. There are a few Councils where accounting and depreciation practices did not reflect actual engineering practice.

- Road asset valuations are based on varying interpretations of current replacement costs and many of these values do not represent fair value.

- The level of segregation of road asset components varies and could materially affect accounting and depreciation values.

- Some of the useful lives are not considered reasonable given the level of analysis used to determine them.

- In most instances, the methods of determining remaining useful lives were based on limited data and less than rigorous analysis. Visual condition assessment was the most common method for determining remaining useful life, but can lead to inadequate assessment of pavement condition.

The consultant prepared a set of Infrastructure Financial Reporting Practice Notes that are attached at Appendix C.

In undertaking the financial statement audits of Councils for the year-ended 30 June 2001 my staff used the recommended practices, component values, and useful lives of assets as a benchmark for audit purposes.

Most Councils have accepted the recommendations of the review and have moved to change their accounting practices where necessary. However, it was found that a small number of Councils are still not adopting component accounting for road asset values or for the calculation of depreciation. In most cases it was found that these practices did not have a material impact on depreciation expense and therefore did not have a material impact on the statement of financial performance.

It was also found that a number of Councils were adopting a renewals approach to accounting for gravel roads whereby all expenditure on these roads whether capital or maintenance in nature is expensed. Gravel roads are then depreciated over extremely long lives, in some case up to 200 years (or even not depreciated at all). There is no substantive evidence that gravel pavements in particular will last that long, and in fact evidence from studies undertaken in Victoria suggests that useful lives of gravel roads are in the vicinity of forty years. Again, in most cases it was found that these practices did not have a material impact on depreciation expense and therefore did not have a material impact on the statement of financial performance.

In the case of asset valuations a number of Councils have availed themselves of the transition arrangements associated with the implementation of AAS 38 “Revaluation of Non-Current Assets” that allowed Councils to deem the carrying values of their assets to be cost. Under the current accounting framework there is no requirement to revalue assets carried at cost, either upwards or in the case of public sector entities downwards, where that cost does not represent fair value.

In those Councils where asset values do not represent fair value the asset management decision making processes and the long-term sustainable management of the road networks may be based on faulty data.

In my view, long-term asset management decisions and funding arrangements for long-lived infrastructure such as road networks would be enhanced by the adoption of fair values in determining asset values and depreciation charges.

AUDIT OF LOCAL GOVERNMENT

Pursuant to *Section 85 of the Local Government Act 1993*, I have determined conditions under which Councils can appoint private sector auditors. The system provides that the working papers of the private auditors are subject to review by this Office and for the report on the financial statements to be issued by the Auditor-General. Since 30 June 1996, all Councils have had the opportunity to appoint auditors from the private sector.

As the contracts expire, Councils have the option of retaining/reappointing my Office or calling tenders for the conduct of their financial statement audits.

The financial statements of 6 (2000, 6) Councils were audited by private sector auditors for the year ended 30 June 2001. These Councils were Brighton, Burnie City, Glenorchy City, Hobart City, Kingborough, and Waratah-Wynyard.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The following is a summary as at 26 November 2001 of the audit status of the financial statements for the 29 Councils for the 2000-01 year.

In 2000-01, 3 Councils had not submitted signed financial statements by 1 October 2001.

Those Councils comprised:

Council	**Date Received**
Clarence City Council *	17 October 2001
Glamorgan/Spring Bay Council	Not yet received
Tasman Council	Not yet received

* Draft accounts received by 1 October 2001

Results of audits: -

Audits completed and Unqualified Opinions issued	25
Audits completed and Qualified Opinions issued	2
Audits not completed	2

Audits not completed: -

Council	**Comment**
Glamorgan/Spring Bay Council	Audit in progress
Tasman Council	Audit in progress

FINANCIAL RESULTS

The following sections of this chapter provide comparisons and commentary on groups of Councils as follows:

City Councils
Larger Urban and Rural Councils
Medium Rural Councils
Smaller Rural Councils, and
Local Government Business Units.

In addition to the comparisons of current year financial information for each group of Councils there is a five-year comparative analysis of financial information for each Council with appropriate commentary.

Where necessary amounts have been reclassified in order to maintain consistency. Information from unaudited financial statements has been included where necessary.

OTHER MATTERS

Financial Statements to 30 June 2000

On page 221 of Report No 2 for 1999-2000, I indicated that with the exception of three Councils, audits had been completed and the audit reports issued.

The audits of those three Councils have since been finalised and unqualified audit reports issued.

4.1 CITY COUNCILS

INTRODUCTION

Local government authorities are governed principally by the *Local Government Act 1993* as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and other miscellaneous matters.

This section of the report deals with the relative performance of the following city councils:

- Burnie City Council
- Clarence City Council
- Devonport City Council
- Glenorchy City Council
- Hobart City Council, and
- Launceston City Council.

RESPONSIBLE MINISTER

The Portfolio Minister is the Premier.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Burnie	**Clarence**	**Devonport**	**Glenorchy**	**Hobart**	**Launceston**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	20 228	29 849	23 109	35 900	60 934	46 838
Grants	2 584	1 948	2 787	4 297	3 091	7 884
Other operating revenue	776	5 175	1 618	1 994	3 870	14 242
Non-operating revenue	791	8	887	36 272	935	5 486
Total Revenue	**24 379**	**36 980**	**28 401**	**78 463**	**68 830**	**74 450**
Borrowing Costs	307	1 758	1 173	1 854	909	599
Depreciation	7 498	7 653	6 377	8 250	19 135	15 194
Other operating expenses	17 869	27 561	18 861	34 692	55 461	49 409
Non-operating expenses	1 623	115	759	681	3 687	33
Total Expenses	**27 297**	**37 087**	**27 170**	**45 477**	**79 192**	**65 235**
Result from Ordinary Activities	**(2 918)**	**(107)**	**1 231**	**32 986**	**(10 362)**	**9 215**

Comment

Non-operating revenue for Glenorchy includes $35.9m representing the value of road and water infrastructure assets not previously identified. Without this revenue Glenorchy would have had a deficit of $2.9m.

Operating deficits at Burnie, Glenorchy and Hobart are the result of not budgeting to recover all operating expenses, particularly depreciation, when setting rate levels.

FINANCIAL POSITION

	Burnie $'000s	Clarence $'000s	Devonport $'000s	Glenorchy $'000s	Hobart $'000s	Launceston $'000s
Cash	65	14 587	3 411	511	(511)	4 545
Receivables	1 802	3 130	2 145	2 348	3 993	6 594
Investments	5 365	2 000	500	2 243	9 909	19 203
Inventories	318	153	266	285	252	768
Other	29	115	1 820	586	14	790
Total Current Assets	**7 579**	**19 985**	**8 142**	**5 973**	**13 657**	**31 900**
Property, Plant And Equipment	225 331	257 301	265 641	267 218	566 819	582 452
Investments	0	25 954	14 565	39 231	34 572	55 757
Other	701	382	1 447	1 183	2 568	1 286
Total Non-Current Assets	**226 032**	**283 637**	**281 653**	**307 632**	**603 959**	**639 495**
Payables	1 240	2 927	922	3 101	4 775	2 946
Borrowings	796	16 445	2 383	1 850	1 852	2 301
Provisions	1 167	1 294	1 164	2 258	3 000	4 045
Other	105	0	1 858	257	415	2 840
Total Current Liabilities	**3 308**	**20 666**	**6 327**	**7 466**	**10 042**	**12 132**
Borrowings	3 412	15 021	11 783	24 692	10 595	8 092
Provisions	290	447	534	695	2 644	928
Other	0	0	0	0	45	646
Total Non-Current Liabilities	**3 702**	**15 468**	**12 317**	**25 387**	**13 284**	**9 666**
Net Assets	**226 601**	**267 488**	**271 151**	**280 752**	**594 290**	**649 597**
Reserves	29 280	22 521	271 151	30 054	252 146	46 669
Retained Surpluses	197 321	244 967	0	250 698	342 144	602 928
Total Equity	**226 601**	**267 488**	**271 151**	**280 752**	**594 290**	**649 597**

Comment

The higher net assets for Hobart and Launceston reflect the higher levels of infrastructure supporting the larger central business districts at the city centres, as well as Launceston’s larger size and larger rural road network.

Outstanding borrowings at Clarence include significant funds borrowed overnight at year-end and repaid in the new financial year.

Devonport Council's accumulated surplus has a nil balance at the end of each year. Council has adopted the view that a surplus from operations represents the total gain during a period that has arisen after maintaining capital at the level that existed at the beginning of the period. Capital is taken to be the operating capability provided by the Council's physical resources.

CASH POSITION

	Burnie $'000s	Clarence $'000s	Devonport $'000s	Glenorchy $'000s	Hobart $'000s	Launceston $'000s
Receipts from customers	21 478	31 280	24 201	38 095	66 032	61 776
Payments to suppliers and emloyees	(19 549)	(28 570)	(19 011)	(35 477)	(56 353)	(52 271)
Interest received	899	541	623	367	783	1 694
Borrowing costs	(314)	(1 812)	(1 201)	(1 854)	(919)	(607)
Cash from operations	**2 514**	**1 439**	**4 612**	**1 131**	**9 543**	**10 592**
Proceeds from investments	2 049	1 000	0	0	0	1 626
Payments for investments	0	(1 000)	(146)	0	0	(932)
Payments for P, P & Equipment	(7 199)	(6 023)	(7 637)	(6 191)	(13 252)	(22 852)
Proceeds from sale of P, P & E	695	8	338	142	897	780
Cash used in investing activities	**(4 455)**	**(6 015)**	**(7 445)**	**(6 049)**	**(12 355)**	**(21 378)**
Proceeds from borrowings	0	15 694	1 418	1 594	1 658	4 061
Repayment of borrowings	(750)	(16 962)	(1 778)	(1 603)	(1 974)	(2 012)
Cash from financing activities	**(750)**	**(1 268)**	**(360)**	**(9)**	**(316)**	**2 049**
Cash flows from Government	**2 584**	**5 117**	**2 787**	**5 302**	**3 021**	**7 845**
Net increase in cash	**(107)**	**(727)**	**(406)**	**375**	**(107)**	**(892)**
Cash at the beginning of the period	172	15 314	3 817	2 379	9 505	24 640
Cash at end of the period	**65**	**14 587**	**3 411**	**2 754**	**9 398**	**23 748**

Comment

With the exception of Burnie and Clarence, closing cash balances include cash at bank and current investment balances. Burnie also had a current investment balance of $5.365m and Clarence had a further $2.0m in non current investments that are not included in the balance of cash at year-end.

Launceston Council has a particularly strong cash position and reflects a consistently strong operating result over many years. Hobart also has significant cash reserves at year-end.

Clarence cash reserves at year-end are boosted by the significant overnight borrowings at year-end referred to above.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
Financial Performance							
Result from operations ($'000s)		(2 086)	(1 175)	1 103	(2 605)	(7 610)	3 762
Operating margin	>1.0	0.92	0.97	1.04	0.94	0.90	1.06
Financial Management							
Current ratio	>1	2.29	0.97	1.29	0.80	1.36	2.63
Cost of debt	7.5%	7.30%	5.60%	8.30%	7.00%	7.30%	5.80%
Debt collection	30 days	29	34	34	21	26	35
Creditor turnover	30 days	27	30	36	50	42	36
Other information							
Staff numbers		193	207	170	257	541	478
Average staff costs ($'000s)		49	40	45	49	45	41

Comment

Devonport and Launceston are the only councils with positive operating margins, reflecting good results from operations. The other councils are yet to fully budget for the costs of operations, particularly depreciation, when determining rates.

4.1.1 BURNIE CITY COUNCIL

INTRODUCTION

The Burnie area was first proclaimed as a Municipality in 1866 and was granted City status in 1988. The population serviced by the Burnie City Council is of the order of 19 970.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements of the Burnie City Council were received on 2 October 2001 and an unqualified audit report was issued on 6 November 2001. The delay in finalising the audit was due to time taken to review aspects of Councils road lives and associated depreciation charges.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	18 025	18 751	17 637	19 845	20 228
Grants	2 700	2 134	3 143	2 660	2 584
Other operating revenue	2 194	1 504	1 383	763	776
Non-operating revenue	913	1 308	1 208	853	791
Total Revenue	**23 832**	**23 697**	**23 371**	**24 121**	**24 379**
Borrowing costs	574	498	395	336	307
Depreciation	7 336	6 863	7 904	7 677	7 498
Other operating expenses	16 758	16 292	15 104	16 740	17 869
Non-operating expenses	841	1 512	3 061	2 057	1 623
Total Expenses	**25 509**	**25 165**	**26 464**	**26 810**	**27 297**
Result from Ordinary Activities	**(1 677)**	**(1 468)**	**(3 093)**	**(2 689)**	**(2 918)**

Comment

The decrease in rates, fees and charges in 1998-99 results from a reduction in user charges for the year, in accordance with budget estimates, to $3.148m. User fees in each of the prior two financial years had averaged $4.311m. Annual rates income has risen from $13.863m in 1996-97 to $15.652m in 2000-01, an increase of $1.789m. Half of that increase was recorded in 2000-01.

During the period covered by the statistics, Burnie City Council modified the manner in which revenue items were grouped for presentation in the financial statements. Total operating revenue has increased from $22.919m in 1996-97 to $23.588m in 2000-01, an overall increase of only $0.669m. As noted above, rating income increased by $1.789m over the same period.

Other operating expenses in 1998-99 reflected a similar decline for the year as that for user charges, also in accordance with budget estimates, with expenditure on materials and contracts being $1.385m less than the prior year.

Non-operating revenue and expenditure items generally reflect the proceeds sale and carrying values respectively from the disposal of non-current assets together with developers' contributions to assets, either in cash or tangible assets. Total developers' contributions for the five-year period amounts to $0.599m.

Over the five-year period, Council has returned an overall negative result from Ordinary Activities totalling $11.845m, or an average annual deficit of $2.369m. In operating revenue and expense terms, the results were an overall deficit of $7.824m or an average annual deficiency of $1.565m and probably reflects the necessity to maintain services and activities, including debt servicing, having regard to a declining population base.

FINANCIAL POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Cash	(97)	(83)	42	173	65
Receivables	1 358	1 263	1 126	2 336	1 802
Investments	14 112	12 950	9 250	7 414	5 365
Inventories	247	260	303	401	318
Other	44	43	60	62	29
Total Current Assets	**15 664**	**14 433**	**10 781**	**10 386**	**7 579**
Property, plant & equipment	209 197	207 231	221 480	227 156	225 331
Other	182	139	330	473	701
Total Non-Current Assets	**209 379**	**207 370**	**221 810**	**227 629**	**226 032**
Payables	2 924	2 043	1 115	1 805	1 240
Borrowings	902	809	711	757	796
Provisions	990	1 022	1 131	1 361	1 167
Other	78	56	59	14	105
Total Current Liabilities	**4 894**	**3 930**	**3 016**	**3 937**	**3 308**
Borrowings	6 365	5 556	5 019	4 202	3 412
Provisions	433	484	384	356	290
Other	100	50	0	0	0
Total Non-Current Liabilities	**6 898**	**6 090**	**5 403**	**4 558**	**3 702**
Net Assets	**213 251**	**211 783**	**224 172**	**229 520**	**226 601**
Reserves	16 568	17 441	27 188	31 350	29 280
Retained surpluses	196 683	194 342	196 984	198 170	197 321
Total Equity	**213 251**	**211 783**	**224 172**	**229 520**	**226 601**

Comment

The increase in receivables in 1999-00 includes the amount owing to Council at that time for roadworks undertaken jointly with the Department of Infrastructure, Energy and Resources, $0.990m, while in 2000-01 the total reflects an increase in rate debtors of $0.406m over that of the prior year. Total rate debtors at 30 June 2001 amounted to $0.873m or 5.57% of total rate revenue raised for the year ended 30 June 2001.

Since 30 June 1997 cash investments have decreased by $8.747m, the amount being used to maintain almost neutral cash movements over that period and at the same time repaying borrowings amounting to $3.897m.

Council revalued its land assets effective from 1 July 1996, which resulted in both the carrying amounts and the relevant revaluation reserve increasing by $2.414m over that of the prior year. Council revalued its buildings, waste disposal and sewerage infrastructure assets as at 1 July 1998, increasing both the carrying amount of those assets, and the relevant revaluation reserve accounts by a further $15.481m.

With effect from 1 July 1998, Council also revalued its water and drainage assets together with its bridges and culverts, the net impact of which was to further increase the assets and associated revaluation reserves by $6.020m.

From 1 July 1999, and on issuance of Urgent Issues Group UIG 30 "Depreciation of Long Lived Physical Assets including Infrastructure Assets: Condition Based Depreciation and Other Related Methods" issued by the Australian Accounting Standards Board, Burnie city Council were required to change their depreciation method for their road assets. The resultant adjustment, $2.017m, was made directly to equity in accordance with that UIG.

On 1 July 2000 Council elected to adopt the provisions of the new Australian Accounting Standard AAS 38 "*Revaluation of Non-Current Assets*" which permits entities to elect to deem the carrying values of assets, previously recorded under a valuation basis, to be cost for recording and reporting purposes. This action had no financial impact on its 2000-01 operating result. However, the balance standing to the credit of its revaluation reserve accounts, $23.915m is not available for future asset write-downs.

Due principally to the movements in the revaluation reserves referred to above, $23.915m, the initial recognition of certain infrastructure assets during 1996-97, $7.473m, and the 1999-00 adjustment to equity, $2.017m, Council's total reserve movements increased over the 5 year period by $33.405m. This was offset, however, by the negative result from activities of $11.845m.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	18 533	19 588	18 010	18 544	21 478
Payments to suppliers and emloyees	(15 618)	(17 210)	(15 972)	(15 977)	(19 549)
Interest received	1 385	826	802	678	899
Borrowing costs	(599)	(523)	(438)	(358)	(314)
Cash from operations	**3 701**	**2 681**	**2 402**	**2 887**	**2 514**
Proceeds from investments	108	1 162	3 700	1 836	2 049
Payments for P, P & Equipment	(6 781)	(6 369)	(9 694)	(7 044)	(7 199)
Proceeds from sale of P, P & E	913	1 308	1 208	563	695
Cash used in investing activities	**(5 760)**	**(3 899)**	**(4 786)**	**(4 645)**	**(4 455)**
Repayment of borrowings	(839)	(902)	(634)	(772)	(750)
Cash from financing activities	**(839)**	**(902)**	**(634)**	**(772)**	**(750)**
Cash Flows from Government	**2 700**	**2 134**	**3 143**	**2 660**	**2 584**
Net increase in cash	**(198)**	**14**	**125**	**130**	**(107)**
Cash at the beginning of the period	101	(97)	(83)	42	172
Cash at end of the period	**(97)**	**(83)**	**42**	**172**	**65**

Comment

Since 1 July 1996 Burnie Council has maintained its investment in property plant and equipment, with new assets either purchased or constructed totalling $37.087m as opposed to the annual depreciation charge $37.278m.

The significant increase in receipts from customers, $2.934m, is primarily due to the settlement of an account for road-works undertaken on behalf of the State Government and referred to earlier in this segment of the Report, $0.990m; increased receipts from user fees and charges due to increased activity, $0.500; an increase in general rate receipts due to increased rate charges, $0.470m; and the impact of GST receipts from customers and recoveries from the Federal Government, $0.975m.

Similarly with cash payments, the increase in payments to suppliers and employees, $3.572m, is predominantly due to increased employee costs which included redundancy payments, $1.738m; increased materials and contract payments, $0.835m; and GST payments, $1.103m, which includes payments for asset additions.

The above factors, coupled with the draw down of invested funds over the period, $8.855m, have enabled Council to record a neutral cash flow movement over the 5 year period.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Profitability						
Result from operations ($'000s)		(1 749)	(1 264)	(1 240)	(1 485)	(2 086)
Operating margin	>1.0	0.93	0.95	0.95	0.94	0.92
Financial Management						
Current ratio	>1	3.20	3.67	3.57	2.64	2.29
Cost of debt	7.5%	7.9%	7.8%	6.9%	6.8%	7.3%
Debt collection	30 days	21	16	20	38	29
Creditor turnover	30 days	62	43	19	42	27
Other information						
Staff numbers FTEs		192	193	196	201	193
Average staff costs ($'000s)		38	38	38	41	49

Comment

Over the five-year period Council has consistently failed to cover operating expenses returning an accumulated deficit for the period totalling $7.824m or an annual average deficit of $1.565m.

Cost of that debt reflects the current market rates.

The debt collection ratio has consistently been below the benchmark except for 1999-00 where the ratio was distorted by the timing for one large payment due for road-works undertaken jointly with the state Government.

OVERALL COMMENT

Over the five-year period, Burnie City Council has recorded an accumulated deficit from operating activities totalling $7.824m. During that same period, the level of operating revenue only increased by $0.669m from that recorded in 1996-97. At the same time cash flows were maintained at a neutral level by the depletion of investment funds from $14.112m at 30 June 1997 to $5.365m at 30 June 2001, an average depletion of $1.771m per annum. Over that same period, repayment of borrowings totalled $3.879m or an average annual reduction of $0.779m.

4.1.2 CLARENCE CITY COUNCIL

INTRODUCTION

Clarence City Council was initially proclaimed a municipality in 1860, and proclaimed a city on 24 November 1988. Clarence has a population of approximately 49 000 and 21 000 rateable properties.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Completed draft financial statements were received on 30 September 2001, with amended signed statements received on 17 October 2001. An unqualified audit report was issued on the same day.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	25 589	26 123	26 891	28 837	29 849
Grants	2 175	1 982	1 847	1 818	1 948
Other operating revenue	4 690	4 533	4 567	3 966	4 000
Non-operating revenue	1 391	29 950	293	657	1 183
Total Revenue	**33 845**	**62 588**	**33 598**	**35 278**	**36 980**
Borrowing costs	2 638	2 113	1 884	1 393	1 758
Depreciation	6 738	6 787	6 780	6 631	7 653
Other operating expenses	23 095	25 141	25 069	27 305	27 561
Non-operating expenses	1 393	1 932	2 824	933	115
Total Expenses	**33 864**	**35 973**	**36 557**	**36 262**	**37 087**
Result from Ordinary Activities	**(19)**	**26 615**	**(2 959)**	**(984)**	**(107)**

Comment

Non-operating revenue in 1997-98 included the recognition of Council's interest in the assets of Hobart Water, which amounted to $28.503m. The following year, non-operating expenses included a subsequent write-down in council's interest in Hobart Water of $2.549m.

Had these Hobart Water transactions been eliminated from Council's results, a net loss of $3.408m has been earned over the past five years, averaging a $0.682m loss per annum. This result exists primarily from council not budgeting annually to cover operating expenses, including all depreciation. The annual depreciation charge over this period totalled $34.589m, indicating that council does rate for most of the depreciation expense.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	12 633	13 458	14 817	15 790	14 587
Receivables	1 138	1 181	1 785	2 413	3 130
Investments	7 784	7 428	2 176	2 000	2 000
Inventories	174	171	161	131	153
Other	157	141	98	74	115
Total Current Assets	**21 886**	**22 379**	**19 037**	**20 408**	**19 985**
Property, plant & equipment	258 972	257 960	262 364	260 735	257 301
Investments	0	28 503	25 954	25 954	25 954
Other	787	724	514	433	382
Total Non-Current Assets	**259 759**	**287 187**	**288 832**	**287 122**	**283 637**
Payables	3 514	2 953	3 250	2 984	2 927
Borrowings	10 914	13 588	15 357	17 347	16 445
Provisions	1 496	1 345	1 330	1 293	1 294
Total Current Liabilities	**15 924**	**17 886**	**19 937**	**21 624**	**20 666**
Borrowings	17 913	17 216	16 427	15 387	15 021
Provisions	303	344	341	337	447
Total Non-Current Liabilities	**18 216**	**17 560**	**16 768**	**15 724**	**15 468**
Net Assets	**247 505**	**274 120**	**271 164**	**270 182**	**267 488**
Reserves	32 754	33 144	22 714	23 784	22 521
Retained surpluses	214 751	240 976	248 450	246 398	244 967
Total Equity	**247 505**	**274 120**	**271 164**	**270 182**	**267 488**

Comment

The increase in non-current investments during 1997-98 reflects the take-up of the Council's share of the assets of Hobart Water. In the following year, the decrease in investments was incurred as funds were used for major asset construction, which is indicated by a $4.404m increase in property, plant and equipment.

Although council's borrowings level appears high, the amount is inflated due to overnight loans being taken out near the end of each financial year. This has the additional effect of also overstating the recorded cash balance. Taking these overnight loans out of current borrowings, an average current balance of $1.068m existed over the five-year period. Similarly, the average cash balance is also significantly less, at an average of $0.595m per annum. This result does not include the effects of bank overdrafts, incurred in some of the financial years, which would further reduce the true trading cash position.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	26 834	26 790	26 873	29 164	31 280
Payments to suppliers and employees	(23 273)	(25 011)	(24 830)	(26 681)	(28 570)
Interest received	938	739	622	515	541
Borrowing costs	(2 669)	(2 113)	(2 277)	(1 517)	(1 812)
Cash from operations	**1 830**	**405**	**388**	**1 481**	**1 439**
Proceeds from investments	27 895	18 000	6 475	176	1 000
Payments for investments	(27 527)	(17 646)	(1 046)	0	(1 000)
Payments for P, P & Equipment	(5 605)	(7 539)	(11 452)	(5 935)	(6 023)
Proceeds from sale of P, P & E	960	1 316	145	343	8
Cash used in investing activities	**(4 277)**	**(5 869)**	**(5 878)**	**(5 416)**	**(6 015)**
Proceeds from borrowings	9 514	12 704	14 704	16 388	15 694
Repayment of borrowings	(7 568)	(10 728)	(13 331)	(15 438)	(16 962)
Cash from financing activities	**1 946**	**1 976**	**1 373**	**950**	**(1 268)**
Cash Flows from Government	**5 324**	**5 099**	**4 735**	**4 739**	**5 117**
Net increase in cash	**4 823**	**1 611**	**618**	**1 754**	**(727)**
Cash at the beginning of the period	6 508	11 331	12 942	13 560	15 314
Cash at end of the period	**11 331**	**12 942**	**13 560**	**15 314**	**14 587**

Comment

The current financial year was not only the first year where a net decrease in cash was incurred; a net decrement in cash from financing activities was also recorded in 2000-01. As noted previously, the proceeds and payments for borrowings are influenced by the overnight borrowings taken out by Council at the end of each financial year.

During both 1996-97 and 1997-98 the build up of cash was used to fund major infrastructure expenditure, which occurred in the subsequent year ($11.452m in 1998-99). Apart from this peak, in other years expenditure on council's assets was less than the decline in council's assets represented by depreciation. In the two years since this peak, expenditure on assets totalled $11.958m whereas depreciation for the same period amounted to $14.284m.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(17)	(1 403)	(428)	(708)	(1 175)
Operating margin	>1.0	1.00	0.96	0.99	0.98	0.97
Financial Management						
Current ratio	>1	1.37	1.25	0.95	0.94	0.97
Cost of debt	7.5%	9.2%	6.9%	5.9%	4.3%	5.6%
Debt collection	30 days	14	14	21	27	34
Creditor turnover	30 days	32	30	28	31	30
Other information						
Staff numbers FTEs		224	220	213	214	207
Average staff costs ($'000s)		34	34	35	35	40

Comment

Although Council has incurred an operating loss for each of the past five years, its results are close to the benchmark for operating margin.

The cost of debt reflects the fall in current market interest rates. Consistent with previous comments with respect to the inflation of the borrowings balance, the true cost of debt percentage would be higher, averaging 11.08% over the five-year period. This indicates that some of Council's borrowing agreements are still at interest rates that are higher than current market rates.

OVERALL COMMENT

This year's audit was completed with satisfactory results. The only major issue to note relates to the recording of council's road assets.

As part of our review of Clarence's Road Assets, it was noted that there were several areas that need some attention. Using the average costs that were obtained from the Consultant's report developed through our office, it was found that Clarence's road asset value was higher than expected. As these values were materially correct, they were accepted, but our office did identify some shortcomings in the recording of road assets within council's asset system.

Our Office noted that Council intends to undertake a road revaluation during the 2001-2002 financial year, and that most of these issues will be resolved as part of this process.

4.1.3 DEVONPORT CITY COUNCIL

INTRODUCTION

The Devonport City Council originates from the Municipality of Devonport, which was proclaimed in 1907. The municipality was proclaimed a City in 1981. The Council remained substantially unchanged during the amalgamation of councils in 1993.

The municipality covers an area of approximately 114 square kilometres and serves a population of about 24 500 people.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 25 September 2001, with amended statements received on 19 October 2001. An unqualified audit report was issued on 8 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	21 028	21 548	21 799	22 394	23 109
Grants	1 541	1 862	2 577	1 890	2 787
Other operating revenue	1 581	1 480	1 454	1 380	1 618
Non-operating revenue	236	88	162	13 701	887
Total Revenue	**24 386**	**24 978**	**25 992**	**39 365**	**28 401**
Borrowing costs	1 645	1 474	1 249	1 170	1 173
Depreciation	5 990	6 100	6 121	6 210	6 377
Other operating expenses	16 333	16 923	17 067	17 132	18 861
Non-operating expenses	175	366	842	533	759
Total Expenses	**24 143**	**24 863**	**25 279**	**25 045**	**27 170**
Result from Ordinary Activities	**243**	**115**	**713**	**14 320**	**1 231**

Comment

Revenue from rates, fees and charges has steadily increased during the period under review. Grant revenue increased by $0.897m from 1999-00 to 2000-01 due mainly to funds received of $0.900m from the Federal Government for the redevelopment of the Town Hall. Non-operating revenue in 1999-00 of $13.701m includes $12.834m relating to the recognition of the Council's interest in the North West Water Authority.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased from $1.645m in 1996-97 to $1.173m in 2000-01. The decrease is attributable to regular repayments of loan borrowings, which has resulted in a reduction in the balance of loans outstanding.

The Council has recorded profits from ordinary activities in all five years under review. A profit from ordinary activities of $14.320m was recorded in 1999-00, which was mainly due to the recognition of Council's interest in the net assets of the Water Authority.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	4 923	5 942	5 929	4 034	3 411
Receivables	1 627	1 804	1 889	1 855	2 145
Investments	1 300	1 000	0	0	500
Inventories	250	304	270	260	266
Other	891	1 987	4 177	1 675	1 820
Total Current Assets	**8 991**	**11 037**	**12 265**	**7 824**	**8 142**
Property, plant & equipment	208 185	233 873	239 816	246 349	265 641
Investments	2 376	1 674	1 858	14 857	14 565
Other	1 414	2 008	1 629	1 585	1 447
Total Non-Current Assets	**211 975**	**237 555**	**243 303**	**262 791**	**281 653**
Payables	1 268	1 022	1 045	1 126	1 122
Borrowings	3 675	3 673	2 842	1 998	2 383
Provisions	949	923	930	1 020	1 164
Other	701	1 835	4 015	1 507	1 658
Total Current Liabilities	**6 593**	**7 453**	**8 832**	**5 651**	**6 327**
Borrowings	13 680	12 804	12 950	12 745	11 783
Provisions	401	414	517	536	534
Total Non-Current Liabilities	**14 081**	**13 218**	**13 467**	**13 281**	**12 317**
Net Assets	**200 292**	**227 921**	**233 269**	**251 683**	**271 151**
Reserves	200 292	227 921	233 269	251 683	271 151
Total Equity	**200 292**	**227 921**	**233 269**	**251 683**	**271 151**

Comment

The balance of property, plant and equipment has increased from $208.185m in 1996-97 to $265.641m in 2000-01 due mainly to asset revaluation increments. Council revalues the majority of its property, plant and equipment on an annual basis.

The increase in non-current investments from 1998-99 to 1999-00 of $12.999 relates to the recognition of Council's interest in the equity of the North West Water Authority.

Council intends to repay a sinking fund loan of $0.500m in 2001-02. This scheduled repayment has resulted in an increase in current borrowings from 1999-00 to 2000-01 of $0.385m.

It is noted that Council's accumulated surplus has a nil balance at the end of each year. Council has adopted the view that a surplus from operations represents the total gain during a period that has arisen after maintaining capital at the level that existed at the beginning of the period. Capital is taken to be the operating capability provided by the Council's physical resources. An accumulated surplus from operations is therefore derived after funding both recurrent and capital expenditure, including reserve movements.

In Council's financial statements, the Statement of Financial Performance is followed by an Appropriation Statement, which shows the various appropriations and transfers to and from reserves. These appropriations and transfers are taken into account to arrive at the accumulated surplus at period end. Council considers that good stewardship of the Council's resources would be reflected in a nil balance of the accumulated surplus, providing that operating capability has not been diminished.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	21 556	22 338	22 747	23 356	24 201
Payments to suppliers and employees	(16 134)	(17 349)	(16 776)	(16 842)	(19 011)
Interest received	614	496	430	414	623
Borrowing costs	(1 735)	(1 549)	(1 326)	(1 185)	(1 201)
Cash from operations	**4 301**	**3 936**	**5 075**	**5 743**	**4 612**
Proceeds from investments	554	651	1 129	0	0
Payments for investments	0	0	0	(164)	(146)
Payments for P, P & Equipment	(5 699)	(6 236)	(10 164)	(10 004)	(7 637)
Proceeds from sale of P, P & E	912	1 684	2 055	1 689	338
Cash used in investing activities	**(4 233)**	**(3 901)**	**(6 980)**	**(8 479)**	**(7 445)**
Proceeds from borrowings	2 670	2 400	2 000	1 575	1 418
Repayment of borrowings	(2 666)	(3 132)	(2 951)	(2 023)	(1 778)
Cash from financing activities	**4**	**(732)**	**(951)**	**(448)**	**(360)**
Cash Flows from Government	**1 541**	**1 862**	**2 577**	**1 890**	**2 787**
Net increase in cash	**1 613**	**1 165**	**(279)**	**(1 294)**	**(406)**
Cash at the beginning of the period	2 612	4 225	5 390	5 111	3 817
Cash at end of the period	**4 225**	**5 390**	**5 111**	**3 817**	**3 411**

Comment

The increase in receipts from customers and payments to suppliers in 2000-01 is due to the impact of GST. Interest receipts have increased by $0.209m from 1999-00 to 2000-01 due to the inclusion of dividends from the Water Authority of $0.131m.

Payments for property, plant and equipment in 1998-99 and 1999-00 totalled $10.164m and $10.004m respectively. These amounts included contract payments relating to the Pardoe Wastewater Treatment Plant and the port access road in East Devonport.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		182	393	1 393	1 152	1 103
Operating margin	>1.0	1.01	1.02	1.06	1.05	1.04
Financial Management						
Current ratio	>1	1.36	1.48	1.39	1.38	1.29
Cost of debt	7.5%	9.5%	8.9%	7.9%	7.9%	8.3%
Debt collection	30 days	28	31	32	30	34
Creditor turnover	30 days	45	38	38	41	36
Other information						
Staff numbers FTEs		150	158	161	154	170
Average staff costs ($'000s)		40	44	44	46	45

Comment

The financial performance ratios show that Council has recorded operating surpluses in all five years. The total surplus for the period under review amounted to $4.223m.

Council's current ratio is consistently above the benchmark and indicates that the Council is able to meet all short-term liabilities.

The cost of debt has remained fairly consistent during the past five years and is calculated as 8.3% for 2000-01.

The debt collection ratio has been slightly above the benchmark of 30 days for the past four years. The balance of infringement debtors, which amounted to $0.399m at 30 June 2001, affects this ratio. Council takes action to recover such debts through the court system. The creditor turnover figure has been slightly above 30 days for the entire period under review.

The average staff cost has been consistent for the past five years.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of $4.223m.

The 2000-01 audit was completed with no major issues outstanding. As part of the audit, it was noted that Council's road valuations were higher than the actual costs incurred by Council for kerb and channel and footpaths. Council indicated that it would review these values during the revaluation process in 2001-02.

4.1.4 GLENORCHY CITY COUNCIL

INTRODUCTION

The Glenorchy area was first proclaimed as a Municipality in 1864 and was granted City status in 1964. The population serviced by the Glenorchy City Council is of the order of 44 000.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements of the Glenorchy City Council were received on 28 September 2001 and an unqualified audit report was issued on 12 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	31 108	32 311	32 491	33 423	35 900
Grants	4 120	4 214	4 822	4 444	4 297
Other operating revenue	532	796	1 244	1 836	1 994
Non-operating revenue	2 568	54 808	2 633	1 108	36 272
Total Revenue	**38 328**	**92 129**	**41 190**	**40 811**	**78 463**
Borrowing costs	2 214	2 051	1 884	1 940	1 854
Depreciation	9 197	9 875	7 108	6 801	8 250
Other operating expenses	29 118	32 813	35 316	36 552	34 692
Non-operating expenses	407	481	9 278	1 302	681
Total Expenses	**40 936**	**45 220**	**53 586**	**46 595**	**45 477**
Result from Ordinary Activities	**(2 608)**	**46 909**	**(12 396)**	**(5 784)**	**32 986**

Comment

Non-operating revenue in 1997-98 included the recognition of Council's interest in Hobart Water, $39.231m, and the assessed value of the Derwent Entertainment Centre on transfer of ownership to the Council by the State Government, $14.632m.

In 2000-01 non-operating revenue included $35.883m representing the value of road and water infrastructure assets not previously identified or included in the accounts.

The remainder of the items in each of the years generally reflects the value of sub-division infrastructure assets taken over by Council and the carrying amounts of assets disposed of.

Depreciation expenses reduced by \$2.767m in 1998-99 over that of the prior year due to a revision in useful lives of assets undertaken as part of a revaluation exercise, while in 2000-01, the depreciation expense increased by \$1.449m due principally to the recognition of road and water infrastructure assets not previously recognised in the accounts.

Between 1996-97 and 2000-01, operating expenses exceeded operating revenues by a total of \$26.133m representing an average annual operating deficit of \$5.227m, and results principally from Council not budgeting annually to recover all operating expenses including depreciation. The annual depreciation charge over this period totalled \$42.231m.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	11	402	316	303	511
Receivables	920	1 467	1 932	2 693	2 348
Investments	1 500	1 113	2 174	2 076	2 243
Inventories	164	105	105	284	285
Other	657	412	589	392	586
Total Current Assets	**3 252**	**3 499**	**5 116**	**5 748**	**5 973**
Property, plant & equipment	221 014	229 179	231 145	226 489	267 218
Investments	408	39 621	39 590	39 556	39 231
Other	481	829	1 353	585	1 183
Total Non-Current Assets	**221 903**	**269 629**	**272 088**	**266 630**	**307 632**
Payables	1 031	1 533	1 811	2 705	3 101
Borrowings	872	1 223	1 377	1 543	1 850
Provisions	1 986	1 994	2 311	2 487	2 258
Other	277	375	177	323	257
Total Current Liabilities	**4 166**	**5 125**	**5 676**	**7 058**	**7 466**
Borrowings	24 760	24 966	25 086	25 043	24 692
Provisions	538	553	597	714	695
Other	10	0	0	0	0
Total Non-Current Liabilities	**25 308**	**25 519**	**25 683**	**25 757**	**25 387**
Net Assets	**195 681**	**242 484**	**245 845**	**239 563**	**280 752**
Reserves	10 133	7 072	25 099	24 008	30 054
Retained surpluses	185 548	235 412	220 746	215 555	250 698
Total Equity	**195 681**	**242 484**	**245 845**	**239 563**	**280 752**

Comment

The increase in property, plant and equipment in 1997-98 includes the impact of the take-up of the value of the Derwent Entertainment Centre on transfer of ownership to the Council, $14.632m. The further increase in 2000-01 generally reflects the value of road and water infrastructure assets not previously recognised, $35.883m.

Investments in 1997-98 includes Council's interest in Hobart Water, $39.231m, a joint authority established under the Local Government Act 1993 and jointly owned by 8 southern councils, which was transferred to the councils by the State Government as at 1 January 1997.

In both instances above, the amounts were recognised in the statement of Financial Position as non-operating income in accordance with Australian Accounting Standards.

Council's borrowing has remained constant over the 5 year period.

Total equity has increased over the period by $85.071m due principally to the recognition of additional assets and investments referred to previously; increases in the asset revaluation reserves on revaluing assets, $23.356m, offset by the excess of expenses over revenues for the 5 year period, $26.133m. Also impacting on the increase is the assets constructed and purchased by Council in the normal course of operations, $28.174m.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	33 116	34 035	34 183	35 563	38 095
Payments to suppliers and employees	(30 436)	(33 510)	(36 324)	(36 695)	(35 477)
Interest received	297	313	328	331	367
Borrowing costs	(2 118)	(2 051)	(1 884)	(1 810)	(1 854)
Cash from operations	**859**	**(1 213)**	**(3 697)**	**(2 611)**	**1 131**
Payments for P, P & Equipment	(12 327)	(4 031)	(2 944)	(2 681)	(6 191)
Proceeds from sale of P, P & E	1 514	640	2 458	612	142
Cash used in investing activities	**(10 813)**	**(3 391)**	**(486)**	**(2 069)**	**(6 049)**
Proceeds from borrowings	2 292	1 518	1 531	1 534	1 594
Repayment of borrowings	(623)	(943)	(1 226)	(1 377)	(1 603)
Cash from financing activities	**1 669**	**575**	**305**	**157**	**(9)**
Cash Flows from Government	**4 219**	**4 676**	**4 821**	**4 444**	**5 302**
Net increase in cash	**(4 066)**	**647**	**943**	**(79)**	**375**
Cash at the beginning of the period	4 934	868	1 515	2 458	2 379
Cash at end of the period	**868**	**1 515**	**2 458**	**2 379**	**2 754**

Comment

Since 1996-97 there has been a significant decrease in funds invested in property, plant and equipment. Reinvestment in Council's assets over the period totalled $28.174m while over the same period, the decline in Council's assets represented by the depreciation expense was $41.231m. Over the same period, contributions of assets by developers amounted to $2.761m.

Borrowings have marginally increased over the period by a total of $2.679m. The level of borrowings, $26.542m, remains the highest of any local government authority.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(4 769)	(7 418)	(5 751)	(5 590)	(2 605)
Operating margin	>1.0	0.88	0.83	0.87	0.88	0.94
Financial Management						
Current ratio	>1	0.78	0.68	0.90	0.81	0.80
Cost of debt	7.5%	8.6%	7.8%	7.1%	7.3%	7.0%
Debt collection	30 days	10	16	21	29	21
Creditor turnover	30 days	3	3	2	13	50
Other information						
Staff numbers FTEs		357	329	284	250	257
Average staff costs ($'000s)		34	37	47	49	49

Comment

Over the five-year period, Council has consistently failed to cover operating expenses from operating revenues returning an accumulated deficit for the period of $26.133m or an annual average deficit of $5.227m. Over that same period current liabilities have also consistently exceeded current assets at year-end.

Despite the fact that Council maintains a high level of debt funding, the interest cover ratio of more than 20 indicates that revenue far exceeds borrowing costs while the cost of that debt reflects the current market rates.

The creditor turnover ratio of 50 days accounts payable at 30 June 2001 is distorted by the inclusion of a large creditor for $1.4m due to the timing of receipt of the invoice. In prior years, the invoice was not received prior to 30 June and, as such, the corresponding amounts were included as an expense accrual, and the ratio on a comparable basis as that for prior years is calculated at 23.

OVERALL COMMENT

The fact that Council’s investment in new assets has declined in recent years coupled with an increase in operating expenses at a rate greater than the increase in operating revenues suggests that some expenditure on maintenance on non-current assets in recent years may well have been capital in nature. Council has addressed its asset accounting policies during 2000-01 with a view to better identifying payments of a capital nature that have future economic benefits and hence should be recorded as assets in the Statement of Financial Position rather than expenses in the Statement of Financial Performance. An indication that this trend may be reversing is reflected in the expenditure on assets as noted in the Cash Position table increased from $2.681m in 1999-00 to $6.191m in 2000-01.

The review of asset accounting policies should also result in a reduction in future operating deficits. However, it will have no impact on Council’s cash resources or its reliance on external funding.

4.1.5 HOBART CITY COUNCIL

INTRODUCTION

The Hobart area was granted City status in 1842 and services a population of approximately 46,000.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements of the Hobart City Council were received on 28 September 2001 and an unqualified audit report was issued on 12 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	52 576	55 780	56 338	59 658	60 934
Grants	2 703	2 905	2 892	2 785	3 091
Other operating revenue	1 747	2 717	2 932	2 976	3 870
Non-operating revenue	2 574	1 214	39 406	1 727	935
Total Revenue	**59 600**	**62 616**	**101 568**	**67 146**	**68 830**
Borrowing costs	965	1 123	1 038	1 118	909
Depreciation	14 916	16 786	21 198	21 821	19 135
Other operating expenses	44 665	48 629	49 817	51 723	55 461
Non-operating expenses	1 754	1 264	1 933	19 948	3 687
Total Expenses	**62 300**	**67 802**	**73 986**	**94 610**	**79 192**
Result from Ordinary Activities	**(2 700)**	**(5 186)**	**27 582**	**(27 464)**	**(10 362)**

Comment

Non-operating revenue in 1998-99 included $38.800m reflecting the take-up of Council's partial interest in Hobart Water, which it jointly owns with a number of other southern based councils. Non-operating revenue generally represents the disposal proceeds of non-current assets.

In 1999-00, Non-operating expenses included a $19.271m revaluation decrement principally relating to Infrastructure Plant, $15.640m, and Buildings $3.361m, while in 2000-01, the amount included a revaluation decrement for Council's investment in Hobart Water, $2.280m, and expenses associated with the fire at the Hobart Aquatic Centre, $1.521m. This latter item is partially subject to insurance recoveries. Generally, the remainder of the Non-operating expenses represent the undepreciated carrying amounts of assets disposed sold.

Over the five year period, Council has returned an overall negative Result from Ordinary Activities totalling $18.130m, or an average annual deficit of $3.626m.

Ignoring the effects of both non-operating revenues and expenses, Council has recorded an operating deficiency over the 5 year period totalling $35.400m (i.e operating expenses exceeded operating revenues), or an average annual deficiency of $7.080m. Rate revenue has increased over that period from $41.343m in 1996-97 to $47.563m in 2000-01. At the same time, revenue from rendering services (including parking fines), rose from $11.233m to $13.371m.

Annual depreciation charges rose sharply in 1998-99 as a result of Council revaluing a large proportion of its buildings and infrastructure assets during that year. The depreciation applicable to roads and bridges increased from $8.149m in 1997-98 to $11.565m in 1998-99, while the charge on other classes of assets resulted in smaller increments.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	(93)	(88)	(832)	(1 176)	(511)
Receivables	5 284	3 987	4 140	3 406	3 993
Investments	7 712	5 854	8 743	10 681	9 909
Inventories	354	378	238	251	252
Other	58	7	15	5	14
Total Current Assets	**13 315**	**10 138**	**12 304**	**13 167**	**13 657**
Property, plant & equipment	371 211	370 584	557 230	545 427	566 819
Investments	9 756	9 406	48 097	48 097	34 572
Other	1 239	1 663	1 625	1 736	2 568
Total Non-Current Assets	**382 206**	**381 653**	**606 952**	**595 260**	**603 959**
Payables	3 615	4 261	3 646	3 545	4 775
Borrowings	3 222	188	1 841	1 974	1 852
Provisions	3 141	2 656	2 855	3 141	3 000
Other	392	328	249	270	415
Total Current Liabilities	**10 370**	**7 433**	**8 591**	**8 930**	**10 042**
Borrowings	7 361	11 323	11 682	10 789	10 595
Provisions	2 108	2 539	2 536	2 368	2 644
Other	50	50	47	45	45
Total Non-Current Liabilities	**9 519**	**13 912**	**14 265**	**13 202**	**13 284**
Net Assets	**375 632**	**370 446**	**596 400**	**586 295**	**594 290**
Reserves	17 671	12 863	213 694	232 551	252 146
Retained surpluses	357 961	357 583	382 706	353 744	342 144
Total Equity	**375 632**	**370 446**	**596 400**	**586 295**	**594 290**

Comment

During 1998-99 Council commenced a progressive revaluation process of certain classes of Property Plant and Equipment (including infrastructure assets) that resulted in an overall increment to the asset revaluation reserve totalling $198.372m. The major increases related to Roads and Bridges (including footpaths, kerbs and gutters), $146.810m, and Pipes, Drains and Rivulets, $42.499m. The revaluation exercise impacted on both the carrying values for the Non-current assets and the Reserves.

Revaluations carried out during 1999-00 resulted in a further increment to the asset revaluation reserve (and the relevant asset class) totalling $17.359m. Major increases related to Roads and Bridges, $9.571m, and Land Improvements, $2.258m. Revaluation decrements expensed and taken to the Statement of Financial Performance totalled $19.271m were also referred to earlier in this segment of the Report.

The increase in the 1998-99 Non-Current Assets item Investments principally represents Council's take-up of its interest in Hobart Water, $38.800m. The remainder of the item refers to investment properties held by Council.

Despite recording operating deficiencies for each of the periods under review, Council has maintained its strong equity base although retained surpluses have decreased from $357.632m to $342.144m over the period.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	53 068	57 616	58 587	62 406	66 032
Payments to suppliers and employees	(44 347)	(46 641)	(49 425)	(50 481)	(56 353)
Interest received	1 282	473	447	707	783
Borrowing costs	(948)	(1 181)	(1 040)	(1 168)	(919)
Cash from operations	**9 055**	**10 267**	**8 569**	**11 464**	**9 543**
Payments for P, P & Equipment	(33 559)	(19 129)	(11 754)	(12 923)	(13 252)
Proceeds from sale of P, P & E	2 262	1 559	558	588	897
Cash used in investing activities	**(31 297)**	**(17 570)**	**(11 196)**	**(12 335)**	**(12 355)**
Proceeds from borrowings	800	4 150	2 200	1 325	1 658
Repayment of borrowings	(1 270)	(3 222)	(188)	(2 085)	(1 974)
Cash from financing activities	**(470)**	**928**	**2 012**	**(760)**	**(316)**
Cash Flows from Government	**4 208**	**4 522**	**2 760**	**3 225**	**3 021**
Net increase in cash	**(18 504)**	**(1 853)**	**2 145**	**1 594**	**(107)**
Cash at the beginning of the period	26 123	7 619	5 766	7 911	9 505
Cash at end of the period	**7 619**	**5 766**	**7 911**	**9 505**	**9 398**

Comment

Despite recording negative operating results and results from ordinary activities over the period, Hobart City Council has returned positive cash flows from operations amounting to $48.898m which, together with government grants, $17.736m; a depletion of cash holdings, $16.725m; asset sales, $5.864m; and increased borrowings, $1.394m, has enabled it to maintain its investment in property plant and equipment, with new assets either purchased or constructed totalling $90.617m against the annual depreciation charges $93.856m. Of the cash balances remaining at 30 June 2001, $9.398m, $3.312m is subject to restrictions on use including the provision of parking facilities, $1.460m, and Heritage Funding, $1.346m.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(3 520)	(5 136)	(9 891)	(9 243)	(7 610)
Operating margin	>1.0	0.92	0.92	0.86	0.88	0.90
Financial Management						
Current ratio	>1	1.28	1.36	1.43	1.47	1.36
Cost of debt	7.5%	9.1%	9.8%	7.7%	8.8%	7.3%
Debt collection	30 days	45	32	31	24	26
Creditor turnover	30 days	31	29	11	9	42
Other information						
Staff numbers FTEs		564	527	515	552	541
Average staff costs ($'000s)		38	41	44	43	45

Comment

Over the five-year period under review Council has consistently failed to cover operating expenses returning an accumulated deficit for the period of $35.400m, or an annual average deficiency of $7.080m.

The cost of that debt currently reflects the current market rates.

Statistics for debt collection indicate that since 1996-97 Council has maintained a debt collection recovery rate of close to 30 days. However, the provision for doubtful debts has risen from 25% of total receivables in 1996-97 to 50% in 2000-01 and relates almost entirely to the recovery of parking offences. As noted in Council's financial statements, outstanding accounts for parking offences are regarded as doubtful when legal proceedings are commenced for recovery. At 30 June 2001, outstanding parking offences totalled $4.561m (30 June 2000, 3.965m) against which it carried a provision for doubtful debts of $4.206m ($3.642m). At 30 June 2001, the total provision for doubtful debts amounted to $4.376m. Since 30 June 1996, parking fine debtors have increased by approximately $0.500m annually with similar increases in the provision for doubtful debts.

At 30 June 2001, Council had the equivalent of 42 days creditors in its account payables balance.

The trend indicating a decrease in staff numbers was reversed in 1999-00, and the increase reflects Council's direct management of the Tattersall's Hobart Aquatic Centre.

OVERALL COMMENT

Over the period of review Council has recorded an accumulated deficit of $35.400m. At the same time cash deposits have been reduced from $26.123m at 1 July 1996 to $9.398m at 30 June 2001. However, of this reduction, $18.504m was attributable to the year ended 30 June 1997 in which asset purchases/construction totalled $33.559m as opposed to an annual average over the 5 years of $18.123m. Since that year, cash balances have actually increased by $1.779m.

Borrowings remain a small proportion of Council's funding source and actually increased over the period by $1.394m.

4.1.6 LAUNCESTON CITY COUNCIL

INTRODUCTION

The Launceston City Council originates from the Launceston Municipality, which was established in 1852. The municipality was proclaimed a City in 1888. The current Council boundaries were reorganised in 1985 to include the municipalities of St Leonards and Lilydale. The council remained substantially unchanged during the amalgamation of councils during 1993.

The municipal area covers approximately 1 414 square kilometres and encompasses the majority of the city of Launceston. The Council services a population of approximately 65 800 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2001. An unqualified audit report was issued on 17 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	42 273	43 165	43 621	44 580	46 838
Grants	5 153	6 778	11 651	8 779	7 884
Other operating revenue	12 101	12 849	12 330	13 541	14 242
Non-operating revenue	0	46 427	9 308	6 449	5 486
Total Revenue	**59 527**	**109 219**	**76 910**	**73 349**	**74 450**
Borrowing costs	1 057	920	816	614	599
Depreciation	12 960	14 535	14 834	14 882	15 194
Other operating expenses	42 188	44 269	44 673	45 091	49 409
Non-operating expenses	20	706	66	94	33
Total Expenses	**56 225**	**60 430**	**60 389**	**60 681**	**65 235**
Result from Ordinary Activities	**3 302**	**48 789**	**16 521**	**12 668**	**9 215**

Comment

Revenue from rates, fees and charges has increased from $42.273m in 1996-97 to $46.838m in 2000-01. This represents a total increase of $4.565m or an average annual increase of approximately 2.5%.

Grant revenue varies and is particularly volatile in relation to capital purpose grants. Grant revenue in 1998-99 was above average due to $5.500m being received for the upgrade of the York Park facility.

Non operating revenue in 1997-98 includes of $47.119m representing the Council's acquisition of an interest in the Esk Water Authority on 1 July 1997. The acquisition resulted from the State Government passing control of the bulk water assets in the Tamar Valley region to the four councils in that area.

The balances of non-operating revenue in 1998-99 and 1999-00 reflect the recording of infrastructure assets, which were not recognised under the transitional provisions of *AAS 27 Financial reporting by Local Governments*. The balance of non-operating revenue for 2000-01 includes $4.433m being an adjustment to reflect Council's increased equity in the Esk Water Authority and $1.909m relating to the recording of infrastructure assets, offset by a write-down of a building by $0.9m. The delayed infrastructure asset recognition is a result of the size and scope of Council's non current assets network.

Borrowing costs has reduced by $0.458m over the 5 year period. In the same period, loan debt reduced by $2.087m (excluding $4.000m borrowed in late 2001). In the corresponding period and the average interest rate applicable to debt decreased from 8.8% to 6.9%.

Other operating expenses have increased by $7.221m or an average annual increase of approximately 4%.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	213	1 229	2 753	4 982	4 545
Receivables	3 822	6 291	4 153	6 278	6 594
Investments	18 576	17 704	25 260	19 658	19 203
Inventories	686	577	805	700	768
Other	444	816	295	258	790
Total Current Assets	**23 741**	**26 617**	**33 266**	**31 876**	**31 900**
Property, plant & equipment	557 397	551 981	561 168	574 845	582 452
Investments	0	51 323	51 324	51 323	55 757
Other	817	1 544	1 475	1 367	1 286
Total Non-Current Assets	**558 214**	**604 848**	**613 967**	**627 535**	**639 495**
Payables	1 888	1 646	**3 197**	2 023	2 946
Borrowings	1 859	1 984	1 956	2 012	2 301
Provisions	3 819	3 646	3 796	3 807	4 045
Other	4 292	5 368	3 084	3 773	2 840
Total Current Liabilities	**11 858**	**12 644**	**12 033**	**11 615**	**12 132**
Borrowings	6 621	6 629	6 405	6 392	8 092
Provisions	794	700	761	682	928
Other	280	300	320	340	646
Total Non-Current Liabilities	**7 695**	**7 629**	**7 486**	**7 414**	**9 666**
Net Assets	**562 402**	**611 192**	**627 714**	**640 382**	**649 597**
Reserves	31 691	34 244	41 523	44 329	46 669
Retained surpluses	**530 711**	**576 948**	**586 191**	**596 053**	**602 928**
Total Equity	**562 402**	**611 192**	**627 714**	**640 382**	**649 597**

Comment

The balance of cash has increased over the five year period and reflects cash on hand. The Council holds these funds to meet its day to day cash requirement. This is required because the majority of the investment balance is in managed investments. The investment balance has not moved significantly over the period, excepting 1998-99, which includes unexpended grant funds relating to the York Park Development.

The major components of the receivables balance include rate debtors, excess water debtors, sundry debtors and parking infringement debtors. Apart from sundry debtors, which can fluctuate between the periods, the other balances have remained constant. It is noted that the council includes a significant provision for doubtful debts to offset parking infringement debtors, which can be difficult to recover.

Non current investments represent the council's interest in the Esk Water Authority, which as noted above, increased during 2000-01 by $4.434m.

Current liabilities include payables, which represent the creditors balance outstanding at year end. All other accruals have been recorded as other current liabilities. A review of both balances together reveals the creditors and accrual balances owing at the end of each period have not moved significantly.

Current borrowing has been consistent, although the increase in 2000-01 by $0.289m reflects $4.000m in new borrowings in 2000-01. The new borrowings have increased non current borrowings by $1.700m which was offset by $2.012m in loan repayments made in 2000-01.

Both current and non current provisions have been stable over the five year period. The provisions include accrued days off, annual leave, long service leave and a liability for a retiring allowance.

Other non current liabilities represent a provision for rehabilitation of the refuse disposal area. The liability was increased by $0.306m during 2000-01 to reflect the proportion of rehabilitation costs applicable to that part of the site's useful life which have been consumed to date.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	52 588	54 322	54 789	54 102	61 776
Payments to suppliers and employees	(41 567)	(43 677)	(43 819)	(45 031)	(52 271)
Interest received	1 461	1 071	1 324	1 558	1 694
Borrowing costs	(1 066)	(942)	(841)	(618)	(607)
Cash from operations	**11 416**	**10 774**	**11 453**	**10 011**	**10 592**
Proceeds from investments	2 391	4 487	2 315	2 204	1 626
Payments for investments	(471)	(6 216)	(3 312)	(2 366)	(932)
Payments for P, P & Equipment	(17 088)	(16 143)	(13 632)	(23 084)	(22 852)
Proceeds from sale of P, P & E	1 149	1 306	689	1 876	780
Cash used in investing activities	**(14 019)**	**(16 566)**	**(13 940)**	**(21 370)**	**(21 378)**
Proceeds from borrowings	2 055	2 034	2 522	2 082	4 061
Repayment of borrowings	(2 553)	(2 639)	(2 712)	(1 956)	(2 012)
Cash from financing activities	**(498)**	**(605)**	**(190)**	**126**	**2 049**
Cash Flows from Government	**5 343**	**6 541**	**11 758**	**7 860**	**7 845**
Net increase in cash	**2 242**	**144**	**9 081**	**(3 373)**	**(892)**
Cash at the beginning of the period	16 547	18 789	18 932	28 013	24 640
Cash at end of the period	**18 789**	**18 933**	**28 013**	**24 640**	**23 748**

Comment

The net cash from operations has remained fairly stable over the past five years. Borrowing costs have gradually decreased which reflects the reduction in the level of borrowings outstanding.

Payments to and from investments, in net terms reflect a $0.274m movement which is consistent with the stable nature of the investment balance in current assets.

Payments for property, plant and equipment have increased significantly in 1999-00 and 2000-01. The expenditure has increased by $7.347m from the average for the period 1996-97 to 1998-99. The increase relates to the expenditure of capital based grants used to upgrade the museum and York Park facilities.

Cash from investing activities has moved marginally over the first four years of review as loan repayments were offset by new borrowings. As noted previously, in 2000-01, new borrowing of $4.000m resulted in a $2.049m receipt of cash from financing activities.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		3 322	3 068	7 279	6 313	3 762
Operating margin	>1.0	1.06	1.05	1.12	1.10	1.06
Financial Management						
Current ratio	>1	2.00	2.11	2.76	2.74	2.63
Cost of debt	7.5%	12.5%	10.7%	9.8%	7.3%	5.8%
Debt collection	30 days	26	32	27	32	35
Creditor turnover	30 days	29	23	44	29	36
Other information						
Staff numbers FTEs		505	480	480	486	478
Average staff costs ($'000s)		37	37	38	40	41

Comment

The financial performance ratios indicate the council has successfully recorded operating surpluses in each of the five years reviewed. This is reflected in the positive operating margins, which are above the benchmark balance. Operating surpluses totalled $23.744m and averaged $4.748m. Although Council's performance has been strong, the surplus has been assisted by capital purpose grants totalling $15.769m. These are being recorded as revenue, but the expenditure has been capitalised and not reflected in the surplus calculation.

Council's cost of debt ratio has improved over the five year period due to a reduction in the interest expense from $1.057m in 1996-97 to $0.599m in 2000-01. As noted previously, loan debt has remained fairly constant.

The debt collection ratio has been consistently close to the benchmark of 30 days. Although several periods are above the benchmark balance, Council experience indicates the majority of debtors balance are recovered within a 30 day period. The only exception relates to parking infringement debtors, for which Council have set aside a considerable provision for doubtful debts.

The creditor turnover figure has been lower than 30 days for three of the five years under review. The 1998-99 and 2000-01 periods are above the benchmark because the creditors balances include creditors relating to capital expenditure. However, Council ensures it pays all creditors within a 30 day period.

The average staff costs are relatively stable for the five years under review, ranging from $37 000 in both 1996-97 and 1997-98 to $41 000 in 2000-01.

OVERALL COMMENT

In the five years to 30 June 2001, Council has recorded a net operating surplus of $23.774m (excludes non-operating items).

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

In April 2001 I wrote to all Councils indicating my intention to engage a consultant to review road asset valuation and depreciation practices. In August 2001, I forwarded a copy of the consultant's report for consideration to all councils. In conducting our audit of road values and depreciation practices the recommendations of the consultant were used as a benchmark.

During our review of Council's road asset records I noted that the valuations of urban arterial and residential roads were significantly in excess of the benchmarks provided by our consultant.

As Council decided to deem carrying values to be cost, in accordance with *AAS 38 "Revaluation of Non Current Assets*", the matter was not pursued and the reasons for the variation from benchmark were not determined.

However, I endorse Council's proposal to revalue road assets within the next twelve months.

4.2 LARGER URBAN AND RURAL COUNCILS

INTRODUCTION

Local government authorities are governed principally by the *Local Government Act 1993* as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and miscellaneous matters.

This section of the report deals with the relative performance of the following councils:

- Central Coast Council
- Circular Head Council
- Huon Valley Council
- Kingborough Council
- Meander Valley Council
- Waratah-Wynyard Council, and
- West Tamar Council.

These councils have been classified as large based upon their revenue from rates, fees and charges being greater than $7.25m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Central Coast $'000s	**Circular Head** $'000s	**Huon Valley** $'000s	**King-borough** $'000s	**Meander Valley** $'000s	**Waratah-Wynyard** $'000s	**West Tamar** $'000s
Rates, fees and charges	13 450	7 647	7 269	17 402	8 824	8 467	10 630
Grants	2 251	2 346	3 857	3 405	3 430	2 458	3 011
Other operating revenue	1 626	556	1 570	1 557	1 412	620	743
Non-operating revenue	0	0	(14)	1 936	634	234	1 459
Total Revenue	**17 327**	**10 549**	**12 682**	**24 300**	**14 300**	**11 779**	**15 843**
Borrowing Costs	328	236	403	180	70	324	224
Depreciation	4 491	2 030	2 595	5 449	3 221	3 088	3 255
Other operating expenses	12 565	7 555	8 221	15 772	8 418	8 515	9 047
Non-operating expenses	72	223	27 771	1 153	0	433	539
Total Expenses	**17 456**	**10 044**	**38 990**	**22 554**	**11 709**	**12 360**	**13 065**
Result from Ordinary Activities	**(129)**	**505**	**(26 308)**	**1 746**	**2 591**	**(581)**	**2 778**

Comment

Revenue from rates, fees and charges ranged from $7.269m (Huon Valley Council) to $17.402m (Kingborough Council). The higher revenue recorded by Kingborough Council is due to its larger population base, which approximates 28 000 people. On average, revenue from rates, fees and charges represents 69% of total operating revenue for the seven councils for 2000-01.

Government grants and subsidies represent 19% of total operating revenue recorded by the seven councils. Central Coast Council recorded the lowest proportion, with 13% of revenue being derived from government sources. Huon Valley Council recorded the highest percentage with 30%.

On average, borrowing costs represent 1.84% of total operating expenditure, whilst depreciation accounts for 25% of total operating expenditure. Meander Valley had the lowest proportion of borrowing costs (0.60%), which reflects the fact that the Council repaid its outstanding borrowings during 2000-01. The depreciation percentages were fairly consistent across the seven councils.

FINANCIAL POSITION

	Central Coast $'000s	Circular Head $'000s	Huon Valley $'000s	King-borough $'000s	Meander Valley $'000s	Waratah-Wynyard $'000s	West Tamar $'000s
Cash	(478)	170	4 444	287	528	851	5 829
Receivables	1 330	711	883	1 162	650	558	1 175
Investments	7 638	1 328	0	6 448	4 000	2 500	0
Inventories	75	65	7	0	43	254	110
Other	332	208	0	144	401	97	315
Total Current Assets	**8 897**	**2 482**	**5 334**	**8 041**	**5 622**	**4 260**	**7 429**
Property, Plant And Equipment	158 902	57 826	75 405	215 502	107 359	70 675	91 241
Investments	9 032	3 711	0	11 460	11 462	4 564	13 822
Other	803	581	0	28	56	84	53
Total Non-Current Assets	**168 737**	**62 118**	**75 405**	**226 990**	**118 877**	**75 323**	**105 116**
Payables	502	862	580	1 136	403	551	689
Borrowings	777	488	584	312	0	736	759
Provisions	1 036	396	414	954	552	874	572
Other	157	47	0	760	96	117	79
Total Current Liabilities	**2 472**	**1 793**	**1 578**	**3 162**	**1 051**	**2 278**	**2 099**
Borrowings	3 371	1 618	2 796	1 155	0	4 033	3 235
Provisions	362	62	153	117	63	127	169
Other	0	0	0	0	0	41	0
Total Non-Current Liabilities	**3 733**	**1 680**	**2 949**	**1 272**	**63**	**4 201**	**3 404**
Net Assets	**171 429**	**61 127**	**76 212**	**230 597**	**123 385**	**73 104**	**107 042**
Capital	0	0	0	154 464	0	0	0
Reserves	21 502	4 442	4 365	73 607	23 378	9 382	58 909
Retained Surpluses	149 927	56 685	71 846	2 526	100 007	63 722	48 133
Total Equity	**171 429**	**61 127**	**76 211**	**230 597**	**123 385**	**73 104**	**107 042**

Comment

All of the seven councils had positive working capital, with the average current ratio being 2.91. The level of borrowings was low for all councils, with the average debt to equity being 2.36%.

The balance of net assets ranged from $61.127m (Circular Head Council) to $230.597m (Kingborough Council). The higher asset balance recorded by Kingborough Council is attributable to the municipality's larger population base.

CASH POSITION

	Central Coast $'000s	Circular Head $'000s	Huon Valley $'000s	King-borough $'000s	Meander Valley $'000s	Waratah-Wynyard $'000s	West Tamar $'000s
Receipts from customers	15 053	8 744	8 709	18 343	9 710	9 092	11 768
Payments to suppliers and emloyees	(13 496)	(7 507)	(10 034)	(15 649)	(9 247)	(8 849)	(9 653)
Interest received	580	158	255	496	456	268	346
Borrowing costs	(348)	(248)	(415)	(190)	(89)	(327)	(224)
Cash from operations	**1 789**	**1 147**	**(1 485)**	**3 000**	**830**	**184**	**2 237**
Proceeds from investments	0	0	0	0	0	0	1 873
Payments for investments	(689)	0	0	0	(4 000)	(453)	(1 627)
Payments for P, P & Equipment	(4 148)	(2 650)	(985)	(6 647)	(4 806)	(2 211)	(3 602)
Proceeds from sale of P, P & E	127	178	373	502	232	234	238
Cash used in investing activities	**(4 710)**	**(2 472)**	**(612)**	**(6 145)**	**(8 574)**	**(2 430)**	**(3 118)**
Proceeds from borrowings	400	0	0	0	0	500	500
Repayment of borrowings	(831)	(406)	(579)	(372)	(674)	(728)	(757)
Cash from financing activities	**(431)**	**(406)**	**(579)**	**(372)**	**(674)**	**(228)**	**(257)**
Cash flows from Government	**2 251**	**2 346**	**3 857**	**3 405**	**3 430**	**2 458**	**3 011**
Net increase in cash	**(1 101)**	**615**	**1 181**	**(112)**	**(4 988)**	**(16)**	**1 873**
Cash at the beginning of the period	623	883	3 263	6 847	5 516	867	135
Cash at end of the period	**(478)**	**1 498**	**4 444**	**6 735**	**528**	**851**	**2 008**

Comment

Four of the seven councils had net decreases in cash balances. Three of these councils transferred surplus funds to investment accounts, which contributed to the reduction in the balance of cash held.

FINANCIAL ANALYSIS

	Bench Mark	Central Coast	Circular Head	Huon Valley	King-borough	Meander Valley	Waratah-Wynyard	West Tamar
Financial Performance								
Result from operations ($'000s)		(57)	728	1 463	963	1 957	(382)	1 858
Operating margin	>1.0	1.00	1.07	1.13	1.04	1.17	0.97	1.15
Financial Management								
Current ratio	>1	3.60	1.38	3.38	2.54	5.35	1.87	3.54
Cost of debt	7.5%	7.9%	11.2%	11.9%	12.3%	0.0%	6.8%	5.6%
Debt collection	30 days	36	34	36	24	27	24	40
Creditor turnover	30 days	27	59	29	52	25	48	45
Other information								
Staff numbers		127	47	92	142	58	71	79
Average staff costs ($'000s)		45	48	41	45	44	44	43

Comment

On average, the councils had a positive operating margin and all councils had a positive working capital at 30 June 2001.

The average cost of debt for the large councils was 9.3%. In calculating this average, Meander Valley Council was excluded, as it had no borrowings at 30 June 2001.

The average debt collection period was 32 days, which reflects normal commercial terms. The average creditor turnover was 41 days, which is affected by larger balances at 30 June, particularly for capital items.

The staff costs were consistent between the seven councils, with an overall average of $44 000.

OVERALL COMMENT

Overall, the seven councils recorded a surplus from ordinary and operating activities. All councils had positive working capital and low debt to equity ratios at 30 June 2001.

4.2.1 CENTRAL COAST COUNCIL

INTRODUCTION

Central Coast Council was created in 1993 when the former municipalities of Penguin and Ulverstone were merged. The municipality serves the Forth/Leith, Ulverstone and Penguin areas on the north-west coast. The population of the area is approximately 21 000.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 17 August 2001, with amended statements received on 4 September 2001. An unqualified audit report was issued on 17 September 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	12 450	12 726	13 000	13 301	13 450
Grants	2 147	2 094	2 248	2 250	2 251
Other operating revenue	1 907	1 158	1 113	1 331	1 626
Non-operating revenue	81	23	0	9 033	0
Total Revenue	**16 585**	**16 001**	**16 361**	**25 915**	**17 327**
Borrowing costs	780	632	516	402	328
Depreciation	4 932	4 943	4 998	4 496	4 491
Other operating expenses	11 173	11 501	11 685	12 028	12 565
Non-operating expenses	167		214	125	72
Total Expenses	**17 052**	**17 076**	**17 413**	**17 051**	**17 456**
Result from Ordinary Activities	**(467)**	**(1 075)**	**(1 052)**	**8 864**	**(129)**

Comment

Revenue from rates, fees and charges has steadily increased during the period under review. Non-operating revenue in 1999-00 of $9.033m relates to the recognition of the Council’s interest in the North West Water Authority.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased from $0.780m in 1996-97 to $0.328m in 2000-01. The decrease is attributable to regular repayments of loan borrowings, which has resulted in a reduction in the balance of loans outstanding.

The Council has incurred losses from ordinary activities in four of the five years under review. A profit from ordinary activities of $8.864m was recorded in 1999-00, which was mainly due to the recognition of Council's interest in the net assets of the Water Authority.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	14	(114)	(518)	623	(478)
Receivables	978	1 082	1 025	1 165	1 330
Investments	8 737	8 161	8 530	6 950	7 638
Inventories	93	83	78	61	75
Other	175	134	138	135	332
Total Current Assets	**9 997**	**9 346**	**9 253**	**8 934**	**8 897**
Property, plant & equipment	147 948	146 716	145 590	150 944	158 902
Investments	0	0	0	9 032	9 032
Other	1 126	997	749	887	803
Total Non-Current Assets	**149 074**	**147 713**	**146 339**	**160 863**	**168 737**
Payables	228	177	235	314	502
Borrowings	1 018	922	906	830	777
Provisions	657	754	883	933	1 036
Other	234	278	287	364	157
Total Current Liabilities	**2 137**	**2 131**	**2 311**	**2 441**	**2 472**
Borrowings	6 565	5 642	4 581	3 750	3 371
Provisions	441	433	405	376	362
Total Non-Current Liabilities	**7 006**	**6 075**	**4 986**	**4 126**	**3 733**
Net Assets	**149 928**	**148 853**	**148 295**	**163 230**	**171 429**
Reserves	8 538	8 796	8 682	14 095	21 502
Retained surpluses	141 390	140 057	139 613	149 135	149 927
Total Equity	**149 928**	**148 853**	**148 295**	**163 230**	**171 429**

Comment

The balance of property, plant and equipment increased by $7.958m in 2000-01 due mainly to asset revaluation increments of $8.328m being recognised during the year. The revaluation increment relates to road assets, which were revalued by Council officers on 1 July 2000. The revaluation also resulted in an increase in the balance of reserves.

The increase in non-current investments from 1998-99 to 1999-00 of $9.032m relates to the recognition of Council's interest in the equity of the North West Water Authority.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	13 946	13 354	13 916	14 004	15 053
Payments to suppliers and employees	(11 109)	(11 338)	(11 505)	(11 852)	(13 496)
Interest received	756	555	509	558	580
Borrowing costs	(811)	(656)	(543)	(413)	(348)
Cash from operations	**2 782**	**1 915**	**2 377**	**2 297**	**1 789**
Proceeds from investments	57	576	(369)	1 581	0
Payments for investments	0	0	0	0	(689)
Payments for P, P & Equipment	(4 774)	(3 997)	(3 677)	(4 217)	(4 148)
Proceeds from sale of P, P & E	362	305	94	138	127
Cash used in investing activities	**(4 355)**	**(3 116)**	**(3 952)**	**(2 498)**	**(4 710)**
Proceeds from borrowings	150	0	0	0	400
Repayment of borrowings	(973)	(1 020)	(1 076)	(907)	(831)
Cash from financing activities	**(823)**	**(1 020)**	**(1 076)**	**(907)**	**(431)**
Cash Flows from Government	**2 146**	**2 093**	**2 247**	**2 249**	**2 251**
Net increase in cash	**(250)**	**(128)**	**(404)**	**1 141**	**(1 101)**
Cash at the beginning of the period	264	14	(114)	(518)	623
Cash at end of the period	**14**	**(114)**	**(518)**	**623**	**(478)**

Comment

The net cash from operations has remained fairly stable over the past four years. The increase in receipts from customers and payments to suppliers in 2000-01 is due to the impact of GST.

Payments for property, plant and equipment amounted to $4.148m in 2000-01, the majority of which related to capital works on roads and streets.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(381)	(1 098)	(838)	(44)	(57)
Operating margin	>1.0	0.98	0.94	0.95	1.00	1.00
Financial Management						
Current ratio	>1	4.68	4.39	4.00	3.66	3.60
Cost of debt	7.5%	10.3%	9.6%	9.4%	8.8%	7.9%
Debt collection	30 days	29	31	29	32	36
Creditor turnover	30 days	14	10	14	17	27
Other information						
Staff numbers FTEs		132	128	127	126	127
Average staff costs ($'000s)		40	41	43	42	45

Comment

The financial performance ratios show that Council has recorded operating losses in all five years. The total deficits for the period under review amount to $2.418m.

Council's current ratio is consistently above the benchmark and indicates that the Council is able to meet all short-term liabilities.

The cost of debt has gradually reduced from 10.3% in 1996-97 to 7.9% in 2000-01. The decrease is due to Council obtaining more competitive interest rates when loans are reviewed.

The debt collection ratio has been relatively stable over the past five years. The creditor turnover figure has been less than 30 days for the entire period under review.

OVERALL COMMENT

In the five years under review, Council recorded a total loss from operations (excluding non-operating items) of $2.418m.

The 2000-01 audit was completed with no major issues outstanding. As part of the audit, it was noted that Council does not depreciate unsealed road assets. This accounting treatment is not in accordance with UIG 30 "Depreciation of Long Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Matters". However, Council's accounting treatment was accepted, as total depreciation expense was considered to be materially correct.

4.2.2 CIRCULAR HEAD COUNCIL

INTRODUCTION

Circular Head Council originated in 1993 and was formerly the Municipality of Circular Head, which was established in 1907. The Council services a population of approximately 8108 persons and covers approximately 4917 square kilometres including the townships of Smithton and Stanley.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2001. An unqualified audit report was issued on 12 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	7 114	6 892	7 046	7 375	7 647
Grants	1 687	1 667	1 641	2 037	2 346
Other operating revenue	82	380	499	473	556
Non-operating revenue	0	131	1 434	3 711	0
Total Revenue	**8 883**	**9 070**	**10 620**	**13 596**	**10 549**
Borrowing costs	446	397	341	280	236
Depreciation	1 995	1 963	1 927	1 998	2 030
Other operating expenses	6 424	6 172	6 999	7 732	7 555
Non-operating expenses	13	110	0	75	223
Total Expenses	**8 878**	**8 642**	**9 267**	**10 085**	**10 044**
Result from Ordinary Activities	**5**	**428**	**1 353**	**3 511**	**505**

Comment

Revenue from rates, fees and charges has steadily increased during the period under review.

Non-operating revenue in 1998-99 of $1.434m is comprised of an abnormal item of $0.822m relating to road assets taken over by Council during the reporting period and

$0.588m of other contributions. Non-operating revenue in 1999-00 of $3.711m is the recognition of the Council's interest in the North West Water Authority.

Grants revenue during 2000-01 included a new item of $0.400m for Roads to Recovery funding.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased from $0.446m in 1996-97 to $0.236m in 2000-01. The decrease is attributable to regular repayments of loan borrowings, which has resulted in a reduction in the balance of loans outstanding.

Council has recorded profits from ordinary activities in the past five years. The largest profit was in 1999-00 ($3.511m) when the investment in the North West Water Authority was recognised.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	803	1 596	812	(17)	170
Receivables	460	576	735	795	711
Investments	0	0	1 100	900	1 328
Inventories	24	15	24	34	65
Other	239	214	270	417	208
Total Current Assets	**1 526**	**2 401**	**2 941**	**2 129**	**2 482**
Property, plant & equipment	54 769	54 702	55 631	57 612	57 826
Investments	0	0	0	3 711	3 711
Other	1 091	914	753	619	581
Total Non-Current Assets	**55 860**	**55 616**	**56 384**	**61 942**	**62 118**
Payables	224	323	589	457	862
Borrowings	557	519	493	480	488
Provisions	271	297	329	356	396
Other	101	103	108	52	47
Total Current Liabilities	**1 153**	**1 242**	**1 519**	**1 345**	**1 793**
Borrowings	3 281	2 857	2 429	2 046	1 618
Provisions	56	69	62	58	62
Other	87	44	0	0	0
Total Non-Current Liabilities	**3 424**	**2 970**	**2 491**	**2 104**	**1 680**
Net Assets	**52 809**	**53 805**	**55 315**	**60 622**	**61 127**
Reserves	1 922	2 490	2 647	4 442	4 442
Retained surpluses	50 887	51 315	52 668	56 180	56 685
Total Equity	**52 809**	**53 805**	**55 315**	**60 622**	**61 127**

Comment

The Council has maintained a positive cash level with the exception of the 1999-00 year. Although the cash balance was a negative $0.017m for that year, the current investment balance was $0.900m. The overdraft was the result of timing differences relating to outstanding cheques. Council did not have any investments for the 1996-97 and 1997-98 years. Investments have been held for the remaining 3 years under review. The investments consist of short-term bank bills capable of ready conversion to cash.

Council's interest in the equity of the North West Water Authority was recognised in 1999-00 and is represented by the balance of non-current investments of $3.711m.

Over the 5-year period under review Council revalued all classes of assets at specified intervals. Revaluation increments are credited to an asset revaluation reserve. The revaluations have resulted in increase is asset values of $0.568m for 1997-98, $0.157 for 1998-99 and $1.795m for 1999-00. For the year ended 30 June 2001 Council elected to revert to a cost basis for all non-current assets in line with the transitional provisions of *AAS 38 "Revaluation of Non Current Assets*", therefore no revaluation was made.

The majority of other non-current assets for all years reflects a Sewerage Treatment Finance Agreement receivable.

Trade creditors have increased for the 2000-01 year by $0.405m. This year includes several large capital creditors for work performed on the Smithton Recreation Centre. The 1998-99 year also includes significant capital creditors for roadworks.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 410	7 292	7 886	7 783	8 744
Payments to suppliers and employees	(6 567)	(6 040)	(6 757)	(8 083)	(7 507)
Interest received	78	110	158	124	158
Borrowing costs	(456)	(404)	(353)	(292)	(248)
Cash from operations	**465**	**958**	**934**	**(468)**	**1 147**
Payments for P, P & Equipment	(1 820)	(2 052)	(2 517)	(2 541)	(2 650)
Proceeds from sale of P, P & E	536	676	697	328	178
Cash used in investing activities	**(1 284)**	**(1 376)**	**(1 820)**	**(2 213)**	**(2 472)**
Proceeds from borrowings	270	0	0	15	0
Repayment of borrowings	(541)	(456)	(440)	(399)	(406)
Cash from financing activities	**(271)**	**(456)**	**(440)**	**(384)**	**(406)**
Cash Flows from Government	**1 687**	**1 667**	**1 641**	**2 037**	**2 346**
Net increase in cash	**597**	**793**	**315**	**(1 028)**	**615**
Cash at the beginning of the period	206	803	1 596	1 911	883
Cash at end of the period	**803**	**1 596**	**1 911**	**883**	**1 498**

Comment

Receipts from customers remained fairly stable for the first 4 years under review. An increase of $0.961m was recorded for the 2000-01 year. This increase was comprised of $0.439m from general rate receipts and $0.522m from other receipts including reimbursements, user charges and GST recovered from the Australian Taxation Office.

Payments to suppliers and employees increased by $1.326m during the 1999-00 year. Payments for materials and contracts increased by $0.692m, employee costs $0.244m and other expenses $0.392m over the previous year.

Payments for property, plant and equipment amount to $11.580m for the 5-year period under review. The major items included in this amount are transport infrastructure additions of $4.970m and plant and equipment additions.

Cash flows from Government have increased over the last 2 financial years. Various NHT funding grants were received during the 1999-00 year and 2000-01. The current year includes $0.400m for Roads to Recovery funding.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		18	407	(81)	(125)	728
Operating margin	>1.0	1.00	1.05	0.99	0.99	1.07
Financial Management						
Current ratio	>1	1.32	1.93	1.94	1.58	1.38
Cost of debt	7.5%	11.6%	11.8%	11.7%	11.1%	11.2%
Debt collection	30 days	23	29	36	39	34
Creditor turnover	30 days	18	28	43	30	59
Other information						
Staff numbers FTEs		46	44	44	48	47
Average staff costs ($'000s)		41	44	45	46	48

Comment

The financial performance ratios show that Council has recorded positive results from operating activities in the 1996-97, 1997-98 and 2000-01 years and small losses in the remaining 2 years. The total result from operating activities for the period under review amounts to $0.947m. The operating margin has remained largely consistent with benchmark for all 5 years despite the 2 losses.

Council's current ratio is consistently above the benchmark and indicates that the Council is able to meet all short-term liabilities.

The Council's cost of debt averaged 11.7% for the first 3 years under review and has decreased to 11.1% for 1999-00 and 11.2% for 2000-01. This reflects long-term borrowings at a fixed interest rate. Minimal new borrowings have been taken out in the last 5 years.

The debt collection ratio has been slightly above the benchmark of 30 days for the last 3 years. The creditor turnover figure has been greater than 30 days in 1998-99 (43 days) and 2000-01 (59 days). The balance of payables outstanding at the end of both years included large amounts for capital items, such as roadworks and the Smithton Recreation Centre that have distorted this ratio.

The staff numbers and average costs have remained fairly stable over the period.

OVERALL COMMENT

In the five years under review, Council recorded a total operating result from ordinary activities of $5.802m.

The 2000-01 audit was completed satisfactorily with no major issues outstanding. However, as part of the audit it was identified that the valuations of sealed and unsealed roads were significantly below the benchmarks provided by our consultant. As Council decided to deem carrying values to be cost, in accordance with *AAS 38 "Revaluation of Non Current Assets*", the understatement was not pursued.

Council propose to revalue road assets within the next twelve months. I endorse this proposal.

During testing of depreciation charges it was noted that Council does not depreciate unsealed road assets whilst our review indicates a useful life of no more than 40 years. This accounting treatment is not in accordance with *UIG 30 "Depreciation of Long Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Matter*s".

However, due to Council's practice of expensing all re-sheeting costs associated with gravel roads the understatement of the combined maintenance expense which should be capitalised, and depreciation was not deemed material.

4.2.3 HUON VALLEY COUNCIL

INTRODUCTION

The Esperance, Port Cygnet and Huon Municipalities were proclaimed in 1907, and were amalgamated in 1993. The Huon Valley Council, the Southern most council in Australia, includes the major centres of Huonville/Ranelagh, Cygnet, Geeveston, Dover and Franklin, and has an approximate population of 13 494 people (*Australian Bureau of Statistics, 1998 Census*).

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The signed financial statements of Huon Valley Council were received on 28 September 2001, with a further signed copy being received on 9 November 2001 after some amendments were made. An unqualified audit report was issued on 14 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	6 600	6 816	7 010	7 112	7 269
Grants	2 858	3 756	2 967	3 650	3 857
Other operating revenue	1 210	1 375	1 363	1 495	1 570
Non-operating revenue	56	11	(7)	109	(14)
Total Revenue	**10 724**	**11 958**	**11 333**	**12 366**	**12 682**
Borrowing costs	550	522	476	473	403
Depreciation	723	2 337	2 365	2 405	2 595
Other operating expenses	7 423	7 788	8 347	8 241	8 221
Non-operating expenses	0	0	0	0	27 771
Total Expenses	**8 696**	**10 647**	**11 188**	**11 119**	**38 990**
Result from Ordinary Activities	**2 028**	**1 311**	**145**	**1 247**	**(26 308)**

Comment

Non-operating revenue represents the gain or the loss on disposal of non current assets. The peak obtained in 1999-00 is a result of some land disposals, the proceeds of which were larger than the carrying value at the time of sale.

The increase in the depreciation charge for the financial year of 1997-98 is due to the recognition of all of the Council's infrastructure assets at the start of the financial year. This recognition is also reflected in the Statement of Financial Position, where an increase in asset value of $83.234m was recorded.

Other Operating expenses are a combination of employee costs, materials and contracts expense and other expenses from ordinary activities.

Other Non Operating Expenses for the 2000-01 year include a major asset write-down of the councils' road asset network of $27.77 million. This was a result of the road revaluation report that was commissioned by the Audit Office.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	194	486	492	3 263	4 444
Receivables	985	837	994	1 007	883
Investments	2 348	2 107	1 813	0	0
Inventories	37	31	5	17	7
Other	57	50	64	0	0
Total Current Assets	**3 621**	**3 511**	**3 368**	**4 287**	**5 334**
Property, plant & equipment	20 581	103 815	103 368	103 642	75 405
Total Non-Current Assets	**20 581**	**103 815**	**103 368**	**103 642**	**75 405**
Payables	487	438	411	872	580
Borrowings	589	561	555	579	584
Provisions	345	398	434	471	414
Total Current Liabilities	**1 421**	**1 397**	**1 400**	**1 922**	**1 578**
Borrowings	4 877	4 698	3 954	3 381	2 796
Provisions	79	103	112	108	153
Total Non-Current Liabilities	**4 956**	**4 801**	**4 066**	**3 489**	**2 949**
Net Assets	**17 825**	**101 128**	**101 270**	**102 518**	**76 212**
Reserves	2 246	2 140	2 357	2 953	4 365
Retained surpluses	15 586	98 987	98 914	99 565	71 846
Total Equity	**17 832**	**101 127**	**101 271**	**102 518**	**76 211**

Comment

The decrease in receivables noted during the 2000-01 year was due to a concerted effort to enforce the collections policy of Council, which included some property sell-offs during the past year.

The increase in cash in the financial years of 1999-00 and 2000-01 is explained by an increase in general operations and reduced cash spent on non-current asset purchases and constructions respectively.

The rise in the Property, plant and equipment value in 1997-98 is due to the recognition of Council's infrastructure assets as previously noted. The decrease noted in the most recent year is due to the roads being devalued, which involved identifying and valuing the individual road asset components and re-assessment the various components' useful lives. The impact of the revaluation was to decrease the carrying value of roads by $27.77 million. Both of these major asset changes have also significantly impacted on the retained surplus balance within equity.

In the 2000-01 financial year, payables decreased as a result of Council's efforts to pay accounts early throughout the year. This fact is reflected in the cash flow statement, as the payments to suppliers significantly increased.

The decrease in borrowings noted across the five years is in line with Council's borrowings repayment program.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 483	8 073	8 061	8 424	8 709
Payments to suppliers and employees	(7 382)	(7 649)	(8 295)	(7 683)	(10 034)
Interest received	177	143	155	171	255
Borrowing costs	(560)	(557)	(499)	(484)	(415)
Cash from operations	**(282)**	**10**	**(578)**	**428**	**(1 485)**
Payments for P, P & Equipment	(2 921)	(3 808)	(2 035)	(3 172)	(985)
Proceeds from sale of P, P & E	305	166	109	603	373
Cash used in investing activities	**(2 616)**	**(3 642)**	**(1 926)**	**(2 569)**	**(612)**
Proceeds from borrowings	900	400	0	0	0
Repayment of borrowings	(691)	(606)	(750)	(550)	(579)
Cash from financing activities	**209**	**(206)**	**(750)**	**(550)**	**(579)**
Cash Flows from Government	**2 858**	**3 892**	**2 967**	**3 650**	**3 857**
Net increase in cash	**169**	**54**	**(287)**	**959**	**1 181**
Cash at the beginning of the period	2 372	2 541	2 593	2 305	3 263
Cash at end of the period	**2 541**	**2 595**	**2 306**	**3 264**	**4 444**

Comment

The increase in the payments to suppliers for 2000-01 ($10.034m) is a result of a increase in payments for employee costs, maintenance work and general operations as well as a decrease in payables outstanding at end of year, as explained previously.

There was a significant decrease in payments for property, plant and equipment during the 2000-01 financial year as funds were focussed towards maintenance work.

The increase in cash is in line with the previous comments made relating to the cash balance.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		1 972	1 300	152	1 247	1 463
Operating margin	>1.0	1.23	1.12	1.01	1.11	1.13
Financial Management						
Current ratio	>1	2.55	2.51	2.41	2.23	3.38
Cost of debt	7.5%	10.1%	9.9%	10.6%	11.9%	11.9%
Debt collection	30 days	45	36	43	44	36
Creditor turnover	30 days	24	21	18	39	29
Other information						
Staff numbers FTEs		76	78	80	80	92
Average staff costs ($'000s)		42	43	44	44	41

Comment

Council obtained good results from operations and an operating margin consistently over the benchmark of one.

The cost of debt ratio is high, as council is locked in to some borrowing agreements that have interest rates higher than those rates that are currently available in the market.

OVERALL COMMENT

The audit of the Council’s financial statements was completed with satisfactory results.

4.2.4 KINGBOROUGH COUNCIL

INTRODUCTION

The Kingborough area was first proclaimed as a municipality in 1907. The Bruny Island municipality was absorbed into the Kingborough Council in 1993.

The population serviced by the Kingborough Council is of the order of 28 000.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The Kingborough Council financial statements were signed on 24 September 2001 and an unqualified financial report was issued on 15 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Rates, fees and charges	14 590	14 842	15 211	16 029	17 402
Grants	2 379	2 447	2 432	3 132	3 405
Other operating revenue	1 689	1 632	1 864	1 830	1 557
Non-operating revenue	3 177	2 142	14 560	1 633	1 936
Total Revenue	**21 835**	**21 063**	**34 067**	**22 624**	**24 300**
Borrowing costs	443	346	278	224	180
Depreciation	5 560	5 714	5 695	6 132	5 449
Other operating expenses	12 813	13 161	14 084	14 912	15 772
Non-operating expenses	0	87	116	412	1 153
Total Expenses	**18 816**	**19 308**	**20 173**	**21 680**	**22 554**
Result from Ordinary Activities	**3 019**	**1 755**	**13 894**	**944**	**1 746**

Comment

Non-operating revenue in each of the years includes the value of sub-division infrastructure assets taken over by Council and in 1996-97 amounted to $3.118m; 1997-98, $2.016m; 1998-99, $2.914m; 1999-00, $1.135m; and 2000-01, $1.311. In addition, 1998-99 also included $11.460m reflecting the take-up of Council’s interest in Hobart Water which it jointly owns with a number of other southern based councils.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	531	(134)	(835)	94	287
Receivables	249	276	600	882	1 162
Investments	5 992	7 824	7 922	6 754	6 448
Inventories	93	141	141	161	0
Other	243	33	101	74	144
Total Current Assets	**7 108**	**8 140**	**7 929**	**7 965**	**8 041**
Property, plant & equipment	155 965	156 310	157 429	155 952	215 502
Investments	0	0	11 460	11 460	11 460
Other	306	208	120	40	28
Total Non-Current Assets	**156 271**	**156 518**	**169 009**	**167 452**	**226 990**
Payables	337	398	0	1 449	1 136
Borrowings	604	522	405	384	312
Provisions	743	778	846	790	954
Other	608	960	1 356	533	760
Total Current Liabilities	**2 292**	**2 658**	**2 607**	**3 156**	**3 162**
Borrowings	2 859	2 255	1 851	1 467	1 155
Provisions	166	197	179	153	117
Other	187	125	62	0	0
Total Non-Current Liabilities	**3 212**	**2 577**	**2 092**	**1 620**	**1 272**
Net Assets	**157 875**	**159 423**	**172 239**	**170 641**	**230 597**
Capital	136 015	137 187	151 315	152 867	154 464
Reserves	21 429	20 776	19 720	14 971	73 607
Retained surpluses	431	1 460	1 204	2 803	2 526
Total Equity	**157 875**	**159 423**	**172 239**	**170 641**	**230 597**

Comment

Movements in the Capital item generally reflect the value of sub-division infrastructure assets referred to previously plus the investment in Hobart Water (the latter also reflected in 1998-99 Non-current assets).

During 2000-01 Council re-valued land and buildings, and infrastructure assets by $58.2m, which is reflected in the asset revaluation reserve. Significant increases were road pavements $45.7m and land and buildings $13.9m offset by a decrease of $2.0m in water services.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	15 589	16 095	16 389	17 292	18 343
Payments to suppliers and emloyees	(13 020)	(12 582)	(14 082)	(14 370)	(15 649)
Interest received	658	517	496	384	496
Borrowing costs	(472)	(365)	(289)	(234)	(190)
Cash from operations	**2 755**	**3 665**	**2 514**	**3 072**	**3 000**
Payments for P, P & Equipment	(4 946)	(4 903)	(5 625)	(6 474)	(6 647)
Proceeds from sale of P, P & E	521	607	564	418	502
Cash used in investing activities	**(4 425)**	**(4 296)**	**(5 061)**	**(6 056)**	**(6 145)**
Repayment of borrowings	(1 084)	(654)	(497)	(387)	(372)
Cash from financing activities	**(1 084)**	**(654)**	**(497)**	**(387)**	**(372)**
Cash Flows from Government	**2 473**	**2 452**	**2 441**	**3 131**	**3 405**
Net increase in cash	**(281)**	**1 167**	**(603)**	**(240)**	**(112)**
Cash at the beginning of the period	6 804	6 523	7 690	7 087	6 847
Cash at end of the period	**6 523**	**7 690**	**7 087**	**6 847**	**6 735**

Comment

Over the five-year period Kingborough Council have invested almost $26.0m in property, plant and equipment including infrastructure. The source of this funding was cash from operations of $15.0m and government grants of $13.9m. Over the same period Council has reduced debt by $3.0m.

It is significant that Kingborough Council have been able to re-invest the funds generated from funding depreciation ($28.55m over five years), while at the same time maintaining strong cash reserves, $6.7m at year end.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(158)	(300)	(550)	(277)	963
Operating margin	>1.0	0.99	0.98	0.97	0.99	1.04
Financial Management						
Current ratio	>1	3.10	3.06	3.04	2.52	2.54
Cost of debt	7.5%	12.8%	12.5%	12.3%	12.1%	12.3%
Debt collection	30 days	6	7	14	20	24
Creditor turnover	30 days	23	24	-	69	52
Other information						
Staff numbers FTEs		122	131	137	141	142
Average staff costs ($'000s)		44	40	39	40	45

Comment

While the result from operations over the five-year period shows a small loss of $0.3m, a positive result of $1.0m was recorded for 2000-01. Cost of debt is indicative of interest rates prevailing at the time the funds were borrowed.

OVERALL COMMENT

Kingborough Council is in a strong financial position with good financial reserves and minimal debt. By funding depreciation from rate revenues Council has sufficient funds to re-invest in infrastructure assets.

4.2.5 MEANDER VALLEY COUNCIL

INTRODUCTION

Meander Valley Council was created in 1993 when the former municipalities of Deloraine and Westbury were merged. The municipality covers an area of approximately 3 800 square kilometres, extending from Paramatta Creek in the west to Prospect Vale in the east, and from Birralee in the north to Liena in the south. The Council services a population of approximately 17 300 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2001, with amended statements received on 25 October 2001. An unqualified audit report was issued on 31 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	7 417	7 743	7 952	8 286	8 824
Grants	2 052	2 135	2 215	3 525	3 430
Other operating revenue	523	534	473	491	1 412
Non-operating revenue	219	11 409	136	843	634
Total Revenue	**10 211**	**21 821**	**10 776**	**13 145**	**14 300**
Borrowing costs	250	132	91	68	70
Depreciation	3 624	3 668	3 127	3 150	3 221
Other operating expenses	7 020	7 246	7 279	7 607	8 418
Non-operating expenses	0	353	76	0	0
Total Expenses	**10 894**	**11 399**	**10 573**	**10 825**	**11 709**
Result from Ordinary Activities	**(683)**	**10 422**	**203**	**2 320**	**2 591**

Comment

Revenue from rates, fees and charges has steadily increased during the period under review. The increase in grant revenue from 1998-99 to 1999-00 of $1.310m is mainly attributable to the receipt of NHT funding of $1.269m. Non-operating revenue in 1997-98 of $11.409m includes $11.071m relating to the recognition of Council's interest in the Esk Water Authority, including the transfer of assets and liabilities between Council and the Authority.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased over the same period, with no new borrowings being taken up since 1996-97. It is noted that Council repaid the balance of borrowings outstanding during 2000-01.

Council has recorded profits from ordinary activities in the past four years. Profits of over $2m were recorded in both 1999-00 and 2000-01. These results were partly attributable due to increased funding from government received in prior years.

FINANCIAL POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Cash	1 259	2 359	3 817	5 516	528
Receivables	398	528	424	487	650
Investments	0	15	0	0	4 000
Inventories	32	35	34	38	43
Other	319	307	230	349	401
Total Current Assets	**2 008**	**3 244**	**4 505**	**6 390**	**5 622**
Property, plant & equipment	86 107	83 939	104 947	105 358	107 359
Investments	0	10 864	10 864	10 864	11 462
Other	50	0	0	84	56
Total Non-Current Assets	**86 157**	**94 803**	**115 811**	**116 306**	**118 877**
Payables	201	184	254	519	403
Borrowings	335	261	144	135	0
Provisions	469	561	444	516	552
Other	187	172	97	137	96
Total Current Liabilities	**1 192**	**1 178**	**939**	**1 307**	**1 051**
Borrowings	1 323	818	674	539	0
Provisions	97	126	92	56	63
Other	50	0	0	0	0
Total Non-Current Liabilities	**1 470**	**944**	**766**	**595**	**63**
Net Assets	**85 503**	**95 925**	**118 611**	**120 794**	**123 385**
Reserves	1 033	1 033	23 515	23 378	23 378
Retained surpluses	84 470	94 892	95 096	97 416	100 007
Total Equity	**85 503**	**95 925**	**118 611**	**120 794**	**123 385**

Comment

During 2000-01 Council transferred funds into a cash management account. As a result, the balance of cash assets decreased by $4.988m from 1999-00 and investments increased by $4m.

The increase in the balance of property, plant and equipment of $21.008m in 1998-99 is primarily due to a revaluation of road assets on 1 July 1998. Council's interest in Esk Water was recognised in 1997-98 and is represented by the balance of non-current investments at 30 June 1998 of $10.864m. This balance was increased to $11.462m at 30 June 2001 to reflect the increase in Council's share of the net assets of Esk Water.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 391	7 923	8 327	8 355	9 710
Payments to suppliers and employees	(6 934)	(7 100)	(7 436)	(7 288)	(9 247)
Interest received	189	235	230	268	456
Borrowing costs	(252)	(149)	(90)	(50)	(89)
Cash from operations	**394**	**909**	**1 031**	**1 285**	**830**
Proceeds from investments	74	0	15	0	0
Payments for investments	0	(15)	0	0	(4 000)
Payments for P, P & Equipment	(2 304)	(1 706)	(1 882)	(3 357)	(4 806)
Proceeds from sale of P, P & E	304	205	339	391	232
Cash used in investing activities	**(1 926)**	**(1 516)**	**(1 528)**	**(2 966)**	**(8 574)**
Proceeds from borrowings	451	0	0	0	0
Repayment of borrowings	(949)	(428)	(260)	(145)	(674)
Cash from financing activities	**(498)**	**(428)**	**(260)**	**(145)**	**(674)**
Cash Flows from Government	**2 052**	**2 135**	**2 215**	**3 525**	**3 430**
Net increase in cash	**22**	**1 100**	**1 458**	**1 699**	**(4 988)**
Cash at the beginning of the period	1 237	1 259	2 359	3 817	5 516
Cash at end of the period	**1 259**	**2 359**	**3 817**	**5 516**	**528**

Comment

The net cash from operations has remained fairly stable over the past four years. Interest revenue has increased during 2000-01, which is attributable to the transfer of funds to a cash management account combined with an increase in the average balance of funds held during the year.

Payments for property, plant and equipment amounted to $4.806m in 2000-01, of which $1.879m related to work-in-progress. The majority of these payments were for the Hadspen/Carrick waste water treatment plant and the Deloraine water treatment project.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(902)	(634)	143	1 477	1 957
Operating margin	>1.0	0.92	0.94	1.01	1.14	1.17
Financial Management						
Current ratio	>1	1.68	2.75	4.80	4.89	5.35
Cost of debt	7.5%	15.1%	12.2%	11.1%	10.1%	-
Debt collection	30 days	20	25	19	21	27
Creditor turnover	30 days	17	15	20	36	25
Other information						
Staff numbers FTEs		71	66	55	58	58
Average staff costs ($'000s)		37	42	48	41	44

Comment

The financial performance ratios show that Council has recorded operating surpluses in the last three years. The total result from operations for the period under review is $2.041m.

Council's current ratio has gradually increased over the past five years and indicates that the Council is able to meet all short-term liabilities.

A cost of debt has not been calculated for 2000-01 as Council repaid its borrowings during the year.

The debt collection ratio has been consistently below the benchmark of 30 days. The creditor turnover figure has been less than 30 days for all years except for 1999-00. A turnover figure of 36 days was calculated due to a number of large invoices outstanding at 30 June 2000.

The average staff costs are relatively stable for the five years under review, except for 1998-99 when the calculated average cost is $48 000. The calculation is affected by redundancy costs paid during the year of $0.253m, which were treated as an abnormal item in the 1998-99 financial statements.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of $2.041m.

The 2000-01 audit was completed satisfactorily with no major issues outstanding. However, as part of the audit, it was identified that Council's road assets were significantly below the benchmark valuations produced by the Office's consultant engineer. It is noted that the understatement was accepted as Council elected to adopt the deemed cost basis to record its road assets.

4.2.6 WARATAH-WYNYARD COUNCIL

INTRODUCTION

The Waratah-Wynyard area was proclaimed a municipality under the Local Government Act 1993 and combined the former Municipalities of Waratah and Wynyard. The population serviced by Waratah-Wynyard Council is in the order of 14,000.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements of the Waratah-Wynyard council were received on 1 October 2001 and an unqualified audit report was issued on 10 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	8 126	8 013	8 151	8 206	8 467
Grants	2 070	1 932	1 971	2 003	2 458
Other operating revenue	313	345	441	467	620
Non-operating revenue	513	2 340	941	5 344	234
Total Revenue	**11 022**	**12 630**	**11 504**	**16 020**	**11 779**
Borrowing costs	543	466	352	331	324
Depreciation	2 162	2 238	2 279	2 311	3 088
Other operating expenses	7 902	7 971	7 562	8 113	8 515
Non-operating expenses	544	807	706	1 014	433
Total Expenses	**11 151**	**11 482**	**10 899**	**11 769**	**12 360**
Result from Ordinary Activities	**(129)**	**1 148**	**605**	**4 251**	**(581)**

Comment

The items non-operating revenue and non-operating expenses generally reflect the proceeds from disposal and the carrying value respectively of non-current assets disposed of in any given year. However, in 1997-98 the revenue item also included net revenue totalling $1.663m representing the take-up values of additional water, sewerage and drainage assets not previously recognised in Council's accounts, $2.707m, partially offset by a revaluation decrement on Council's bridges, $1.044m.

In 1999-00 the item included the recognition of Council's interest in Cradle Coast Water, $4.564m, which it jointly owns in conjunction with a number of other north western based councils.

In 2000-01 Council reviewed its accounting policies with regard to its road infrastructure assets to better reflect the useful lives of the individual components of its road assets. The impact of the reassessment was to increase the annual depreciation expense $0.599m with a similar impact expected for future years. This change accounts for the negative Result from Ordinary Activities for the year.

Throughout the period under review, and assisted by the recognition of new assets, Council has returned a positive Result from Activities of $5.294m.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	900	782	966	867	851
Receivables	368	433	428	329	558
Investments	1 500	1 500	2 000	2 047	2 500
Inventories	176	169	278	296	254
Other	248	239	91	114	97
Total Current Assets	**3 192**	**3 123**	**3 763**	**3 653**	**4 260**
Property, plant & equipment	63 411	70 735	70 415	71 878	70 675
Investments	0	0	0	4 564	4 564
Other	32	30	263	220	84
Total Non-Current Assets	**63 443**	**70 765**	**70 678**	**76 662**	**75 323**
Payables	396	284	306	492	551
Borrowings	675	706	689	725	736
Provisions	573	611	656	762	874
Other	104	136	158	163	117
Total Current Liabilities	**1 748**	**1 737**	**1 809**	**2 142**	**2 278**
Borrowings	5 136	4 791	4 598	4 272	4 033
Provisions	71	160	98	134	127
Other	0	0	97	81	41
Total Non-Current Liabilities	**5 207**	**4 951**	**4 793**	**4 487**	**4 201**
Net Assets	**59 680**	**67 200**	**67 839**	**73 686**	**73 104**
Reserves	1 770	8 012	7 787	9 382	9 382
Retained surpluses	57 910	59 188	60 052	64 304	63 722
Total Equity	**59 680**	**67 200**	**67 839**	**73 686**	**73 104**

Comment

Council undertook a revaluation of its water sewerage and drainage assets as at 1 July 1997, the impact of which was to increase carrying amounts of both property plant and equipment, and reserves, by $6.372m.

On 1 July 2000 Council elected to deem the carrying amount of each of its non-current asset classes to be measured on a cost basis in accordance with the new Australian Accounting Standard AAS 30 *'Revaluation of Non-Current Assets'*. Under that standard entities had an the option to elect to either measure its assets at fair value (which would have equated to continuing with its existing valuation bases) or alternatively exercise a once only opportunity to elect to either revert to actual historical costs, or deem the existing values to be cost for the purposes of the standard. As a result of that election, the balance of the revaluation reserve existing at 1 July 2000, $8.001m, is not available for future asset write-downs. There was no financial consequence in 2000-01 as a result of this change in accounting policy.

Should it remain on a regime of accounting for its assets on a cost basis, Council's future annual depreciation charge will not be subject to fluctuation resulting from changes to asset values. It will simply reflect the impact of asset acquisitions in any one year.

The investments item in 1999-00 reflects Council's interest in Cradle Coast Water.

Over the period of review, Council has reduced its external borrowings by $1.042m while at the same time increasing its cash investments by $1.000m whilst maintaining its rate charges to modest increases.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 241	8 059	8 448	8 485	9 092
Payments to suppliers and employees	(7 672)	(7 931)	(7 609)	(7 734)	(8 849)
Interest received	227	180	175	232	268
Borrowing costs	(521)	(404)	(400)	(338)	(327)
Cash from operations	**275**	**(96)**	**614**	**645**	**184**
Proceeds from investments	500	0	0	0	0
Payments for investments	0	0	(500)	(46)	(453)
Payments for P, P & Equipment	(2 445)	(2 349)	(2 299)	(2 810)	(2 211)
Proceeds from sale of P, P & E	514	707	608	399	234
Cash used in investing activities	**(1 431)**	**(1 642)**	**(2 191)**	**(2 457)**	**(2 430)**
Proceeds from borrowings	347	361	500	400	500
Repayment of borrowings	(625)	(674)	(710)	(690)	(728)
Cash from financing activities	**(278)**	**(313)**	**(210)**	**(290)**	**(228)**
Cash Flows from Government	**2 106**	**1 933**	**1 971**	**2 003**	**2 458**
Net increase in cash	**672**	**(118)**	**184**	**(99)**	**(16)**
Cash at the beginning of the period	228	900	782	966	867
Cash at end of the period	**900**	**782**	**966**	**867**	**851**

Comment

While Council maintained a positive cash flow from operations, major factors in the 2001 increase in payments to suppliers and employees was the GST paid to suppliers, $0.489m (offset by GST recoveries $0.486m) and materials and contract payments, $0.473m.

Council has maintained its investment in property, plant and equipment throughout the period reinvesting a total of $12.114m in non-current assets compared with the depreciation expense for the same period totalling $12.078m.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(98)	(385)	370	(79)	(382)
Operating margin	>1.0	0.99	0.96	1.04	0.99	0.97
Financial Management						
Current ratio	>1	1.83	1.80	2.08	1.71	1.87
Cost of debt	7.5%	9.3%	8.5%	6.7%	6.6%	6.8%
Debt collection	30 days	17	20	19	15	24
Creditor turnover	30 days	39	27	30	46	48
Other information						
Staff numbers FTEs		74	77	74	74	71
Average staff costs ($'000s)		41	39	38	42	44

Comment

Although Council has maintained a positive cash flow from activities, its result from operations, i.e. operating revenue less operating expenditure, has returned an average deficit of $0.115m per annum over the five-year period. This is reflected in the operating margin ratio analysis. A contributing factor to this variation is employee benefit provisions, which have increased by $0.357m to $1.001m over the same period and will need to be funded from future periods or from cash investment funds built up in recent years.

The average interest rate on borrowings reflects current market rates.

Creditors turnover ratio indicates that that at 30 June 2001, accounts payable balances represented approximately 48 days of total materials and contract purchases for the year.

OVERALL COMMENT

Council has increased its total equity over the 5 year period by $13.424m to $73.104m due principally to the inclusion in the accounts of its interest in Cradle Coast Water, $4.564m, and its 1997 revaluation of water, sewerage and drainage assets, $6.372.

Over the same period it has increased its cash investments by $1.000m, repaid debt totalling $1.042m while registering an overall rate increase of 5.8%.

4.2.7 WEST TAMAR COUNCIL

INTRODUCTION

The West Tamar Council originates from the Beaconsfield Municipality, which was established in 1907. The municipality includes the townships of Beaconsfield, Exeter, Legana, Beauty Point and Bridgenorth. The Council services a population of approximately 19 000 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2001, with amended statements received on 17 October 2001. An unqualified audit report was issued on 31 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	6 431	9 009	9 266	10 050	10 630
Grants	2 430	2 281	1 870	1 631	3 011
Other operating revenue	840	450	796	710	743
Non-operating revenue	1 039	41 748	2 529	366	1 459
Total Revenue	**10 740**	**53 488**	**14 461**	**12 757**	**15 843**
Borrowing costs	256	270	240	232	224
Depreciation	2 480	3 037	3 119	3 188	3 255
Other operating expenses	7 391	9 138	8 121	8 825	9 047
Non-operating expenses	86	169	176	436	539
Total Expenses	**10 213**	**12 614**	**11 656**	**12 681**	**13 065**
Result from Ordinary Activities	**527**	**40 874**	**2 805**	**76**	**2 778**

Comment

From 1996-97 to 1997-98, revenue from rates, fees and charges increased by $2.578m. In 1996-97, rates totalling $7.770m were raised. Of this amount, $2m related to water rates, which were raised on behalf of the former Rivers and Waters Supply Commission and therefore excluded from Council's financial statements.

Subsequent to the creation of the Esk Water Authority, Council assumed responsibility for the West Tamar Water Supply Scheme. As a result, water rates were included as Council revenue from 1997-98 onwards.

The increase in grant revenue from 1999-00 to 2000-01 of $1.380m is mainly attributable to the receipt of funding of $1.083m under the Roads to Recovery Programme

Non-operating revenue in 1997-98 of $41.748m includes $12.889m relating to the recognition of Council's interest in the Esk Water Authority and $28.786m relating to the transfer of assets from the former Rivers and Waters Supply Commission.

Council has recorded profits from ordinary activities in all five years under review. Total profits recorded by Council amount to $47.060m.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	2 518	1 261	2 096	4 202	5 829
Receivables	927	1 190	1 340	1 339	1 175
Inventories	37	120	130	108	110
Other	42	14	1 471	67	315
Total Current Assets	**3 524**	**2 585**	**5 037**	**5 716**	**7 429**
Property, plant & equipment	62 359	90 874	91 371	91 055	91 241
Investments	0	12 889	12 889	12 889	13 822
Other	0	0	66	61	53
Total Non-Current Assets	**62 359**	**103 763**	**104 326**	**104 005**	**105 116**
Payables	401	380	399	367	689
Borrowings	437	423	583	741	759
Provisions	376	459	403	543	572
Other	594	168	138	220	79
Total Current Liabilities	**1 808**	**1 430**	**1 523**	**1 871**	**2 099**
Borrowings	3 443	3 417	3 459	3 406	3 235
Provisions	124	119	194	181	169
Total Non-Current Liabilities	**3 567**	**3 536**	**3 653**	**3 587**	**3 404**
Net Assets	**60 508**	**101 382**	**104 187**	**104 263**	**107 042**
Reserves	58 909	58 909	58 909	58 909	58 909
Retained surpluses	1 599	42 473	45 278	45 354	48 133
Total Equity	**60 508**	**101 382**	**104 187**	**104 263**	**107 042**

Comment

The increase in the balance of property, plant and equipment of $28.515m in 1997-98 is primarily due to the transfer of assets from the former Rivers and Waters Supply Commission ($28.786m). Council's interest in Esk Water was also recognised in 1997-98 and is represented by the balance of non-current investments at 30 June 1998 of $12.889m. It is noted that this balance was increased by $0.933m on 30 June 2001 to reflect the increase in Council's share of the net assets of Esk Water.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 645	9 028	9 641	11 872	11 768
Payments to suppliers and employees	(7 097)	(9 455)	(8 121)	(8 616)	(9 653)
Interest received	260	169	169	289	346
Borrowing costs	(256)	(270)	(240)	(232)	(224)
Cash from operations	**(448)**	**(528)**	**1 449**	**3 313**	**2 237**
Proceeds from investments	0	1 369	0	134	1 873
Payments for investments	(109)	0	(1 007)	(2 105)	(1 627)
Payments for P, P & Equipment	(2 368)	(3 073)	(2 397)	(2 920)	(3 602)
Proceeds from sale of P, P & E	279	20	127	409	238
Cash used in investing activities	**(2 198)**	**(1 684)**	**(3 277)**	**(4 482)**	**(3 118)**
Proceeds from borrowings	490	400	300	300	500
Repayment of borrowings	(297)	(357)	(513)	(628)	(757)
Cash from financing activities	**193**	**43**	**(213)**	**(328)**	**(257)**
Cash Flows from Government	**2 430**	**2 281**	**1 870**	**1 631**	**3 011**
Net increase in cash	**(23)**	**112**	**(171)**	**134**	**1 873**
Cash at the beginning of the period	83	60	172	1	135
Cash at end of the period	**60**	**172**	**1**	**135**	**2 008**

Comment

The increase in receipts from customers and payments to suppliers in 1997-98 is primarily due to the transfer of water reticulation assets to Council and the recognition of water rates as Council revenue.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(426)	(705)	452	146	1 858
Operating margin	>1.0	0.96	0.94	1.04	1.01	1.15
Financial Management						
Current ratio	>1	1.95	1.81	3.31	3.06	3.54
Cost of debt	7.5%	6.6%	7.0%	5.9%	5.6%	5.6%
Debt collection	30 days	53	48	53	49	40
Creditor turnover	30 days	34	24	29	24	45
Other information						
Staff numbers FTEs		75	74	75	76	79
Average staff costs ($'000s)		41	44	41	44	43

Comment

The financial performance ratios show that Council has recorded operating surpluses in the last three years. The total result from operations for the period under review is $1.325m.

Council's current ratio has been consistently above the benchmark in the past five years and indicates that the Council is able to meet all short-term liabilities.

The debt collection ratio has been consistently above the benchmark of 30 days. The creditor turnover figure was 45 days for 2000-01 due to a number of large invoices outstanding at 30 June 2001 relating to contract payments. One of the main creditors pertained to the contract for the refurbishment of the Riverside offices.

The average staff costs and cost of debt are relatively stable for the five years under review.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of $1.325m.

The 2000-01 audit was completed satisfactorily with no major issues outstanding. However, as part of the audit, it was identified that Council's road assets were below the benchmark valuations produced by the Office's consultant engineer. It is noted that the understatement was accepted as the difference was within the boundaries set by the Office and Council adopted the cost basis for recording its road assets.

4.3 MEDIUM RURAL COUNCILS

INTRODUCTION

Local government authorities are governed principally by the *Local Government Act 1993* as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and miscellaneous matters.

This section of the report deals with the relative performance of the following councils:

- Brighton Council
- Derwent Valley Council
- Dorset Council
- George Town Council
- Latrobe Council
- Northern Midlands Council
- Sorell Council, and
- West Coast Council.

These councils have been classified as medium based upon their revenue from rates, fees and charges being greater than $4.25m and less than $7.25m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Brighton $'000s	Derwent Valley $'000s	Dorset $'000s	George Town $'000s	Latrobe $'000s	Northern Midlands $'000s	Sorell $'000s	West Coast $'000s
Rates, fees and charges	7 074	5 851	4 400	5 605	5 672	6 183	7 046	4 658
Grants	1 900	2 027	2 663	1 434	1 886	5 344	1 948	3 136
Other operating revenue	203	473	269	167	406	1 061	313	408
Non-operating revenue	1 920	215	253	0	72	0	324	133
Total Revenue	**11 097**	**8 566**	**7 585**	**7 206**	**8 036**	**12 588**	**9 631**	**8 335**
Borrowing Costs	491	263	14	546	87	0	231	152
Depreciation	2 006	1 646	2 684	1 226	1 284	3 731	2 032	1 476
Other operating expenses	7 643	6 011	4 416	4 520	5 036	6 685	7 054	6 639
Non-operating expenses	113	221	297	16	937	472	291	45
Total Expenses	**10 253**	**8 141**	**7 411**	**6 308**	**7 344**	**10 888**	**9 608**	**8 312**
Result from Ordinary Activities	**844**	**425**	**174**	**898**	**692**	**1 700**	**23**	**23**

Comment

Revenue from rates, fees and charges ranged from $4 400m (Dorset Council) to $7.074m (Brighton Council). The higher revenue recorded by Brighton Council is due to its larger population base, which approximates 13 000 people compared with Dorset's population of 7 500. On average, revenue from rates, fees and charges represents 66% of total operating revenue for the eight councils for 2000-01.

Government grants and subsidies represent 29% of total operating revenue recorded by the eight councils. Three of the councils derive over 35% of their revenue from government sources, with Northern Midlands Council recording the highest proportion with 42%.

On average, borrowing costs represented 2.71% of total operating expenditure for 2000-01. Northern Midlands had the lowest proportion (0.00%), which reflects the fact that the Council repaid its outstanding borrowings during 1999-00. George Town Council recorded the highest proportion with 8.68%. However, under an agreement relating to its wastewater treatment plant, Council is reimbursed for principal and interest repayments made in relation to its largest debenture loan.

On average, depreciation accounted for 24% of total operating expenditure. While the percentages for large councils were fairly consistent, the percentages for medium councils ranged from 17.85% (West Coast Council) to 37.73% (Dorset Council).

All eight councils recorded surpluses from operations, with the largest surplus being recorded by Northern Midlands Council ($1.700m). This surplus is attributable to the relatively higher revenue from government sources, as noted above.

FINANCIAL POSITION

	Brighton	Derwent Valley	Dorset	George Town	Latrobe	Northern Midlands	Sorell	West Coast
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	322	(83)	327	801	1 073	327	336	1 554
Receivables	1 082	529	545	618	235	366	973	1 044
Investments	0	850	3 500	0	517	10 513	3 230	564
Inventories	190	84	124	0	0	28	6	0
Other	162	68	86	709	262	554	63	55
Total Current Assets	**1 756**	**1 448**	**4 582**	**2 128**	**2 087**	**11 788**	**4 608**	**3 217**
Property, Plant And Equipment	68 963	37 716	70 215	32 738	44 585	98 251	45 159	44 929
Investments	6 873	5 412	0	8 485	4 532	0	2 978	0
Other	115	100	106	1 336	0	446	328	0
Total Non-Current Assets	**75 951**	**43 228**	**70 321**	**42 559**	**49 117**	**98 697**	**48 465**	**44 929**
Payables	42	244	318	314	541	307	1 267	493
Borrowings	414	385	53	1 009	156	0	512	480
Provisions	402	701	404	262	191	481	444	400
Other	633	392	224	318	243	119	174	282
Total Current Liabilities	**1 491**	**1 722**	**999**	**1 903**	**1 131**	**907**	**2 397**	**1 655**
Borrowings	6 175	3 234	247	5 211	1 316	0	2 970	2 204
Provisions	67	39	80	29	33	83	97	81
Other	0	31	38	77	535	0	36	0
Total Non-Current Liabilities	**6 242**	**3 304**	**365**	**5 317**	**1 884**	**83**	**3 103**	**2 285**
Net Assets	**69 974**	**39 650**	**73 539**	**37 467**	**48 189**	**109 495**	**47 573**	**44 206**
Reserves	16 353	19 480	618	1 279	8 880	721	8 957	3 701
Retained Surpluses	53 621	20 170	72 921	36 188	39 309	108 774	38 616	40 505
Total Equity	**69 974**	**39 650**	**73 539**	**37 467**	**48 189**	**109 495**	**47 573**	**44 206**

Comment

Seven of the eight councils had positive working capital, with Derwent Valley Council recording a current ratio of 0.84. The proportion of debt to equity was less than 10% for all councils, except for George Town Council whose debt represented 17% of total equity. As noted previously, Council has an offsetting receivable in relation to its largest loan.

The balance of net assets ranged from $37.467m (George Town Council) to $109.495m (Northern Midlands Council). The larger asset balance recorded by Northern Midlands reflects the fact that Council is responsible for longest length of roads in the State.

CASH POSITION

	Brighton	Derwent Valley	Dorset	George Town	Latrobe	Northern Midlands	Sorell	West Coast
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 223	6 268	4 924	6 307	6 195	7 041	8 022	5 068
Payments to suppliers and emloyees	(7 582)	(6 043)	(4 724)	(4 639)	(5 359)	(6 952)	(6 469)	(6 621)
Interest received	68	124	216	60	145	722	298	76
Borrowing costs	(604)	(268)	(16)	(570)	(87)	0	(210)	(140)
Cash from operations	**(895)**	**81**	**400**	**1 158**	**894**	**811**	**1 641**	**(1 617)**
Proceeds from investments	114	0	0	0	88	0	0	0
Payments for investments	0	(250)	(600)	0	(303)	(4 005)	0	(340)
Payments for P, P & Equipment	(836)	(1 802)	(2 798)	(1 320)	(2 720)	(3 405)	(2 698)	(1 469)
Proceeds from sale of P, P & E	138	213	233	40	72	290	324	49
Cash used in investing activities	**(584)**	**(1 839)**	**(3 165)**	**(1 280)**	**(2 863)**	**(7 120)**	**(2 374)**	**(1 760)**
Proceeds from borrowings	0	0	300	0	200	0	511	1 058
Repayment of borrowings	(536)	(360)	(186)	(936)	(139)	0	(594)	(351)
Cash from financing activities	**(536)**	**(360)**	**114**	**(936)**	**61**	**0**	**(83)**	**707**
Cash flows from Government	**1 900**	**2 027**	**2 663**	**1 445**	**1 886**	**5 360**	**1 948**	**3 260**
Net increase in cash	**(115)**	**(91)**	**12**	**387**	**(22)**	**(949)**	**1 132**	**590**
Cash at the beginning of the period	437	8	315	414	1 095	1 276	2 434	964
Cash at end of the period	**322**	**(83)**	**327**	**801**	**1 073**	**327**	**3 566**	**1 554**

Comment

Four of the eight councils had net decreases in cash balances. Three of these councils transferred surplus funds to investment accounts, which contributed to the reduction in the balance of cash held.

FINANCIAL ANALYSIS

	Bench Mark	Brighton	Derwent Valley	Dorset	George Town	Latrobe	Northern Midlands	Sorell	West Coast
Financial Performance									
Result from operations ($'000s)		(963)	218	431	914	1 557	2 172	(10)	(65)
Operating margin	>1.0	0.91	1.03	1.05	1.15	1.24	1.21	1.00	0.99
Financial Management									
Current ratio	>1	1.18	4.59	0.84	1.12	1.85	13.00	1.92	1.94
Cost of debt	7.5%	7.5%	4.7%	7.3%	8.8%	5.9%	-	6.6%	5.7%
Debt collection	30 days	56	45	33	39	15	22	50	82
Creditor turnover	30 days	3	46	15	39	48	26	121	41
Other information									
Staff numbers		40	49	54	35	19	65	61	56
Average staff costs ($'000s)		50	38	49	45	49	38	41	39

Comment

On average, the councils had a positive operating margin and seven of the eight councils had a positive working capital at 30 June 2001.

The average cost of debt for the medium councils was 6.64%. In calculating this average, Northern Midlands Council was excluded, as it had no borrowings at 30 June 2001.

The average debt collection period was 43 days, while the average creditor turnover was 42 days. The creditor turnover is affected by the high turnover recorded by Sorell Council (121 days), which is attributable to the late receipt of creditor invoices for work done on a waste management project.

The average staff cost for medium councils was $44 000, which is consistent with the average for large councils.

OVERALL COMMENT

Overall, the eight councils recorded a surplus from both ordinary and operating activities. Seven of the eight councils had positive working capital and relatively low debt to equity ratios at 30 June 2001.

4.3.1 BRIGHTON COUNCIL

INTRODUCTION

Brighton Council was initially proclaimed a municipality in 1863. Its boundaries were subsequently altered in 1993. The population serviced by the Brighton Council is approximately 13 000.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 18 October 2001, with amended statements received on 6 November 2001. An unqualified audit report was issued on 8 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Rates, fees and charges	6 074	6 249	6 527	6 802	7 074
Grants	2 373	1 997	1 874	2 495	1 900
Other operating revenue	297	144	282	275	203
Non-operating revenue	768	494	7 929	462	1 920
Total Revenue	**9 512**	**8 884**	**16 612**	**10 034**	**11 097**
Borrowing costs	525	522	493	478	491
Depreciation	2 220	2 212	2 225	2 301	2 006
Other operating expenses	7 151	7 147	6 834	7 515	7 643
Non-operating expenses	79	30	145	1 625	113
Total Expenses	**9 975**	**9 911**	**9 697**	**11 919**	**10 253**
Result from Ordinary Activities	**(463)**	**(1 027)**	**6 915**	**(1 885)**	**844**

Comment

Non-operating revenue generally reflects the proceeds disposal non-current assets disposed of in any given year together with contribution of infrastructure assets by developers. However, in 1997-98 the item also included $6.873m reflecting the take-up of Council's partial interest in Hobart Water which it jointly owns with a number of other southern based councils.

Non-operating expenses generally reflect the undepreciated balance of assets disposed of. In 1999-00, the item also included a revaluation decrement on infrastructure assets, $1.541m, which included a road devaluation of $1.451m.

Roads were again revalued during 2000-01, principally to identify and value the individual road components and better assess the various components' useful lives. The impact of the latter revaluation was to increase the carrying value of roads by $11.599m, $1.451m of which was recognised as non-operating revenue in the Statement of Financial Performance to reverse the prior year decrement charged as an expense and referred to above. The remainder of the revaluation increment is reflected in the roads asset revaluation reserve.

Over the period, Council recorded a positive increment to its equity base totalling $4.384m. However, ignoring the impact of non-operating income and expenditure, Council has recorded an operating deficit for the 5 years of $5.197m, or an annual average operating deficit of $1.039m. Depreciation on road assets is a probable major contributing factor as, up to the most recent revaluation exercise annual roads depreciation had averaged $1.148m annually in the preceding four financial years. Roads depreciation in 2000-01 reduced to $0.877m.

FINANCIAL POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Cash	519	391	679	437	322
Receivables	722	792	1 068	1 100	1 082
Inventories	0	0	0	0	190
Other	355	378	218	349	162
Total Current Assets	**1 596**	**1 561**	**1 965**	**1 886**	**1 756**
Property, plant & equipment	55 939	54 765	54 364	58 303	68 963
Investments	0	0	6 873	6 873	6 873
Other	198	91	136	126	115
Total Non-Current Assets	**56 137**	**54 856**	**61 373**	**65 302**	**75 951**
Payables	224	352	157	96	42
Borrowings	282	289	327	386	414
Provisions	396	376	389	340	402
Other	674	767	1 018	753	633
Total Current Liabilities	**1 576**	**1 784**	**1 891**	**1 575**	**1 491**
Borrowings	6 776	6 356	6 278	6 588	6 175
Provisions	48	36	23	44	67
Other	74	10	0	0	0
Total Non-Current Liabilities	**6 898**	**6 402**	**6 301**	**6 632**	**6 242**
Net Assets	**49 259**	**48 231**	**55 146**	**58 981**	**69 974**
Reserves	585	585	485	6 204	16 353
Retained surpluses	48 674	47 646	54 661	52 777	53 621
Total Equity	**49 259**	**48 231**	**55 146**	**58 981**	**69 974**

Comment

During 1999-00 Council undertook a general revaluation of its infrastructure assets. Revaluation increments totalling $5.719m were credited to the asset revaluation reserve while revaluation decrements totalling $1.541m were charged to the Statement of Financial Performance. The resulting changes to asset values are reflected in the increase in property plant and equipment for that year.

Total receivables at year-end have increased during the five-year period by 50%.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 183	5 992	6 474	6 589	7 223
Payments to suppliers and employees	(6 883)	(6 616)	(6 563)	(7 792)	(7 582)
Interest received	94	88	70	79	68
Borrowing costs	(616)	(576)	(579)	(581)	(604)
Cash from operations	**(1 222)**	**(1 112)**	**(598)**	**(1 705)**	**(895)**
Proceeds from investments	0	0	0	107	114
Payments for P, P & Equipment	(1 219)	(638)	(1 185)	(1 787)	(836)
Proceeds from sale of P, P & E	114	39	238	130	138
Cash used in investing activities	**(1 105)**	**(599)**	**(947)**	**(1 550)**	**(584)**
Proceeds from borrowings	596	0	250	850	0
Repayment of borrowings	(206)	(413)	(290)	(332)	(536)
Cash from financing activities	**390**	**(413)**	**(40)**	**518**	**(536)**
Cash Flows from Government	**2 373**	**1 996**	**1 874**	**2 495**	**1 900**
Net increase in cash	**436**	**(128)**	**289**	**(242)**	**(115)**
Cash at the beginning of the period	82	518	390	679	437
Cash at end of the period	**518**	**390**	**679**	**437**	**322**

Comment

Council has maintained cash balances at an average of $469 000 over the 5 year period, however during the same period it has not reinvested funds generated by depreciation of Council infrastructure, $4.785m invested against $10.964 depreciation, and has not achieved any substantial reduction in borrowings, $81 000 reduction over the five-year period.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(1 152)	(1 491)	(869)	(722)	(963)
Operating margin	>1.0	0.88	0.85	0.91	0.93	0.91
Financial Management						
Current ratio	>1	1.01	0.88	1.04	1.20	1.18
Cost of debt	7.5%	7.4%	7.9%	7.5%	6.9%	7.5%
Debt collection	30 days	43	46	60	59	56
Creditor turnover	30 days	28	40	17	7	3
Other information						
Staff numbers FTEs		41	40	41	42	40
Average staff costs ($'000s)		64	59	51	47	50

Comment

Over the last 5 years Council's operating result has shown an accumulated deficit of $5.197m, which indicates that it has consistently failed to cover operating costs.

Cost of debt reflects market rates.

During that period, total outstanding receivables have increased significantly and now stand at 56 days. An analysis of rate receivables indicates that they have increased from within acceptable limits of 27 days in 1996-97 to 41 days in 2000-01.

OVERALL COMMENT

Over the last five years Council has recorded total operating deficits of $5.197m, against total budgeted deficits of $4.790m. In short Brighton Council is not setting rates at a sufficient level to cover all expenses including depreciation, and is therefore not generating sufficient funds to re-invest in infrastructure asset renewal programs, or to repay present borrowings.

4.3.2 DERWENT VALLEY COUNCIL

INTRODUCTION

The New Norfolk municipality was proclaimed in 1863. Under the *Local Government Act 1993* the former New Norfolk Council was proclaimed as the Derwent Valley Council. The population serviced by Derwent Valley Council is in the order of 9 820.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements of the Derwent Valley Council, signed by the General Manager, were received on 27 September 2001 and an unqualified audit report was issued on 13 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	5 406	5 628	5 751	5 749	5 851
Grants	1 467	1 363	1 344	1 416	2 027
Other operating revenue	102	153	241	201	473
Non-operating revenue	375	4 854	177	326	215
Total Revenue	**7 350**	**11 998**	**7 513**	**7 692**	**8 566**
Borrowing costs	350	350	287	286	263
Depreciation	2 014	1 975	1 969	2 069	1 646
Other operating expenses	5 086	5 198	5 424	5 800	6 011
Non-operating expenses	251	302	753	271	221
Total Expenses	**7 701**	**7 825**	**8 433**	**8 426**	**8 141**
Result from Ordinary Activities	**(351)**	**4 173**	**(920)**	**(734)**	**425**

Comment

Revenue from grants had been quite consistent from 1996-97 to 1999-00, however in 2000-01 additional grants were received for roads to recovery program of $0.122m, long day child-care grants of \$0.360m and a grant of \$0.057m for the National Heritage Trust.

Non-operating revenue generally reflects the proceeds from the disposal of non-current assets disposed of in any given year, together with contribution of infrastructure assets by developers. However, in 1997-98 the large increase is due to Council recording its share of the assets in the Hobart Regional Water Authority, which amounted to \$4.523m.

During the 2000-01 financial year, there was a significant decrease of \$0.423m in depreciation expense, which relates mainly to Council's road assets. In line with the revaluation of the road network, the useful lives of some of the road components were also reassessed, and increased in line with the external consultant's report commissioned by this office.

Non-operating expenses generally reflect the written down value of assets disposed of during each year. In 1998-99 an additional expense of \$0.577m was recorded for the downward revaluation of infrastructure assets.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	97	196	579	8	(83)
Receivables	581	572	500	532	529
Investments	100	298	400	600	850
Inventories	119	108	104	98	84
Other	61	54	52	139	68
Total Current Assets	**958**	**1 228**	**1 635**	**1 377**	**1 448**
Property, plant & equipment	24 675	23 914	22 898	22 069	37 716
Investments	0	4 523	4 688	5 122	5 412
Other	44	170	145	122	100
Total Non-Current Assets	**24 719**	**28 607**	**27 731**	**27 313**	**43 228**
Payables	213	279	291	220	244
Borrowings	717	801	338	360	385
Provisions	504	557	675	648	701
Other	156	297	290	466	392
Total Current Liabilities	**1 590**	**1 934**	**1 594**	**1 694**	**1 722**
Borrowings	4 185	3 713	3 979	3 619	3 234
Provisions	60	50	62	32	39
Other	0	123	92	61	31
Total Non-Current Liabilities	**4 245**	**3 886**	**4 133**	**3 712**	**3 304**
Net Assets	**19 842**	**24 015**	**23 639**	**23 284**	**39 650**
Reserves	1 847	1 521	2 425	3 249	19 480
Retained surpluses	17 995	22 494	21 214	20 035	20 170
Total Equity	**19 842**	**24 015**	**23 639**	**23 284**	**39 650**

Comment

The balance of cash in 1999-00 and 2000-01 is reflected by a change in council's policy for cash management, whereby increased funds were paid into investments. The overdraft in 2000-01 is a timing issue related to the transfer of investment funds.

Other current assets were higher in the 1999-00 year due to increased prepayments, which amounted to $0.110m. These prepayments related to insurance premiums, whereas in all other financial years, the timing of the insurance payments occurred after the end of the financial year.

The significant increase noted in 2000-01 for property, plant and equipment is a result of the revaluation of road infrastructure assets, which amounted to $15.933m.

As noted previously, the recognition of Council's share of the assets in Hobart Water in 1997-98 meant that a non-current investment balance was recognised from that year forward.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 437	5 695	5 925	5 750	6 268
Payments to suppliers and employees	(5 318)	(4 918)	(5 258)	(5 834)	(6 043)
Interest received	72	107	104	104	124
Borrowing costs	(349)	(363)	(314)	(260)	(268)
Cash from operations	**(158)**	**521**	**457**	**(240)**	**81**
Payments for investments	0	(198)	(102)	(200)	(250)
Payments for P, P & Equipment	(1 612)	(1 516)	(1 299)	(1 503)	(1 802)
Proceeds from sale of P, P & E	339	317	177	295	213
Cash used in investing activities	**(1 273)**	**(1 397)**	**(1 224)**	**(1 408)**	**(1 839)**
Proceeds from borrowings	775	330	538	0	0
Repayment of borrowings	(582)	(718)	(736)	(338)	(360)
Cash from financing activities	**193**	**(388)**	**(198)**	**(338)**	**(360)**
Cash Flows from Government	**1 467**	**1 363**	**1 347**	**1 416**	**2 027**
Net increase in cash	**229**	**99**	**382**	**(570)**	**(91)**
Cash at the beginning of the period	(132)	97	196	578	8
Cash at end of the period	**97**	**196**	**578**	**8**	**(83)**

Comment

The trend in receipts from customers is related to the rates and user charges raised, and is in conformity with the increase in Council's revenue.

The fluctuations in payments to suppliers and employees are concerned with the wage increases for full time employees, demand for private works and increased maintenance works.

From 1999-00 onwards borrowings were not required for capital works, as they were instead funded from internal funds. The decreasing need for borrowings is also evidenced in the Statement of Financial Position as the level of borrowings has steadily declined over the five years period.

The largest decrease in net cash, recorded in the 1999-00 year, was due to a significant increase in the payments to suppliers and employees, the reason for which are summarised above, and some staff redundancies in 1999-00 year.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(475)	(379)	(344)	(789)	431
Operating margin	>1.0	0.94	0.95	0.96	0.90	1.05
Financial Management						
Current ratio	>1	0.60	0.63	1.03	0.81	0.84
Cost of debt	7.5%	7.1%	7.8%	6.6%	7.2%	7.3%
Debt collection	30 days	39	37	32	34	33
Creditor turnover	30 days	15	20	20	14	15
Other information						
Staff numbers FTEs		55	53	56	53	54
Average staff costs ($'000s)		43	42	44	52	49

Comment

The reversal of the trend for losses in 2000-01 can be attributed to the increase in grants amounting to $0.611m. Without the increased grant funding, a small loss would also have been incurred in the 2000-01 year. Overall, the net loss from operations over the five years period amounts to $1.556m, at an average of $0.311m per annum.

There was a one-off rise in average staff costs in 1999-00, which is due to some significant staff redundancies noted during the year.

OVERALL COMMENT

The audit of the accounts for the 2000-01 year was completed with no major issues outstanding.

4.3.3 DORSET COUNCIL

INTRODUCTION

Dorset Council was created in 1993 when the former municipalities of Ringarooma, Scottsdale and part of the municipality of Launceston City were amalgamated. The Dorset area covers approximately 3 196 square kilometres, including the townships of Scottsdale, Branxholm, Bridport and Derby. The Council services a population of approximately 7 450 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements were received on 28 October 2001 and a qualified audit report was issued on 5 November 2001. The reason for the qualification is in relation to UIG 30 "Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Methods" which requires the major components of complex assets to be separately identified and accounted for as separate assets, where this is necessary to reliably determine the depreciation expense of the reporting period.

Council current policy is to depreciate its gravel roads as a single asset over a useful life of 100 years. The reasonableness of the depreciation policy adopted by Council was compared to an independent review of accounting and depreciation practices undertaken by an engineering consultant engaged by this Office. It was determined that Council should be separately identifying the unsealed roads components and depreciating each component based upon its individual useful life. The current policy adopted by the Council does not comply with the requirements of UIG 30 and therefore is not in accordance with Accounting Standard AAS 4 "Depreciation". As a result of the non-compliance there has been a significant understatement of the depreciation expense relating to unsealed roads.

The financial impact of the understatement cannot be reliably determined, as Council's road asset information does not provide sufficient information on the individual components of the unsealed roads.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	3 609	3 814	3 835	4 073	4 400
Grants	1 844	1 915	2 014	2 209	2 663
Other operating revenue	224	205	221	248	269
Non-operating revenue	162	102	351	408	253
Total Revenue	**5 839**	**6 036**	**6 421**	**6 938**	**7 585**
Borrowing costs	60	48	36	17	14
Depreciation	897	2 067	2 107	2 590	2 684
Other operating expenses	4 138	3 875	4 163	4 271	4 416
Non-operating expenses	143	123	428	506	297
Total Expenses	**5 238**	**6 113**	**6 734**	**7 384**	**7 411**
Result from Ordinary Activities	**601**	**(77)**	**(313)**	**(446)**	**174**

Comment

Revenue from rates, fees and charges has increased from $3.609m in 1996-97 to $4.400m in 2000-01. This represents a total increase of $0.791m or an annual increase of approximately 5%.

The increase in grants funding for 2000-01 ($0.454m) includes new funding for Roads to Recovery ($0.127m), Sport and Recreation Grant ($0.100m) and increased National Heritage Trust funding (total $0.341m, increase of $0.226m).

Depreciation of $1.198m for road assets comprises the majority of the increase in depreciation expense for 1997-98. Dorset Council commenced depreciating road assets during this year.

Non-operating revenue and expenditure mainly relates to gains and losses on the disposal of property, plant and equipment. Non-operating expenses during 1999-00 include a revaluation decrement of $0.213m on Land and Buildings.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	61	298	11	315	327
Receivables	296	361	378	553	545
Investments	3 450	3 700	3 600	2 900	3 500
Inventories	172	107	119	161	124
Other	66	59	55	46	86
Total Current Assets	**4 045**	**4 525**	**4 163**	**3 975**	**4 582**
Property, plant & equipment	70 879	70 825	70 936	70 360	70 215
Other	67	204	175	141	106
Total Non-Current Assets	**70 946**	**71 029**	**71 111**	**70 501**	**70 321**
Payables	184	135	158	228	318
Borrowings	139	151	344	186	53
Provisions	269	339	406	384	404
Other	234	254	218	192	224
Total Current Liabilities	**826**	**879**	**1 126**	**990**	**999**
Borrowings	502	351	187	1	247
Provisions	81	51	38	46	80
Other	0	149	112	74	38
Total Non-Current Liabilities	**583**	**551**	**337**	**121**	**365**
Net Assets	**73 582**	**74 124**	**73 811**	**73 365**	**73 539**
Reserves	0	618	618	618	618
Retained surpluses	73 582	73 506	73 193	72 747	72 921
Total Equity	**73 582**	**74 124**	**73 811**	**73 365**	**73 539**

Comment

Generally the Council's cash position has been maintained at a level around $0.300m with the exception of the 1998-99 year where a bank overdraft of $0.180m is included in current borrowings. The overdraft was the result of timing differences relating to outstanding cheques.

The increases in payables for the 1999-00 year ($0.070m) and the 2000-01 year ($0.090m) are increases in amounts owing for materials and contracts expenses.

The creation of an asset revaluation reserve during 1997-98 represents a revaluation of plant and equipment following a valuation undertaken by Council staff as at 1 July 1997.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 595	3 761	3 824	4 004	4 924
Payments to suppliers and employees	(3 991)	(3 840)	(4 122)	(4 242)	(4 724)
Interest received	208	209	194	190	216
Borrowing costs	(66)	(41)	(36)	(17)	(16)
Cash from operations	**(254)**	**89**	**(140)**	**(65)**	**400**
Proceeds from investments	0	0	100	700	0
Payments for investments	(750)	(250)	0	0	(600)
Payments for P, P & Equipment	(1 108)	(1 480)	(2 608)	(2 483)	(2 798)
Proceeds from sale of P, P & E	162	102	319	286	233
Cash used in investing activities	**(1 696)**	**(1 628)**	**(2 189)**	**(1 497)**	**(3 165)**
Proceeds from borrowings	0	0	0	0	300
Repayment of borrowings	(128)	(139)	(151)	(164)	(186)
Cash from financing activities	**(128)**	**(139)**	**(151)**	**(164)**	**114**
Cash Flows from Government	**1 844**	**1 915**	**2 014**	**2 209**	**2 663**
Net increase in cash	**(234)**	**237**	**(466)**	**483**	**12**
Cash at the beginning of the period	295	61	298	(168)	315
Cash at end of the period	**61**	**298**	**(168)**	**315**	**327**

Comment

Receipts from customers and payments to suppliers and employees have both increased steadily over the past five years. Borrowing costs have gradually decreased which reflects the reduction in the level of borrowings outstanding.

Payments for property, plant and equipment have increased for the last 3 years under review to between $2.500m and $2.800m per year. This is due to increased capital expenditure in recent years on road and bridge assets and the purchase of major road plant and computer equipment.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		582	(56)	(236)	(348)	218
Operating margin	>1.0	1.11	0.99	0.96	0.95	1.03
Financial Management						
Current ratio	>1	4.90	5.15	3.70	4.02	4.59
Cost of debt	7.5%	9.4%	9.6%	6.8%	9.1%	4.7%
Debt collection	30 days	30	35	36	50	45
Creditor turnover	30 days	27	22	23	32	46
Other information						
Staff numbers FTEs		44	43	45	47	49
Average staff costs ($'000s)		37	38	37	36	38

Comment

The financial performance ratios show that the Council has returned positive results from operations for the 1996-97($0.582m) and 2000-01 ($0.218m) years and negative returns in other years. Council's operating margin has consistently remained around the benchmark.

Council's current ratio is consistently above the benchmark and indicates that the Council is able to meet all short-term liabilities.

The cost of debt reduced from 9.1% in 1999-00 to 4.7% in 2000-01. The calculation is based on an average of the borrowings outstanding at the beginning and end of the relevant financial year. The calculation for 2000-01 is affected by a new loan of $0.300m that was received in May 2001. It therefore had minimal interest accrued, but was included in the balance outstanding at 30 June 2001.

The debt collection ratio has been consistently above the benchmark of 30 days. The increase in 1999-00 is due to increased rate debtors ($0.024m) and increased sundry debtors ($0.150m). Sundry debtors for this year included a substantial ($0.080m) overdue debtor. The creditor turnover figure has increased for 2000-01 due to an increase in the amount of payables at 30 June 2001 ($0.090m). This amount includes $0.095m for construction works.

The average staff costs are relatively stable for the five years under review, ranging from $36 000 in 1999-00 to $38 000 in both 1997-98 and 2000-01.

OVERALL COMMENT

In the five years to 30 June 2001, Council has recorded a net operating profit of $0.160m. (excludes non-operating items).

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

As part of the audit it was identified that the valuations of sealed and unsealed roads were significantly in excess of the benchmarks provided by our consultant. As Council decided to deem carrying values to be cost, in accordance with *AAS 38 "Revaluation of Non Current Assets*", the overstatement was not pursued.

Council proposes to revalue road assets within the next twelve months. I endorse this proposal.

4.3.4 GEORGE TOWN COUNCIL

INTRODUCTION

George Town Council was proclaimed in 1993 and was formerly the Municipality of George Town, which was established in 1907. The Council services a population of approximately 6 700 persons and includes the townships of George Town, Low Head, Pipers River and Hillwood.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2001, with amended statements received on 9 November 2001. An unqualified audit report was issued on 13 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	4 907	5 357	5 304	5 244	5 605
Grants	951	1 075	1 058	1 063	1 434
Other operating revenue	52	157	149	165	167
Non-operating revenue	244	9 348	315	62	0
Total Revenue	**6 154**	**15 937**	**6 826**	**6 534**	**7 206**
Borrowing costs	815	773	679	608	546
Depreciation	429	1 134	1 092	1 093	1 226
Other operating expenses	4 560	4 307	4 417	4 400	4 520
Non-operating expenses	16	0	15	85	16
Total Expenses	**5 820**	**6 214**	**6 203**	**6 186**	**6 308**
Result from Ordinary Activities	**334**	**9 723**	**623**	**348**	**898**

Comment

Revenue from rates, fees and charges has steadily increased during the period under review. The increase in grant revenue from 1999-00 to 2000-01 of $0.371m is mainly attributable to the receipt of funding for Low Head Interpretation Works of $0.224m, the Norfolk Interpretation Centre $0.015m and increased Financial Assistance Grants $0.040m. Non-operating revenue in 1997-98 of $9.348m includes $8.485m relating to the recognition of Council's interest in the Esk Water Authority, including the transfer of assets and liabilities between Council and the Authority.

Borrowing costs have decreased over the 5-year period under review, with no new borrowings being taken up during this period.

Depreciation of $0.468m for road pavements, $0.046m for water and $0.075m for stormwater assets comprise the majority of the increase in depreciation expense for 1997-98 of $0.705m. George Town Council commenced depreciating these assets during this year. Depreciation on sewerage assets also increased during this year by $0.099m following a revaluation to replacement cost at 30 June 1997.

Council has recorded profits from ordinary activities in the past five years. The largest profit was in 1997-98 ($9.723m) when the investment in Esk Water Authority was recognised.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	62	366	37	31	801
Receivables	1 250	1 088	829	575	618
Investments	0	0	700	470	0
Inventories	28	24	0	0	0
Other	411	500	409	470	709
Total Current Assets	**1 751**	**1 978**	**1 975**	**1 546**	**2 128**
Property, plant & equipment	31 242	31 890	32 333	32 492	32 738
Investments	0	8 485	8 485	8 485	8 485
Other	3 039	2 639	2 233	1 786	1 336
Total Non-Current Assets	**34 281**	**43 014**	**43 051**	**42 763**	**42 559**
Payables	163	208	198	112	314
Borrowings	989	733	1 046	963	1 009
Provisions	143	193	184	203	262
Other	410	498	381	297	318
Total Current Liabilities	**1 705**	**1 632**	**1 809**	**1 575**	**1 903**
Borrowings	8 350	7 670	6 895	6 072	5 211
Provisions	36	57	66	58	29
Other	66	35	35	35	77
Total Non-Current Liabilities	**8 452**	**7 762**	**6 996**	**6 165**	**5 317**
Net Assets	**25 875**	**35 598**	**36 221**	**36 569**	**37 467**
Reserves	556	522	738	967	1 279
Retained surpluses	25 319	35 076	35 483	35 602	36 188
Total Equity	**25 875**	**35 598**	**36 221**	**36 569**	**37 467**

Comment

Receivables decreased in the 1998-99 year due to a reduction in combined rate and water debtors of $0.127m and a reduction in sundry debtors of $0.200m from the previous year. A further overall reduction was made during 1999-00 of $0.254m due mainly to a reduction in the rate and water debtors of $0.278m.

Current investments consist of funds held in a money market call account. Funds are only shown in this account for the 1998-99 and 1999-00 years. At 30 June 2001 $0.705m was held in this account, but is included in the cash balance.

Council's interest in Esk Water was recognised in 1997-98 and is represented by the balance of non-current investments of $8.485m.

The payables balance is greater than previous years for 2000-01 due to the inclusion of a significant May creditor not paid until July.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 768	6 023	6 096	6 002	6 307
Payments to suppliers and employees	(4 431)	(4 113)	(4 482)	(4 563)	(4 639)
Interest received	13	18	40	50	60
Borrowing costs	(821)	(787)	(721)	(606)	(570)
Cash from operations	**(471)**	**1 141**	**933**	**883**	**1 158**
Payments for P, P & Equipment	(542)	(1 071)	(1 267)	(1 380)	(1 320)
Proceeds from sale of P, P & E	233	155	89	171	40
Cash used in investing activities	**(309)**	**(916)**	**(1 178)**	**(1 209)**	**(1 280)**
Repayment of borrowings	(548)	(663)	(738)	(810)	(936)
Cash from financing activities	**(548)**	**(663)**	**(738)**	**(810)**	**(936)**
Cash Flows from Government	**994**	**1 029**	**1 104**	**1 063**	**1 445**
Net increase in cash	**(334)**	**591**	**121**	**(73)**	**387**
Cash at the beginning of the period	109	(225)	366	487	414
Cash at end of the period	**(225)**	**366**	**487**	**414**	**801**

Comment

The net cash from operations has remained fairly stable over the period under review with the exception of the 1996-97 year where cash from operations was negative. Interest revenue has increased in the years 1998-99 onwards, which is attributable to the holding of a proportion of Council's funds in a money market call account since that year.

Repayments of borrowings for the 5-year period under review total $3.695m. This has resulted in reduced borrowing costs paid each year.

Payments for property, plant and equipment amounted to $5.580m for the five-year period. Payments for the 1996-97 year totalled $0.542m with the remaining 4 years ranging from $1.071m in 1997-98 to $1.380m 1999-00. Payments for 2000-01 totalled $1.320m with the major items being road pavements of $0.734m, parks and reserves $0.203m and plant and equipment purchases of $0.344m.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		106	375	323	371	914
Operating margin	>1.0	1.02	1.06	1.05	1.06	1.15
Financial Management						
Current ratio	>1	1.03	1.21	1.09	0.98	1.12
Cost of debt	7.5%	8.7%	9.2%	8.6%	8.6%	8.8%
Debt collection	30 days	92	72	55	39	39
Creditor turnover	30 days	22	27	26	14	39
Other information						
Staff numbers FTEs		35	35	35	32	35
Average staff costs ($'000s)		52	44	45	49	45

Comment

The financial performance ratios show that Council has recorded operating surpluses for all the years under review. The total result from operations for the 5-year period is $2.089m. Council's operating margin has consistently remained slightly above benchmark with the highest level of 1.15 in 2000-01.

Council's current ratio has remained around benchmark over the past five years and indicates that the Council is able to meet all short-term liabilities.

The Council's cost of debt has remained around 9% for the 5-year period. No new borrowings have been taken out in the last 5 years.

The debt collection period has been consistently above the benchmark of 30 days, although it has improved over the last two years due to the reduction in outstanding rate and water debtors. The creditor turnover figure has been less than 30 days for all years except for 2000-01. A turnover figure of 39 days was calculated due to a significant May invoice unpaid at 30 June 2001.

The staff numbers and average costs have remained fairly stable with the exceptions of the 1996-97 year when a number of redundancies were paid and the 1999-00 year when staff numbers reduced to 32.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from ordinary activities of $11.926m. This includes the revenue from the recognition of the investment in Esk Water Authority of $8.485m.

As part of the audit, it was identified that Council's road assets were significantly below the benchmark valuations produced by the Office's consultant engineer. As Council decided to deem carrying values to be cost, in accordance with *AAS 38 "Revaluation of Non Current Assets*", the understatement was not pursued.

It was also noted that Council does not separately identify and depreciate road asset components. UIG 30 "Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Methods" requires the major components of complex assets to be separately identified and accounted for as separate assets, where this is necessary to reliably determine the depreciation expense of the reporting period.

The reasonableness of the depreciation policy adopted by Council was compared to the average useful lives identified by the engineering consultant in his report. It was determined that Council's depreciation expense was understated compared with the lives contained in the consultant's report, however the understatement was not considered material in relation to total rate revenue.

4.3.5 LATROBE COUNCIL

INTRODUCTION

The Latrobe Council originates from the Latrobe Municipality, which was established in 1907. The municipality covers an area of approximately 550 square kilometres, including the townships of Latrobe, Port Sorell, Shearwater and Hawley. The Council services a population of approximately 8 000 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements were received on 14 September 2001 and unqualified audit report was issued on 1 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	5 072	5 117	5 217	5 359	5 672
Grants	694	688	1 492	1 362	1 886
Other operating revenue	262	346	274	380	406
Non-operating revenue	0	0	2	3 197	72
Total Revenue	**6 028**	**6 151**	**6 985**	**10 298**	**8 036**
Borrowing costs	156	121	89	81	87
Depreciation	1 202	1 300	1 113	1 196	1 284
Other operating expenses	4 737	4 320	4 236	4 831	5 036
Non-operating expenses	745	601	0	128	937
Total Expenses	**6 840**	**6 342**	**5 438**	**6 236**	**7 344**
Result from Ordinary Activities	**(812)**	**(191)**	**1 547**	**4 062**	**692**

Comment

Revenue from rates, fees and charges has steadily increased during the period under review. The increase in grant revenue from 1999-00 to 2000-01 of $0.524m is mainly attributable to funding of $0.700 for Bakers Beach Road. Non-operating revenue in 1999-00 of $3.197m includes $3.160m relating to the recognition of the Council's interest in the North West Water Authority.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs decreased in 1997-98 due to Council undertaking a consolidation of its loan portfolio. Non-operating expenses for the same year includes a capital loss on loan consolidation of $0.135m.

Losses from ordinary activities were incurred in 1996-97 and 1997-98. However, Council has recorded profits in the subsequent three years to 30 June 2001. The profit of $4.062m recorded in 1999-00 is mainly due to the $3.160m revenue item relating to the recognition of Council's interest in the Water Authority.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	162	536	1 274	1 095	1 073
Receivables	455	517	406	254	235
Investments	400		250	250	517
Inventories	112	52	52	0	0
Other	5	71	57	89	262
Total Current Assets	**1 134**	**1 176**	**2 039**	**1 688**	**2 087**
Property, plant & equipment	36 443	35 678	36 305	37 487	44 585
Investments	0	1 368	1 368	4 415	4 532
Other	117	197	170	143	0
Total Non-Current Assets	**36 560**	**37 243**	**37 843**	**42 045**	**49 117**
Payables	196	441	527	344	541
Borrowings	227	121	129	139	156
Provisions	235	261	262	176	191
Other	108	823	123	183	243
Total Current Liabilities	**766**	**1 646**	**1 041**	**842**	**1 131**
Borrowings	1 283	1 344	1 212	1 273	1 316
Provisions	42	34	51	31	33
Other	733	80	716	663	535
Total Non-Current Liabilities	**2 058**	**1 458**	**1 979**	**1 967**	**1 884**
Net Assets	**34 870**	**35 315**	**36 862**	**40 924**	**48 189**
Reserves	1 669	2 306	2 306	2 306	8 880
Retained surpluses	33 201	33 009	34 556	38 618	39 309
Total Equity	**34 870**	**35 315**	**36 862**	**40 924**	**48 189**

Comment

The balance of cash assets increased from $0.162m at 30 June 1997 to $1.073m at 30 June 2001. The increase is partly attributable to funding from government grants, particularly in 1998-99 when $0.780m in NHT funding was received. At 30 June 2001, $0.354m of NHT funding for the Latrobe Treatment Plant upgrade remains unspent.

The balance of property, plant and equipment increased by $7.098m in 2000-01 due to asset revaluations being undertaken during the year. The majority of the revaluation increment relates to road assets, which were increased by $4.536m. The revaluation increment also resulted in an increase in the balance of reserves.

The increase in non-current investments from 1998-99 to 1999-00 of $3.047m relates to the recognition of Council's interest in the equity of the North West Water Authority.

CASH POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Receipts from customers	5 357	5 303	5 473	5 606	6 195
Payments to suppliers and employees	(5 185)	(4 073)	(4 124)	(4 887)	(5 359)
Interest received	76	50	72	90	145
Borrowing costs	(170)	(150)	(89)	(81)	(87)
Cash from operations	**78**	**1 130**	**1 332**	**728**	**894**
Proceeds from investments	120	70	124	83	88
Payments for investments	(46)	(629)	(250)	(100)	(303)
Payments for P, P & Equipment	(653)	(1 182)	(1 836)	(2 362)	(2 720)
Proceeds from sale of P, P & E	354	78		37	72
Cash used in investing activities	**(225)**	**(1 663)**	**(1 962)**	**(2 342)**	**(2 863)**
Proceeds from borrowings	100	0	0	200	200
Repayment of borrowings	(159)	(180)	(124)	(129)	(139)
Cash from financing activities	**(59)**	**(180)**	**(124)**	**71**	**61**
Cash Flows from Government	**694**	**688**	**1 492**	**1 364**	**1 886**
Net increase in cash	**488**	**(25)**	**738**	**(179)**	**(22)**
Cash at the beginning of the period	74	561	536	1 274	1 095
Cash at end of the period	**562**	**536**	**1 274**	**1 095**	**1 073**

Comment

The net increase in cash in 1998-99 of $0.738m can be attributed to NHT funding for the Latrobe Treatment Plant of $0.700m. This resulted in increased payments for property, plant and equipment in subsequent years.

Capital payments of $2.720m were recorded in 2000-01, which includes expenditure on Bakers Beach Road. Government funding of $0.700m was received in 2000-01 for these works.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(67)	410	1 545	993	1 557
Operating margin	>1.0	0.99	1.07	1.28	1.16	1.24
Financial Management						
Interest cover	>3	37	51	78	88	92
Current ratio	>1	1.48	0.71	1.96	2.00	1.85
Cost of debt	7.5%	10.3%	8.3%	6.6%	5.7%	5.9%
Debt collection	30 days	33	37	28	17	15
Creditor turnover	30 days	24	45	46	29	48
Other information						
Staff numbers FTEs		42	2	2	9	19
Average staff costs ($'000s)		41	381	28	57	49

Comment

The financial performance ratios show that Council incurred an operating loss in 1996-97, but has recorded operating surpluses for the four years to 30 June 2001. A surplus of $1.557m was recorded in 2000-01, which is partly attributable to increased government funding for capital works.

Council's current ratio has been above the benchmark for the past three years and indicates that the Council is able to meet all short-term liabilities.

The cost of debt reduced by 2% from 1996-97 to 1997-98 following the loan consolidation undertaken by Council.

The debt collection ratio has been below the benchmark of 30 days for the past three years. The creditor turnover figure has been greater than 30 days in 1997-98, 1998-99 and 2000-01 due to a number of large invoices outstanding at 30 June. Trade creditors at 30 June 2001 amounted to $0.541m, however, $0.320m of this total was payable to the Kentish/Latrobe Joint Authority.

The average staff costs are distorted by the transfer of staff between Council and the Joint Authority.

OVERALL COMMENT

In the period under review, Council has recorded a total operating surplus (excluding non-operating items) of $4.438m.

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

4.3.6 NORTHERN MIDLANDS COUNCIL

INTRODUCTION

Northern Midlands Council was created in 1993 when the former municipalities of Evandale, Campbell Town, Longford, Ross and part of Fingal were merged. The municipality covers an area of approximately 5 130 square kilometres, extending from Liffey Bluff in the west to Mt St John in the east, and from Relbia in the north to Tooms Lake in the south. The Council services a population of approximately 12 000 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2001, with amended statements received on 24 October 2001. An unqualified audit report was issued on 31 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	5 192	5 634	5 673	5 959	6 183
Grants	2 628	2 793	2 849	3 874	5 344
Other operating revenue	1 319	1 111	1 178	1 066	1 061
Non-operating revenue	115	358	1 826	78	0
Total Revenue	**9 254**	**9 896**	**11 526**	**10 977**	**12 588**
Borrowing costs	216	96	59	33	0
Depreciation	3 798	3 569	3 708	3 753	3 731
Other operating expenses	5 248	5 038	5 006	5 548	6 685
Non-operating expenses	335	806	808	224	472
Total Expenses	**9 597**	**9 509**	**9 581**	**9 558**	**10 888**
Result from Ordinary Activities	**(343)**	**387**	**1 945**	**1 419**	**1 700**

Comment

Revenue from rates, fees and charges has steadily increased during the period under review. The increase in grant revenue from 1999-00 to 2000-01 of $1.470m is mainly due to the receipt of $1.077m under the Clean Quality Water Program. Non-operating revenue in 1998-99 of $1.826m includes $1.500m relating to the recognition of a debtor under a trade waste agreement.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased over the same period, with no interest expense recorded in 2000-01 due to the repayment of borrowings in the prior year. The increase in other operating expenses from 1999-00 to 2000-01 of $1.137m is partly attributable to expenditure on government-funded projects, such as Woolmers Estate.

Council has recorded profits from ordinary activities in the past four years. The total result from ordinary activities for the period under review is a surplus of $5.108m.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	254	120	437	1 276	327
Receivables	395	308	400	318	366
Investments	5 542	5 729	5 507	6 508	10 513
Inventories	23	26	32	17	28
Other	111	47	353	440	554
Total Current Assets	**6 325**	**6 230**	**6 729**	**8 559**	**11 788**
Property, plant & equipment	98 910	99 059	99 286	99 109	98 251
Other	100	58	966	778	446
Total Non-Current Assets	**99 010**	**99 117**	**100 252**	**99 887**	**98 697**
Payables	334	266	210	701	307
Borrowings	324	291	440	0	0
Provisions	375	448	450	456	481
Other	149	129	157	142	119
Total Current Liabilities	**1 182**	**1 134**	**1 257**	**1 299**	**907**
Borrowings	787	440	0	0	0
Provisions	43	39	44	48	83
Total Non-Current Liabilities	**830**	**479**	**44**	**48**	**83**
Net Assets	**103 323**	**103 734**	**105 680**	**107 099**	**109 495**
Reserves	3 109	788	25	25	721
Retained surpluses	100 214	102 946	105 655	107 074	108 774
Total Equity	**103 323**	**103 734**	**105 680**	**107 099**	**109 495**

Comment

The balance of investments has increased from 1999-00 to 2000-01 by $4.005m. The increase is mainly due to government funding received during the year, but unspent at 30 June 2001 and transfers from cash assets.

Council repaid its outstanding loans during 1999-00.

CASH POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Receipts from customers	5 897	6 270	6 385	6 775	7 041
Payments to suppliers and employees	(5 044)	(4 892)	(4 883)	(4 931)	(6 952)
Interest received	386	441	479	474	722
Borrowing costs	(245)	(111)	(69)	(48)	0
Cash from operations	**994**	**1 708**	**1 912**	**2 270**	**811**
Proceeds from investments	0	0	222	0	0
Payments for investments	(641)	(186)	0	(1 001)	(4 005)
Payments for P, P & Equipment	(3 237)	(4 451)	(4 718)	(4 100)	(3 405)
Proceeds from sale of P, P & E	657	381	344	236	290
Cash used in investing activities	**(3 221)**	**(4 256)**	**(4 152)**	**(4 865)**	**(7 120)**
Proceeds from borrowings					
Repayment of borrowings	(750)	(379)	(292)	(440)	0
Cash from financing activities	**(750)**	**(379)**	**(292)**	**(440)**	**0**
Cash Flows from Government	**2 628**	**2 793**	**2 849**	**3 874**	**5 360**
Net increase in cash	**(349)**	**(134)**	**317**	**839**	**(949)**
Cash at the beginning of the period	603	254	120	437	1 276
Cash at end of the period	**254**	**120**	**437**	**1 276**	**327**

Comment

The Cash Flow Statement also reflects the increased government funding in 2000-01 and the increase in investment balances of approximately $4m. The increase in receipts from customers and payments to suppliers is a result of the impact of GST.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(123)	835	927	1 565	2 172
Operating margin	>1.0	0.99	1.10	1.11	1.17	1.21
Financial Management						
Current ratio	>1	5.35	5.49	5.35	6.59	13.00
Cost of debt	7.5%	14.5%	10.4%	10.1%	-	-
Debt collection	30 days	28	20	26	19	22
Creditor turnover	30 days	41	33	26	76	26
Other information						
Staff numbers FTEs		57	56	52	53	65
Average staff costs ($'000s)		40	37	41	41	38

Comment

The financial performance ratios show that Council has recorded operating surpluses in the last four years. The total result for the period under review is $5.376m.

Council’s current ratio increased significantly in 2000-01. At 30 June 2001, current assets were 13 times the balance of current liabilities. The increase is mainly due to the higher investment balance combined with the reduction in creditor balances.

A cost of debt has not been calculated for 1999-00 and 2000-01 as Council repaid its borrowings during the 1999-00 year.

The debt collection ratio has been consistently below the benchmark of 30 days for the five years under review. The creditor turnover figure has reduced from 76 days in 1999-00 to 26 days in 2000-01. The relatively high turnover figure in 1999-00 is due to a number of large invoices outstanding at 30 June 2000 relating to capital works.

The average staff costs are relatively stable for the five years under review.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of $5.376m.

The 2000-01 audit was completed with no major issues outstanding. As part of the audit, it was identified that Council’s road assets were below the benchmark valuations produced by the Office’s consultant engineer. However, the difference was within the boundaries set by the Office and therefore Council’s valuations were accepted.

4.3.7 SORELL COUNCIL

INTRODUCTION

The Sorell area was first proclaimed as a Municipality in 1862. In 1993 it amalgamated with the former Richmond Council but had to surrender a part of its municipal area to the Tasman Council. The population serviced by the Sorell Council is of the order of 10 911.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements of the Sorell Council, signed by the General Manager, were received on 26 September 2001 and an unqualified Audit Report was issued on 10 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	6 420	6 544	6 715	6 760	7 046
Grants	1 514	1 857	2 494	1 758	1 948
Other operating revenue	342	319	322	316	313
Non-operating revenue	410	547	3 823	188	324
Total Revenue	**8 686**	**9 267**	**13 354**	**9 022**	**9 631**
Borrowing costs	305	292	258	204	231
Depreciation	1 761	1 862	1 825	1 875	2 032
Other operating expenses	6 133	5 989	5 956	6 304	7 054
Non-operating expenses	92	274	102	78	291
Total Expenses	**8 291**	**8 417**	**8 141**	**8 461**	**9 608**
Result from Ordinary Activities	**395**	**850**	**5 213**	**561**	**23**

Comment

The above average amount of grants revenue in 1998-99 reflects an increase of $0.532m for the effluent re-use scheme, which was a once-off project.

Non-operating revenue generally reflects the proceeds from the disposal of non-current assets and non-cash contributions, such as subdivision roads. In 1996-97 and 1997-98 the amounts included the taking over of subdivision roads amounting to $0.234m and $0.249m respectively. In 1998-99 Council identified its partial interest in the Hobart Regional Water Authority, thereby recording non-operating revenue amounting to $2.978m.

The higher amount disclosed for other operating expenses in 2000-01 is related to the expenditure on the Copping Waste Management and the Orielton Lagoon projects.

Non-operating expenses reflect the carrying value of plant and equipment disposed and the fluctuating amounts are related to the cyclical changeover of such assets.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	418	303	202	28	336
Receivables	750	626	789	1 101	973
Investments	1 900	3 000	3 000	2 823	3 230
Inventories	5	5	6	6	6
Other	21	33	59	77	63
Total Current Assets	**3 094**	**3 967**	**4 056**	**4 035**	**4 608**
Property, plant & equipment	36 398	36 212	38 548	39 314	45 159
Investments	0	0	2 978	2 978	2 978
Other	536	467	421	371	328
Total Non-Current Assets	**36 934**	**36 679**	**41 947**	**42 663**	**48 465**
Payables	287	187	115	22	1 267
Borrowings	504	546	582	509	512
Provisions	356	389	346	449	444
Other	167	143	193	509	174
Total Current Liabilities	**1 314**	**1 265**	**1 236**	**1 489**	**2 397**
Borrowings	3 581	3 361	3 091	3 067	2 970
Provisions	125	162	159	100	97
Other	0	0	108	72	36
Total Non-Current Liabilities	**3 706**	**3 523**	**3 358**	**3 239**	**3 103**
Net Assets	**35 008**	**35 858**	**41 409**	**41 970**	**47 573**
Reserves	2 606	3 565	4 025	3 831	8 957
Retained surpluses	32 402	32 293	37 384	38 139	38 616
Total Equity	**35 008**	**35 858**	**41 409**	**41 970**	**47 573**

Comment

The average amount for receivables is $0.848m and the higher amount in 1999-00 was due to the pending reimbursement of costs amounting to $0.280m from the other 2 participating councils for preliminary work done on the Copping waste management project.

The increase in 2000-01 for property, plant and equipment is directly related to the revaluation and additions of buildings that amounted to $5.676m.

The entry in non-current investments in 1998-99 year is to reflect council's interest in the Hobart Regional Water Authority, as previously described under the Statement of Financial Performance section.

The level of payables increased at the end of 2000-01 due to the late receipt of creditors' invoices for work done on the Copping waste management project.

The above average amount for other current liabilities in 1999-00 was due to a one off bank overdraft balance of $0.417m.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 351	6 714	6 689	6 461	8 022
Payments to suppliers and employees	(5 890)	(6 003)	(6 263)	(6 468)	(6 469)
Interest received	332	302	326	334	298
Borrowing costs	(316)	(302)	(256)	(203)	(210)
Cash from operations	**477**	**711**	**496**	**124**	**1 641**
Payments for P, P & Equipment	(2 503)	(1 702)	(2 962)	(2 754)	(2 698)
Proceeds from sale of P, P & E	176	298	133	188	324
Cash used in investing activities	**(2 327)**	**(1 404)**	**(2 829)**	**(2 566)**	**(2 374)**
Proceeds from borrowings	542	300	308	513	511
Repayment of borrowings	(441)	(479)	(570)	(597)	(594)
Cash from financing activities	**101**	**(179)**	**(262)**	**(84)**	**(83)**
Cash Flows from Government	**1 514**	**1 857**	**2 494**	**1 758**	**1 948**
Net increase in cash	**(235)**	**985**	**(101)**	**(768)**	**1 132**
Cash at the beginning of the period	2 553	2 318	3 303	3 202	2 434
Cash at end of the period	**2 318**	**3 303**	**3 202**	**2 434**	**3 566**

Comment

Generally cash includes cash and investments per statement of financial position and the significant increase in 2000-01 over 1999-00 resulted mainly from the increase of user charges amounting to $1.519m.

Council has maintained cash balances at an average of $2.965m over the five-year period. The cash deficit noted for 1996-97 and 1998-99 was due to the increased expenditure for plant replacement, whilst the 1999-00 results were due to increased expenditure on the Orielton Lagoon project.

The material net increase in cash in 2000-01 resulted from the change in charges for water usage to a user-pays basis and a better approach in following up long outstanding debtors.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		77	577	1 492	451	(10)
Operating margin	>1.0	1.01	1.07	1.19	1.05	1.00
Financial Management						
Current ratio	>1	2.35	3.14	3.28	2.71	1.92
Cost of debt	7.5%	7.5%	7.5%	7.0%	5.7%	6.6%
Debt collection	30 days	43	35	43	59	50
Creditor turnover	30 days	33	22	14	2	121
Other information						
Staff numbers FTEs		64	60	58	64	61
Average staff costs ($'000s)		36	38	38	36	41

Comment

Council has maintained results within the operating margin benchmark, with only a minor negative return being recorded in the 2000-01 year.

The above-average result from operations in 1998-99 is mainly due to increased grant income as noted under the Statement of Financial Performance section.

There was a sharp increase in creditor turnover in the 2000-01 year, which was caused by the late forwarding of significant invoices, as noted previously. This has similar effects on the decline of the current ratio to 1.92, but this amount is still far above the benchmark.

The debt collection ratio has consistently exceeded the benchmark of 30 days. However, during the audit for 2000-01 it was noted that there had been a change in the personnel and policy over the management of debtors as Council endeavoured to lower outstanding debts.

OVERALL COMMENT

The audit of the accounts for the 2000-01 year was completed with satisfactory results.

However, one issue relating to Council's road assets was raised as Sorell Council does not separately disclose the components that make up a road asset within their asset register. The Council records identify each road as a single line item within the asset register, with a single useful life. This approach is not in line with Urgent Issues Group consensus view UIG 30 'Depreciation of Long Lived Assets', which outlines that if an asset has separately identifiable components, then they should be depreciated at different rates, based on the different useful lives of the items.

It is understood that Council will undertake a detailed road valuation during the 2001-02 financial year.

4.3.8 WEST COAST COUNCIL

INTRODUCTION

The West Coast Council was created during the amalgamation of council boundaries in 1993. The Council includes the former municipalities of Lyell, Queenstown, and Strahan.

The municipal area covers approximately 9 200 square kilometres and encompasses the towns of Queenstown, Rosebery, Strahan, Tullah and Zeehan. The Council services a population of approximately 5 695 persons.

The financial statements for 1996-97 do not include any transactions for the West Coast Health and Community Service Pty Ltd (WCH&CS), which is a fully owned subsidiary of Council. The 4 year period covering 1997-98 to 2000-01 include the consolidated financial information of the entity as a whole.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements were received on 21 September 2001. An unqualified audit report was issued on 8 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	3 892	4 564	4 581	4 378	4 658
Grants	1 601	2 460	2 455	2 605	3 136
Other operating revenue	28	45	476	392	408
Non-operating revenue	79	234	361	686	133
Total Revenue	**5 600**	**7 303**	**7 873**	**8 061**	**8 335**
Borrowing costs	143	155	144	116	152
Depreciation	867	1 386	1 382	1 448	1 476
Other operating expenses	5 181	6 257	6 851	6 220	6 639
Non-operating expenses	90	223	604	502	45
Total Expenses	**6 281**	**8 021**	**8 981**	**8 286**	**8 312**
Result from Ordinary Activities	**(681)**	**(718)**	**(1 108)**	**(225)**	**23**

Comment

Revenue from rates, fees and charges has increased from $3.892m in 1996-97 to $4.658m in 2000-01. This represents a total increase of $0.766m, of which approximately $0.170m relates to the WCH&CS. This represents an average annual increase of approximately 3.5%.

Grant revenue increased by $0.859m from 1996-97 to 1997-98 because of the funds relating to WCH&CS. In the three year period from 1997-98 to 1999-00 the grant revenue remained constant. In 2000-01 grants increased by $0.531m as a result of Natural Heritage Trust funding for the Queenstown tip of $0.290m and $0.182m for Rosebery sewerage.

Other operating revenues for the three years from 1998-99 include rentals, contributions and donations for WCH&CS. In 1997-98, the WCH&CS revenues in this area were considerably less as it was the first year of operations. However, the 1998-99 balance of $0.476m includes $0.235m in relation to an insurance recovery arising from a fire, which destroyed the Queenstown Recreation Ground Grandstand.

Non operating revenue and expenses include the grossed up balance relating to the disposal of assets. The revenue balance for 1998-99 includes consideration of $0.299m received from the sale and lease back of the Council's fleet of vehicles. The expenditure correspondingly includes the written down value of the fleet vehicles disposed of, totalling $0.431m. In addition, the expenditure includes $0.145m relating to the written down value of the Queenstown Recreation Ground Grandstand, written off during the year after being destroyed by fire.

The 1999-2000 non operating revenue balance includes consideration of $.605m relating to the sale of the Strahan Caravan Park. The non operating expenditure included the written down value of the park, comprising land totalling $0.139m and buildings of $0.255m.

Borrowing costs declined in 1999-2000 to $0.116m as the loan balance reduced to $1.456m. However new loans in the financial year resulted in the subsequent increase of $0.036m in 2000-01.

Depreciation expense in 1996-97 did not include any depreciation relating to Council's road network. The transitional provisions of *AAS 27 Financial Reporting by Local Government* allowed for the delayed recognition of non current assets. The depreciation expense increased by $0.519 in 1997-98, which included $0.433m road depreciation expense.

In the first 4 years under review, the Council incurred material losses. In particular, a loss of $1.108 was recorded in 1998-99. Excepting for a loss on the disposal of asset totalling $0.277, the loss reflected Councils failure to adequately fund the impact of depreciation on its operations. However, considerable improvement was noted in 1999-00 and in 2000-01 Council recorded a surplus from ordinary activities.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	0	206	127	964	1 554
Receivables	601	688	707	809	1 044
Investments	0	203	88	224	564
Inventories	0	0	0	25	0
Other	44	77	311	51	55
Total Current Assets	**645**	**1 174**	**1 233**	**2 073**	**3 217**
Property, plant & equipment	47 294	46 623	45 217	44 977	44 929
Other	10	89	57	28	0
Total Non-Current Assets	**47 304**	**46 712**	**45 274**	**45 005**	**44 929**
Payables	104	274	271	266	493
Borrowings	338	262	241	369	480
Provisions	362	428	409	401	400
Other	170	193	265	175	282
Total Current Liabilities	**974**	**1 157**	**1 186**	**1 211**	**1 655**
Borrowings	1 227	1 437	1 215	1 567	2 204
Provisions	43	89	65	88	81
Other	0	144	96	29	0
Total Non-Current Liabilities	**1 270**	**1 670**	**1 376**	**1 684**	**2 285**
Net Assets	**45 705**	**45 059**	**43 945**	**44 183**	**44 206**
Reserves	3 238	3 238	3 238	3 701	3 701
Retained surpluses	42 467	41 821	40 707	40 482	40 505
Total Equity	**45 705**	**45 059**	**43 945**	**44 183**	**44 206**

Comment

The cash balance at 30 June 2001 totalled $1.554m, which was an increase of $0.590m from 1999-00. Of the balance at 30 June 2001, $0.429m is restricted as it represents unexpended grant funds.

The balance of receivables has increased from $0.601m at 30 June 1997 to $1.044m at 30 June 2001. The increase of $0.443m is due to increased rate debtors, which at balance date totalled $0.915m. Council is experiencing problems with the collection of rate debtors, but is undertaking appropriate action to reduce the balance outstanding.

Other current assets in 1998-99 totalled $0.311m. This balance is considerably greater than the corresponding periods under review because it includes $0.235m relating to the insurance recovery for the loss by fire of the Queenstown Recreation Ground Grandstand.

The balance of other non current assets represents the municipal property valuation asset, which was amortised over the life of the valuation.

Creditors in 2000-01 are considerably greater than the other 4 periods. The balance of \$0.493m includes an amount of \$0.134m payable to Civil Construction Corporation for capital works for the Braddon Street bridge. In addition, a further \$0.053m is outstanding for engineering services and pipe purchases relating to the Rosebery sewerage scheme capital works.

Other current liabilities include the payroll accrual, which varies depending upon the number of days between the date of the final payroll and 30 June and the loan interest accrual. The balance of \$0.282m for 2000-01 also includes \$0.065m relating to Council's GST liability.

Total borrowings remained constant in the first 3 years of the review. New loans were, for the most part, offsetting repayments. However in 1999-00 and 2000-01, new loans of \$0.695m and \$1.057m were incurred. Consequently total loan debt at 30 June 2001 was \$1.119m greater than the balance in 1996-97.

Other non current liabilities in 1997-98 include a lease liability of \$0.075m owing to the Department of Health and Human Services for equipment taken over from the Rosebery Hospital. The amount outstanding in 1998-99 was \$0.057m. The liability was waived by the Department in 1999-2000.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 701	4 516	4 774	4 756	5 068
Payments to suppliers and employees	(5 196)	(6 030)	(6 869)	(6 206)	(6 621)
Interest received	28	23	23	62	76
Borrowing costs	(107)	(153)	(144)	(130)	(140)
Cash from operations	**(1 574)**	**(1 644)**	**(2 216)**	**(1 518)**	**(1 617)**
Proceeds from investments	28	0	115	0	0
Payments for investments	0	(203)	0	0	(340)
Payments for P, P & Equipment	(698)	(596)	(552)	(1 240)	(1 469)
Proceeds from sale of P, P & E	79	68	328	664	49
Cash used in investing activities	**(591)**	**(731)**	**(109)**	**(576)**	**(1 760)**
Proceeds from borrowings	654	385	0	695	1 058
Repayment of borrowings	(239)	(234)	(271)	(291)	(351)
Cash from financing activities	**415**	**151**	**(271)**	**404**	**707**
Cash Flows from Government	**1 601**	**2 483**	**2 517**	**2 526**	**3 260**
Net increase in cash	**(149)**	**259**	**(79)**	**836**	**590**
Cash at the beginning of the period	96	(53)	206	127	964
Cash at end of the period	**(53)**	**206**	**127**	**963**	**1 554**

Comment

The net cash from operations has remained fairly stable over the past five years, excepting 1998-99, in which cash outflows from operation increased by $0.572m from the previous. This is consistent with the increase in the operating loss of $0.372m for the corresponding period.

Payments for property, plant and equipment in both 1999-00 and 2000-01 increased considerably from the first 3 years. In 1999-00, the balance of $1.240m included work in progress on the Strahan water treatment plant of $0.436m, building works on the new Queenstown Recreation Ground grandstand of $0.248m, capital works on roads totalling $0.186m and purchases of plant and equipment of $0.291m. The outflows in 2000-01 totalling $1.469m represent costs to complete the Strahan water treatment plant of $0.747m, roads work of $0.257m, and water and sewerage work in progress expenditure totalling $0.294m.

Proceeds from the sale of assets in 1998-99 include the consideration from the sale of Council’s fleet vehicles, totalling $0.299m. In 1999-2000, the balance of proceeds from sale of assets includes $0.605m for the sale of the Strahan caravan park.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(670)	(729)	(865)	(409)	(65)
Operating margin	>1.0	0.89	0.91	0.90	0.95	0.99
Financial Management						
Current ratio	>1	0.66	1.01	1.04	1.71	1.94
Cost of debt	7.5%	9.1%	9.1%	9.9%	6.0%	5.7%
Debt collection	30 days	56	55	56	67	82
Creditor turnover	30 days	16	27	22	23	41
Other information						
Staff numbers FTEs		72	67	55	56	56
Average staff costs ($'000s)		40	38	41	36	39

Comment

As noted above, the financial performance of the Council over the 5 year period has resulted in losses totalling $2.709m. The losses are reflected in the operating margin ratio, all of which fail to meet the benchmark ratio. The losses cannot be attributed to any particular events, but reflect Council's failure to fully fund the depreciation expense in relation to its infrastructure assets. However the results of the 2000-01 financial period indicate appropriate action is being taken to remedy this situation.

There has been improvement in the performance of the Council in 1999-00 and 2000-01, which is reflected in the improved current ratios for these periods. The 1996-97 period was the only year in which the benchmark was not achieved.

The cost of debt ratio has improved over the last 2 years. This is the result of older loans being repaid during the period, whilst new loans drawn have been able to take advantage of the lower interest rates in the financial market.

The debt collection ratio has been consistently above the benchmark of 30 days. The increase in 2000-01 is due to increased rate debtors at 30 June 2001. The creditor turnover figure has been lower than 30 days for the first 4 years under review. The 2000-01 ratio of 46 days reflects several material capital creditors, which were outstanding at balance date.

The average staff costs are relatively stable for the five years under review. The balances for 1996-97 and 1998-99 are higher than average as a result of redundancy payments made to employees.

OVERALL COMMENT

In the five years to 30 June 2001, Council has recorded a net operating deficit of $2.738m. (excludes non-operating items). However, an operating profit of $0.023m was recorded in 2000-01.

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

In April 2001 I wrote to all Councils indicating my intention to engage a consultant to review road asset valuation and depreciation practices. In August 2001, I forwarded a copy of the consultant's report for consideration to all councils. In conducting our audit of road values and depreciation practices the recommendations of the consultant were used as a benchmark.

During the testing of the depreciation charges for the road assets, it was noted that the majority of the road asset components were consistent with the findings of the review. However, one exception was noted in relation to the depreciation of unsealed roads. Council currently depreciates unsealed roads over 100 years, whilst our review indicates a useful life of no more than 40 years.

The effect of the under depreciating of gravel roads was estimated to be $0.180m. The exception was accepted as the variance was determined to be immaterial in relation to total rating revenue.

However, I have recommended to Council that it reviews the useful lives of all its road assets.

4.4 SMALLER RURAL COUNCILS -

BACKGROUND

Local government authorities are governed principally by the *Local Government Act 1993* as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and miscellaneous matters.

This section of the report deals with the relative performance of the following councils:

- Break O'Day Council
- Central Highlands Council
- Flinders Council
- Glamorgan-Spring Bay Council
- Kentish Council
- King Island Council
- Southern Midlands Council, and
- Tasman Council

These councils have been classified as small based upon their revenue from rates, fees and charges being less than $4.25m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Break O'Day	Central Highlands	Flinders	Glamorgan-Spring Bay	Kentish	King Island	Southern Midlands	Tasman
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	3 881	1 949	703	4 008	2 118	2 182	3 160	1 511
Grants	2 058	1 600	957	3 009	2 239	1 915	4 111	2 011
Other operating revenue	153	249	429	700	161	360	189	140
Non-operating revenue	10	463	0	45	0	1	0	63
Total Revenue	**6 102**	**4 261**	**2 089**	**7 762**	**4 518**	**4 458**	**7 460**	**3 725**
Borrowing Costs	117	1	0	112	61	11	107	27
Depreciation	1 631	2 376	1 039	1 409	1 115	1 138	2 497	1 231
Other operating expenses	4 299	3 358	1 547	12 775	2 860	4 861	5 213	2 999
Non-operating expenses	0	289	13	4	5	47	94	80
Total Expenses	**6 047**	**6 024**	**2 599**	**14 300**	**4 041**	**6 057**	**7 911**	**4 337**
Result from Ordinary Activities	**55**	**(1 763)**	**(510)**	**(6 538)**	**477**	**(1 599)**	**(451)**	**(612)**

Comment

Revenue from rates, fees and charges ranged from $0.703m (Flinders Council) to $4.008m (Glamorgan-Spring Bay Council). The higher revenues recorded by Glamorgan-Spring Bay and Break O'Day Councils are due to their larger population bases (approximately 4 170 for people Glamorgan-Spring Bay and 6 000 people for Break O'Day). On average, revenue from rates, fees and charges represents 49% of total operating revenue for the eight councils for 2000-01.

Government grants and subsidies represent 45% of total operating revenue recorded by the eight councils. All of the councils derived over 30% of their operating revenue for 2000-01 from government sources, with Southern Midlands and Tasman Councils both recording the highest percentage with 55%. Break O'Day Council recorded the lowest proportion, with 34% of revenue being derived from government sources.

On average, borrowing costs represent 0.86% of total operating expenditure, whilst depreciation accounts for 24% of total operating expenditure. Flinders Council had no debt for the entire 2000-01 year whilst Central Highlands Council repaid its outstanding borrowings during 2000-01 resulting in borrowing costs of 0.02% of total operating expenditure.

FINANCIAL POSITION

	Break O'Day	Central Highlands	Flinders	Glamorgan-Spring Bay	Kentish	King Island	Southern Midlands	Tasman
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 006	1 910	145	67	1 264	754	451	725
Receivables	602	290	147	446	235	318	731	296
Investments	2	0	2 958	2 336	0	3 150	2 535	412
Inventories	99	52	232	0	0	399	159	0
Other	756	94	52	0	70	32	49	0
Total Current Assets	**2 465**	**2 346**	**3 534**	**2 849**	**1 569**	**4 653**	**3 925**	**1 433**
Property, Plant And Equipment	49 822	33 451	39 485	41 676	22 575	19 510	67 878	16 239
Investments	0	0	0	0	1 737	486	0	0
Other	0	43	30	60	83	14	15	31
Total Non-Current Assets	**49 822**	**33 494**	**39 515**	**41 736**	**24 395**	**20 010**	**67 893**	**16 270**
Payables	245	72	60	438	281	1 767	404	295
Borrowings	311	0	0	228	81	36	181	52
Provisions	338	471	97	307	16	314	220	259
Other	3	9	83	131	1	147	229	55
Total Current Liabilities	**897**	**552**	**240**	**1 104**	**379**	**2 264**	**1 034**	**661**
Borrowings	1 586	0	0	1 528	589	92	1 400	546
Provisions	15	32	62	94	33	34	32	48
Other	0	0	0	162	0	14	0	83
Total Non-Current Liabilities	**1 601**	**32**	**62**	**1 784**	**622**	**140**	**1 432**	**677**
Net Assets	**49 789**	**35 256**	**42 747**	**41 697**	**24 963**	**22 259**	**69 352**	**16 365**
Reserves	49 129	2 457	4 467	5 868	26 291	1 700	32 775	1
Retained Surpluses	660	32 799	38 280	35 829	(1 328)	20 559	36 577	16 364
Total Equity	**49 789**	**35 256**	**42 747**	**41 697**	**24 963**	**22 259**	**69 352**	**16 365**

Comment

All of the eight councils had positive working capital, with the average current ratio being 4.90. The level of borrowings was low for all councils, with debt to equity ratios ranging from 0% (Flinders and Central Highlands Councils) to 4% (Break O'Day, Glamorgan-Spring Bay and Tasman Councils).

The balance of net assets ranged from $16.365m (Tasman Council) to $69.352m (Southern Midlands Council). The higher asset balance recorded by Southern Midlands Council is attributable to Council being responsible for one of the longest road lengths within the State.

CASH POSITION

	Break O'Day	Central Highlands	Flinders	Glamorgan-Spring Bay	Kentish	King Island	Southern Midlands	Tasman
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 996	2 514	1 032	4 590	2 175	2 593	3 295	1 766
Payments to suppliers and emloyees	(4 483)	(3 739)	(1 557)	(6 023)	(3 105)	(3 481)	(5 445)	(3 113)
Interest received	67	128	169	144	63	227	162	45
Borrowing costs	(148)	(1)	0	(112)	(61)	(11)	(110)	(27)
Cash from operations	**(568)**	**(1 098)**	**(356)**	**(1 401)**	**(928)**	**(672)**	**(2 098)**	**(1 329)**
Proceeds from investments	350	0	0	0	0	148	0	0
Payments for investments	0	0	(135)	0	0	0	(785)	0
Payments for P, P & Equipment	(1 155)	(542)	(271)	(1 925)	(669)	(849)	(1 542)	(784)
Proceeds from sale of P, P & E	294	73	77	91	19	163	157	51
Cash used in investing activities	**(511)**	**(469)**	**(329)**	**(1 834)**	**(650)**	**(538)**	**(2 170)**	**(733)**
Proceeds from borrowings	0	0	0	400	0	0	200	200
Repayment of borrowings	(270)	(13)	0	(227)	(143)	(35)	(169)	(36)
Cash from financing activities	**(270)**	**(13)**	**0**	**173**	**(143)**	**(35)**	**31**	**164**
Cash flows from Government	**1 976**	**1 600**	**1 067**	**3 009**	**2 239**	**1 919**	**4 127**	**2 017**
Net increase in cash	**627**	**20**	**382**	**(53)**	**518**	**674**	**(110)**	**119**
Cash at the beginning of the period	379	1 890	(237)	2 456	746	80	561	1 018
Cash at end of the period	**1 006**	**1 910**	**145**	**2 403**	**1 264**	**754**	**451**	**1 137**

Comment

Six of the eight councils had net increases in cash balances. One of the councils that had a net decrease in cash transferred surplus funds to an investment account, which contributed to the reduction in the balance of cash held at 30 June 2001. Three of the eight councils borrowed new funds during the financial year.

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FINANCIAL ANALYSIS

	Bench Mark	Break O'Day	Central Highlands	Flinders	Glamorgan-Spring Bay	Kentish	King Island	Southern Midlands	Tasman
Financial Performance									
Result from operations ($'000s)		45	(1 937)	(497)	(6 579)	482	(1 553)	(357)	(595)
Operating margin	>1.0	1.01	0.66	0.81	0.54	1.12	0.74	0.95	0.86
Financial Management									
Current ratio	>1	2.75	4.25	14.73	2.58	4.14	2.06	3.80	2.17
Cost of debt	7.5%	6.2%	-	-	6.4%	9.1%	8.6%	6.8%	4.5%
Debt collection	30 days	57	54	76	41	40	53	84	72
Creditor turnover	30 days	36	8	23	13	43	175	40	36
Other information									
Staff numbers		47	34	17	56	8	26	43	34
Average staff costs ($'000s)		38	38	36	47	55	45	36	44

Comment

Overall the councils recorded a deficit result from operations of $4.412m. All councils had a positive current ratio at 30 June 2001, indicating that they are able to meet all short-term liabilities.

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The average cost of debt for the small councils was 6.93%. In calculating this average, Flinders and Central Highlands Councils were excluded, as they had no borrowings at 30 June 2001.

The average debt collection period was 60 days. The average creditor turnover was 47 days, which is affected by larger balances at 30 June, particularly for capital items.

The staff costs ranged from $36 000 (Flinders and Southern Midlands Councils) to $55 000 (Kentish Council) for the eight councils, with an overall average of $42 000. The higher than average staff cost recorded by Kentish Council is affected by the transfer of staff to and from the Kentish/Latrobe Joint Authority.

OVERALL COMMENT

Overall, six of the eight councils recorded a deficit from ordinary and operating activities. All councils had positive working capital and low debt to equity ratios at 30 June 2001.

4.4.1 BREAK O'DAY COUNCIL

INTRODUCTION

Break O'Day Council was created in 1993 when the former municipalities of Portland and Fingal were amalgamated. The Break O'Day area covers approximately 3800 square kilometres comprising the eastern portion of the Fingal Valley and the coastal zone from the Denison River in the south, to Eddystone Point in the north. The Council services a population of approximately 6 000.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 24 September 2001, with amended statements received on 9 October 2001. An unqualified audit report was issued on 26 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	3 407	3 456	3 596	3 736	3 881
Grants	1 494	1 685	1 785	1 603	2 058
Other operating revenue	192	283	257	231	153
Non-operating revenue	17	44	0	0	10
Total Revenue	**5 110**	**5 468**	**5 638**	**5 570**	**6 102**
Borrowing costs	239	228	226	185	117
Depreciation	1 545	1 545	1 615	1 664	1 631
Other operating expenses	4 270	3 877	3 978	4 139	4 299
Non-operating expenses	0	0	9	24	0
Total Expenses	**6 054**	**5 650**	**5 828**	**6 012**	**6 047**
Result from Ordinary Activities	**(944)**	**(182)**	**(190)**	**(442)**	**55**

Comment

The increase in grant revenue from 1999-00 to 2000-01 of $0.455m is mainly attributable to funding of $0.204m under the Roads to Recovery Programme. Non-operating revenue in 1996-97, 1997-98 and 2000-01 relates to gains on the sale of property, plant and equipment.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased over the same period, with no new borrowings being taken up since 1997-98. Non-operating expenses in 1998-99 and 1999-00 relate to losses incurred on the sale of property, plant and equipment.

Losses from ordinary activities were incurred in the four years to 30 June 2000. The Council recorded a profit of $0.055m in 2000-01, which was mainly attributable to the increased revenue from government funding.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	412	375	113	379	1 006
Receivables	480	433	505	611	602
Investments	1 102	552	1 102	352	2
Inventories	123	106	91	168	99
Other	441	464	457	389	756
Total Current Assets	**2 558**	**1 930**	**2 268**	**1 899**	**2 465**
Property, plant & equipment	50 759	51 869	51 015	50 561	49 822
Other	13	51	7	4	0
Total Non-Current Assets	**50 772**	**51 920**	**51 022**	**50 565**	**49 822**
Payables	298	109	76	110	245
Borrowings	349	324	373	348	311
Provisions	293	362	365	405	338
Other	48	79	73	13	3
Total Current Liabilities	**988**	**874**	**887**	**876**	**897**
Borrowings	2 410	2 486	2 148	1 840	1 586
Provisions	95	83	79	14	15
Other	0	41	0	0	0
Total Non-Current Liabilities	**2 505**	**2 610**	**2 227**	**1 854**	**1 601**
Net Assets	**49 837**	**50 366**	**50 176**	**49 734**	**49 789**
Reserves	48 716	48 754	49 246	49 164	49 129
Retained surpluses	1 121	1 612	930	570	660
Total Equity	**49 837**	**50 366**	**50 176**	**49 734**	**49 789**

Comment

The balance of cash assets increased from \$0.379m at 30 June 2000 to \$1.006m at 30 June 2001. The majority of the increase is attributable to a reclassification from investments and increased funding from government grants.

The balance of other current assets increased by \$0.367m between 1999-00 and 2000-01. The increase is primarily due to revenue accrued under the Roads to Recovery Programme (\$0.082m), amounts owing from the State Government for pensioner rate remissions (\$0.178m) and prepaid valuation fees (\$0.036m).

Borrowings outstanding have gradually reduced over the five-year period, with no new borrowings since 1997-98.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 419	3 722	3 676	3 781	3 996
Payments to suppliers and employees	(4 215)	(3 944)	(3 997)	(4 232)	(4 483)
Interest received	116	53	70	74	67
Borrowing costs	(244)	(266)	(222)	(177)	(148)
Cash from operations	**(924)**	**(435)**	**(473)**	**(554)**	**(568)**
Proceeds from investments	260	550	0	750	350
Payments for investments	0	0	(550)	0	0
Payments for P, P & Equipment	(1 030)	(2 351)	(947)	(1 385)	(1 155)
Proceeds from sale of P, P & E	203	436	221	216	294
Cash used in investing activities	**(567)**	**(1 365)**	**(1 276)**	**(419)**	**(511)**
Proceeds from borrowings	100	400	0	0	0
Repayment of borrowings	(230)	(322)	(298)	(364)	(270)
Cash from financing activities	**(130)**	**78**	**(298)**	**(364)**	**(270)**
Cash Flows from Government	**1 494**	**1 685**	**1 785**	**1 603**	**1 976**
Net increase in cash	**(127)**	**(37)**	**(262)**	**266**	**627**
Cash at the beginning of the period	539	412	375	113	379
Cash at end of the period	**412**	**375**	**113**	**379**	**1 006**

Comment

The net cash from operations has remained fairly stable over the past four years. Borrowing costs have gradually decreased which reflects the reduction in the level of borrowings outstanding.

Payments for property, plant and equipment amounted to $2.351m in 1997-98, of which $0.930m related to water assets. The majority of the water payments were for the construction of the St Helens water treatment plant. The Council purchased the plant from the Rivers and Water Supply Commission and a contract to disassemble, transport, reassemble and commission the plant was subsequently awarded.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(961)	(226)	(181)	(418)	45
Operating margin	>1.0	0.84	0.96	0.97	0.93	1.01
Financial Management						
Current ratio	>1	2.59	2.21	2.56	2.17	2.75
Cost of debt	7.5%	8.7%	8.1%	9.0%	8.5%	6.2%
Debt collection	30 days	51	46	51	60	57
Creditor turnover	30 days	41	15	12	16	36
Other information						
Staff numbers FTEs		48	47	45	48	47
Average staff costs ($'000s)		34	27	37	34	38

Comment

The financial performance ratios show that although Council had incurred operating losses for the four years to 30 June 2000, only in the 1996-97 year was the operating margin significantly lower from the benchmark of 1.

The cost of debt reduced in 2000-01 due to a lower interest expense being recorded. The decreased interest expense was partly attributable to disputed loan payments and balances following the takeover of Trust Bank by Colonial and then the Commonwealth Bank of Australia. The disputed loan balances have since been resolved.

The debt collection ratio has been consistently above the benchmark of 30 days. The creditor turnover figure has been greater than 30 days in 1996-97 (41 days) and 2000-01 (36 days). The balance of payables outstanding at the end of both years included large amounts for capital items, such as the purchase of motor vehicles.

The average staff costs are relatively stable for the five years under review, except for 1997-98 when the calculated average cost was $27 000. This lower average cost was due to a higher proportion of costs being capitalised for capital works.

OVERALL COMMENT

In the four years to 30 June 2000, Council recorded total operating deficits (excluding non-operating items) of $1.786m. An operating profit of $0.045m was recorded in 2000-01, which was primarily due to increased revenue from government grants.

The 2000-01 audit was completed satisfactorily with no major issues outstanding. However, as part of the audit it was identified that Council's road assets were significantly below the benchmark valuations produced by the Office's consultant engineer. It is noted that the understatement was accepted as Council adopted the cost basis to record its road assets.

The audit also revealed that Council depreciates unsealed roads over 150 years, whilst the Office's consultant engineer indicates a useful life of 100 years for the sub-base and no more than 40 years for the pavement component. The variance in useful lives was accepted as the understatement of depreciation expense was considered immaterial in relation to Council's total rating revenue.

4.4.2 CENTRAL HIGHLANDS COUNCIL

INTRODUCTION

The Central Highlands area was proclaimed a municipality under the Local Government Act 1993 and combined the former Municipalities of Hamilton and Bothwell. The population serviced by Central Highlands Council is in the order of 2 550.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements of the Central Highlands Council, signed by the General Manager, were received on 19 September 2001 and an unqualified audit report was issued on 16 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	1 856	1 963	1 769	1 844	1 949
Grants	1 404	1 498	1 638	1 476	1 600
Other operating revenue	581	438	319	276	249
Non-operating revenue	564	399	1 461	488	463
Total Revenue	**4 405**	**4 298**	**5 187**	**4 084**	**4 261**
Borrowing costs	2	2	1	1	1
Depreciation	1 646	2 218	2 342	2 363	2 376
Other operating expenses	3 247	2 929	2 933	3 078	3 358
Non-operating expenses	374	1 092	405	298	289
Total Expenses	**5 269**	**6 241**	**5 681**	**5 740**	**6 024**
Result from Ordinary Activities	**(864)**	**(1 943)**	**(494)**	**(1 656)**	**(1 763)**

Comment

Council has recorded consistent losses in the past 5 year period, which is a result of council not budgeting to cover all operating expenses, particularly depreciation.

The items of non-operating revenue and non-operating expenses generally reflect the proceeds from disposals and the carrying values of non-current assets disposed in any given year. The significantly higher amounts under non-operating revenue in 1996-97 resulted from the transfer of independent living units amounting to $0.180m from Centralinc whilst in 1998-99 an amount totalling $0.889m was transferred in for the infrastructure assets for the Wayatinah village.

The significantly higher amount under non-operating expenses in 1997-98 is related to a devaluation adjustment on Council's infrastructure assets amounting to $0.848.

The increasing trend in depreciation from 1997-98 is due to the transfer of the infrastructure assets of the Wayatinah village.

FINANCIAL POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Cash	503	1 678	1 537	967	1 910
Receivables	100	181	175	317	290
Investments	400	400	400	923	0
Inventories	49	49	40	49	52
Other	31	27	26	48	94
Total Current Assets	**1 083**	**2 335**	**2 178**	**2 304**	**2 346**
Property, plant & equipment	40 114	37 337	37 020	35 270	33 451
Other	160	166	139	93	43
Total Non-Current Assets	**40 274**	**37 503**	**37 159**	**35 363**	**33 494**
Payables	10	52	70	85	72
Provisions	316	430	432	470	471
Other	32	73	78	52	9
Total Current Liabilities	**358**	**555**	**580**	**607**	**552**
Borrowings	20	15	14	11	0
Provisions	20	19	28	30	32
Other	120	80	40	0	0
Total Non-Current Liabilities	**160**	**114**	**82**	**41**	**32**
Net Assets	**40 839**	**39 169**	**38 675**	**37 019**	**35 256**
Reserves	979	2 344	2 268	2 265	2 457
Retained surpluses	39 815	36 825	36 407	34 754	32 799
Total Equity	**40 794**	**39 169**	**38 675**	**37 019**	**35 256**

Comment

The increase in receivables from $0.100m in 1996-97 to $0.290 in 2000-01 is due to the increase in rate debtors that have found difficulty in meeting their obligations due to prolonged drought seasons.

The significantly higher amounts noted for cash from 1997-98 year resulted from the receipt of $1.227m for taking over the responsibility for the infrastructure assets in the Wayatinah village. The reduction from 1999-00 is reflected by increases in investments following a change in cash management strategy.

The amounts noted under other non-current liabilities are involved with the progressive balance of amortisation of the valuation fee incurred, which amortised at the amount of $0.040m per annum.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	2 158	3 414	2 159	2 055	2 514
Payments to suppliers and employees	(3 263)	(2 775)	(2 925)	(3 100)	(3 739)
Interest received	78	81	128	117	128
Borrowing costs	(2)	(1)	(1)	(1)	(1)
Cash from operations	**(1 029)**	**719**	**(639)**	**(929)**	**(1 098)**
Payments for investments	0	(51)	(19)	0	0
Payments for P, P & Equipment	(585)	(1 020)	(1 135)	(613)	(542)
Proceeds from sale of P, P & E	168	34	19	21	73
Cash used in investing activities	**(417)**	**(1 037)**	**(1 135)**	**(592)**	**(469)**
Repayment of borrowings	(21)	(5)	(5)	(2)	(13)
Cash from financing activities	**(21)**	**(5)**	**(5)**	**(2)**	**(13)**
Cash Flows from Government	**1 631**	**1 498**	**1 638**	**1 476**	**1 600**
Net increase in cash	**164**	**1 175**	**(141)**	**(47)**	**20**
Cash at the beginning of the period	739	903	2 078	1 937	1 890
Cash at end of the period	**903**	**2 078**	**1 937**	**1 890**	**1 910**

Comment

The significant increase in receipts from customers in 1997-98 resulted from the receipt of $1.227m for the Wayatinah village.

The payments for investments in 1997-98 and 1998-99 are a consequence of Council's decision to extend loans to the Great Lake Community Centre committee.

The higher level of payments for property, plant and equipment in 1997-98 are due to increased capital works on infrastructure, including roads, water and sewerage works. The resultant decrease from this level in the 1999-00 year is due to less funds being available to fund such capital works.

The fluctuations under payments to suppliers and employees are mainly related to the amount of repairs and maintenance required for unsealed rural roads.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(1 054)	(1 250)	(1 550)	(1 846)	(1 937)
Operating margin	>1.0	0.78	0.76	0.71	0.66	0.66
Financial Management						
Current ratio	>1	3.03	4.21	3.76	3.80	4.25
Cost of debt	7.5%	10.0%	13.3%	7.1%	9.1%	0.0%
Debt collection	30 days	20	34	36	63	54
Creditor turnover	30 days	1	6	9	10	8
Other information						
Staff numbers FTEs		46	31	33	35	34
Average staff costs ($'000s)		31	38	35	34	38

Comment

The trend for results from operations is mainly related to the depreciation charge not being covered in the rating process, and as increased depreciation expenses are being incurred, the operating loss continues to increase. This also results in a low operating margin of 0.66, which is well below the benchmark. With the Council's low population base and continued drought conditions, it is difficult for council to raise additional funding through rate increases.

The cost of debt ratios have little impact on council due to the insignificance of the outstanding borrowings over the past five years, which at the end of 2000-01 was fully paid.

The increase in the ratio for debt collection from 1999-00 was due to a legal challenge by a substantial ratepayer and increased hardship due to drought conditions experienced by a significant number of ratepayers. The matter with the substantial ratepayer has now been resolved, which explains the decrease noted in the 2000-01 year. The overall level is still very high, as the outstanding rates significantly influence the final figure.

OVERALL COMMENT

The audit of the accounts for the 2000-01 year was completed with satisfactory results. Only one issue was raised for Council's attention during the audit, relating to road asset values.

Central Highlands Council does not separately disclose the components that make up a road asset within its asset register. The Council records identify each road as a single line item within the asset register, with a single useful life. This approach is not consistent with Urgent Issues Group consensus view UIG 30 'Depreciation of Long Lived Assets'. Due to issues relating to the total value of the road asset network, Council deemed the values of road assets to be recorded at cost in line with the transition arrangements of AAS 38 'Revaluation of Non-Current Assets'.

We have noted that the above issue is being addressed with a detailed road valuation to be undertaken in the 2001-02 financial year.

4.4.3 FLINDERS COUNCIL

INTRODUCTION

The Flinders Council originates from the Flinders Municipality, which was established in 1907. Flinders Island is the largest of the Furneaux group of islands and is about 29 kilometres wide at its widest point and 64 kilometres long. The Council services a population of approximately 950 people.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 26 September 2001, with amended statements received on 26 October 2001. A qualified audit report was issued on 7 November 2001. The qualification related to the Council's depreciation policy for unsealed roads.

During 2000-01, Council adopted an overall rate for depreciating its unsealed roads of 0.75% per annum, which equates to a useful life of 133 years. The reasonableness of the useful life was compared to typical economic lives identified by the Office's consultant engineer. The comparison revealed that the Council's depreciation rate of 0.75% was significantly lower than the rates identified by the consultant's independent review.

The financial impact of depreciating unsealed roads at 0.75% was determined by comparing the depreciation expense with the expense calculated using a rate of 1.75%, which was provided by Council's consulting engineer, which is also more closely aligned to the rate supported by our consultant engineer. Based on these calculations, Council is under-depreciating unsealed roads by approximately $350 000.

Council indicated that it is currently in discussions with its consulting engineers to determine an appropriate economic life for unsealed roads.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	644	664	685	711	703
Grants	844	788	858	1 220	957
Other operating revenue	380	380	440	390	429
Non-operating revenue	0	65	0	31	0
Total Revenue	**1 868**	**1 897**	**1 983**	**2 352**	**2 089**
Borrowing costs	9	3	2	0	0
Depreciation	356	950	921	883	1 039
Other operating expenses	1 505	1 383	1 352	1 497	1 547
Non-operating expenses	0	130	0	0	13
Total Expenses	**1 870**	**2 466**	**2 275**	**2 380**	**2 599**
Result from Ordinary Activities	**(2)**	**(569)**	**(292)**	**(28)**	**(510)**

Comment

The increase in grant revenue in 1999-00 was mainly due to $300 000 in government funding for the sealing of the airport runway. Non-operating revenue in 1999-00 of $31 000 relates to the gain on sale of property, plant and equipment.

Council has incurred no borrowing costs in the past two financial years, as loans were repaid during 1998-99. Depreciation expense increased by $594 000 in 1997-98 due to the recognition of roads, bridges, drainage and water connections on 30 June 1997. Consequently, 1997-98 was the first year that depreciation was charged in respect to these assets. The increase in depreciation expense in 2000-01 of $156 000 is mainly due to the revaluation of road assets during the year and the adoption of new useful lives.

The Council has incurred losses from ordinary activities in all of the past five years. The total loss from ordinary activities for the period under review amounts to $1 401 000.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	119	187	26	44	145
Receivables	94	61	91	226	147
Investments	2 032	1 997	2 623	2 823	2 958
Inventories	25	412	389	286	232
Other	54	30	36	37	52
Total Current Assets	**2 324**	**2 687**	**3 165**	**3 416**	**3 534**
Property, plant & equipment	40 737	39 610	38 819	38 713	39 485
Other	26	16	43	39	30
Total Non-Current Assets	**40 763**	**39 626**	**38 862**	**38 752**	**39 515**
Payables	182	62	85	47	60
Borrowings	143	47	79	281	0
Provisions	69	66	94	99	97
Other	65	98	63	54	83
Total Current Liabilities	**459**	**273**	**321**	**481**	**240**
Borrowings	25	20	0	0	0
Provisions	67	66	45	53	62
Other	13	0	0	0	0
Total Non-Current Liabilities	**105**	**86**	**45**	**53**	**62**
Net Assets	**42 523**	**41 954**	**41 661**	**41 634**	**42 747**
Reserves	2 032	1 997	2 643	2 843	4 467
Retained surpluses	40 491	39 957	39 018	38 791	38 280
Total Equity	**42 523**	**41 954**	**41 661**	**41 634**	**42 747**

Comment

The balance of receivables increased from 1998-99 to 1999-00 by $135 000. The balance at 30 June 2000 included $100 000 relating to grant funding due from the State Government for the sealing of the airport runway. An amount outstanding from Island Airlines was also included in the receivables balance at 30 June 2000. However, this debt was fully provided for and was written off during 2000-01 based on advice from the airline’s liquidators.

As noted previously, Council repaid its outstanding borrowings in 1998-99. The balance of current borrowing at 30 June 1999 and 2000 represents the Council’s bank overdraft.

The increase in reserve balances from 1999-00 to 2000-01 of $1.624m is due to the revaluation of road assets during the year.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	923	983	936	843	1 032
Payments to suppliers and employees	(1 356)	(1 524)	(1 316)	(1 369)	(1 557)
Interest received	161	126	108	149	169
Borrowing costs	(9)	(3)	(2)	0	0
Cash from operations	**(281)**	**(418)**	**(274)**	**(377)**	**(356)**
Proceeds from investments	211	34	0	0	0
Payments for investments	0	0	(625)	(200)	(135)
Payments for P, P & Equipment	(799)	(277)	(131)	(837)	(271)
Proceeds from sale of P, P & E		40		104	77
Cash used in investing activities	**(588)**	**(203)**	**(756)**	**(933)**	**(329)**
Proceeds from borrowings					
Repayment of borrowings	(62)	(31)	(25)	0	0
Cash from financing activities	**(62)**	**(31)**	**(25)**	**0**	**0**
Cash Flows from Government	**844**	**788**	**859**	**1 125**	**1 067**
Net increase in cash	**(87)**	**136**	**(196)**	**(185)**	**382**
Cash at the beginning of the period	95	8	144	(52)	(237)
Cash at end of the period	**8**	**144**	**(52)**	**(237)**	**145**

Comment

The net cash from operations has remained fairly stable over the past five years. The increase in receipts from customers and payments to suppliers in 2000-01 is due to the impact of GST.

Payments for property, plant and equipment amounted to $837 000 in 1999-00, which includes the sealing of the airport runway. The increase in the cash flows from government in 1999-00 is mainly attributable to the receipt of $200 000 from the Federal Government for the sealing of the runway. A further $100 000 was received for the runway from the State Government in 2000-01.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(2)	(504)	(292)	(59)	(497)
Operating margin	>1.0	1.00	0.78	0.87	0.98	0.81
Financial Management						
Current ratio	>1	5.06	9.84	9.86	7.10	14.73
Cost of debt	7.5%	10.2%	7.6%	-	-	-
Debt collection	30 days	53	34	48	65	76
Creditor turnover	30 days	73	29	41	19	23
Other information						
Staff numbers FTEs		17	17	17	17	17
Average staff costs ($'000s)		35	35	36	36	36

Comment

The financial performance ratios show that Council has incurred operating losses for the five years to 30 June 2001. The total losses for this period amount to $1.354m.

Council's current ratio is well above the benchmark in all five years and indicates that the Council is able to meet all short-term liabilities.

A cost of debt has not been calculated for 1998-99, 1999-00 and 2000-01 as Council repaid its outstanding borrowings in 1998-99.

The debt collection ratio has been consistently above the benchmark of 30 days. The ratio is affected by rates owed at 30 June by the Flinders Island Lodge, which was under administration at the time of audit. Council has advised that the debt was paid in full on 16 November 2001. The creditor turnover figure has been greater than 30 days in 1996-97 (73 days) and 1998-99 (41 days). The balance of payables at the end of both years included large invoices outstanding.

The average staff costs were stable for the five years under review.

OVERALL COMMENT

In the five years under review, Council recorded total operating deficits (excluding non-operating items) of $1.354m. The change in useful lives and resulting increase in depreciation expense for road assets impacted upon the operating result for 2000-01 (deficit of $0.497m). It is also estimated by Audit that Council is also under-depreciating its road network by approximately $350 000, which is not included in the operating deficit.

4.4.4 GLAMORGAN/SPRING BAY COUNCIL

INTRODUCTION

The Glamorgan/Spring Bay area was proclaimed a municipality under the Local Government Act 1993 and combined the former Municipalities of Glamorgan and Spring Bay. The population serviced by Glamorgan/Spring Bay Council is in the order of 4 170. However, during the summer months the population increases by threefold especially upon the return of owners of holiday homes and caravans.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The draft financial statements of the Glamorgan/Spring Bay were received by e-mail on 30 September 2001 and are still under audit review.

It is to be noted that although the May Shaw Nursing Centre is being run as a separate entity, its financial results are incorporated into the Council's financial statements.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	3 101	3 317	3 507	3 719	4 008
Grants	1 579	1 850	2 055	2 641	3 009
Other operating revenue	699	366	385	444	700
Non-operating revenue	263	132	41	88	45
Total Revenue	**5 642**	**5 665**	**5 988**	**6 892**	**7 762**
Borrowing costs	156	142	147	125	112
Depreciation	371	1 876	1 968	1 942	1 409
Other operating expenses	4 167	4 368	4 755	5 341	5 982
Non-operating expenses	201	132	40	92	6 797
Total Expenses	**4 895**	**6 518**	**6 910**	**7 500**	**14 300**
Result from Ordinary Activities	**747**	**(853)**	**(922)**	**(608)**	**(6 538)**

Comment

In 1999-00, grant revenue increased as additional grants were received for land care of $0.457m and $0.333m was received for National Heritage Trust programs. In the 2000-01 year, an amount totalling $0.550m was received for the Coles Bay water scheme.

The items of non-operating revenue and non-operating expenses generally reflect the proceeds from disposals and the carrying values of non-current assets disposed in any given year respectively. As from 1998-99, council commenced leasing motor vehicles and computer equipment, causing a reduction in proceeds from sale in future periods.

The increase in other non-operating expenses in the 2000-01 year is due to the downward revaluation in selected categories of non-current assets, particularly roads. The total decrease amounted to $6.793m.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	55	247	(4)	17	67
Receivables	445	292	420	286	446
Investments	1 561	1 451	1 481	2 439	2 336
Inventories	14	14	0	0	0
Other	30	44	74	0	0
Total Current Assets	**2 105**	**2 048**	**1 971**	**2 742**	**2 849**
Property, plant & equipment	44 028	43 401	43 898	42 960	41 676
Other	83	44	5	81	60
Total Non-Current Assets	**44 111**	**43 445**	**43 903**	**43 041**	**41 736**
Payables	290	302	114	363	438
Borrowings	153	178	204	206	228
Provisions	247	257	325	394	307
Other	109	112	119	197	131
Total Current Liabilities	**799**	**849**	**762**	**1 160**	**1 104**
Borrowings	1 420	1 525	1 320	1 358	1 528
Provisions	46	57	21	43	94
Other	36	0	0	59	162
Total Non-Current Liabilities	**1 502**	**1 582**	**1 341**	**1 460**	**1 784**
Net Assets	**43 915**	**43 062**	**43 771**	**43 163**	**41 697**
Reserves	2 526	2 715	2 701	868	5 868
Retained surpluses	41 389	40 347	41 070	42 295	35 829
Total Equity	**43 915**	**43 062**	**43 771**	**43 163**	**41 697**

Comment

The movement for cash in 1998-99 is directly related to the decrease in payables, as cheques amounting to $0.210m written in July 1999 were backdated to 30 June 1999.

The increase in investments from 1999-00 is due to the Council's decision in setting aside cash for earmarked projects in the future.

The amounts under other current assets were related to prepayments for items such as annual insurance premiums, annual subscriptions and a range of rentals on properties. In 1999-00, there was a change in procedures, in which annual payments are now made on the first day of the new financial year. Hence, prepayments are no longer applicable.

The relatively small amount under reserves in 1999-00, compared to other preceding years, is due to a change in Council's policy to disclose only those reserves earmarked for projects that were backed by cash balances. The subsequent increase in 2000-01 is due to the creation of an asset revaluation reserve of $5.010m for items of property, plant and equipment that had an revaluation increment during the revaluation exercise carried out during 2000-01.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 773	4 040	4 096	4 163	4 590
Payments to suppliers and employees	(4 509)	(4 645)	(5 275)	(5 041)	(6 023)
Interest received	70	91	78	134	144
Borrowing costs	(158)	(142)	(147)	(125)	(112)
Cash from operations	**(824)**	**(656)**	**(1 248)**	**(869)**	**(1 401)**
Payments for P, P & Equipment	(800)	(1 241)	(817)	(1 073)	(1 925)
Proceeds from sale of P, P & E	192	31	24	88	91
Cash used in investing activities	**(608)**	**(1 210)**	**(793)**	**(985)**	**(1 834)**
Proceeds from borrowings	135	285	0	223	400
Repayment of borrowings	(178)	(191)	(179)	(183)	(227)
Cash from financing activities	**(43)**	**94**	**(179)**	**40**	**173**
Cash Flows from Government	**1 700**	**1 853**	**1 999**	**2 793**	**3 009**
Net increase in cash	**225**	**81**	**(221)**	**979**	**(53)**
Cash at the beginning of the period	1 391	1 616	1 698	1 477	2 456
Cash at end of the period	**1 616**	**1 697**	**1 477**	**2 456**	**2 403**

Comment

The increase from 1998-99 to 1999-00 for payments to suppliers and employees is directly related to the undertaking of projects in Coles Bay, the Prosser-Orford water schemes and land care.

The highest amount over the five years period in payments for property, plant and equipment, noted in 2000-01, is concerned with significant additions such as roads and bridges construction of $0.386m, furniture and fittings expenditure at the council offices $0.109m and works in progress amounting to $0.205m.

Although Treasury allocated Council a loan amount totalling $0.223m in 1998-99 for upgrading the Bicheno sewage system and the Council Chambers at Triabunna, it was not taken up until 1999-00. This was because works did not commence until late in 1998-99 and additional finance was not required at that stage.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		685	(853)	(923)	(604)	214
Operating margin	>1.0	1.15	0.87	0.87	0.92	1.03
Financial Management						
Current ratio	>1	2.63	2.41	2.59	2.36	2.58
Cost of debt	7.5%	9.9%	8.3%	9.6%	8.0%	6.4%
Debt collection	30 days	52	32	44	28	41
Creditor turnover	30 days	25	25	9	25	27
Other information						
Staff numbers FTEs		52	54	54	55	56
Average staff costs ($'000s)		42	42	46	48	47

Comment

The deficit result from operations in 1997-98 is due to the commencement of accounting for depreciation for all of Council's infrastructure assets. Since that time, losses have continued to be incurred, and the benchmark operating margin has not been met. This indicates that council are not budgeting to cover all operating expenses, including depreciation. The result for the 2000-01 year is significantly affected by the asset devaluation of $6.793m. If this write-down had not occurred, a small profit of $0.255m would have been recorded.

OVERALL COMMENT

The accounts for the 2000-01 year are still under audit review, and to this stage, no major issues have been highlighted.

4.4.5 KENTISH COUNCIL

INTRODUCTION

The Kentish Council originated from the Kentish Municipality, which was established in 1907. The council boundary was not affected by the amalgamation undertaken across local government in 1993.

The municipal area covers approximately 1 187 square kilometres and encompasses the towns of Sheffield and Railton. The Council services a population of approximately 5 500 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2001, with amended financial statements submitted on 12 November 2001. An unqualified audit report was issued on 20 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	1 875	1 780	1 870	1 983	2 118
Grants	1 225	1 192	1 295	1 593	2 239
Other operating revenue	225	205	125	107	161
Non-operating revenue	0	0	0	900	0
Total Revenue	**3 325**	**3 177**	**3 290**	**4 583**	**4 518**
Borrowing costs	58	71	67	69	61
Depreciation	834	811	731	719	1 115
Other operating expenses	2 836	2 720	2 639	2 684	2 860
Non-operating expenses	50	323	1 713	1	5
Total Expenses	**3 778**	**3 925**	**5 150**	**3 473**	**4 041**
Result from Ordinary Activities	**(453)**	**(748)**	**(1 860)**	**1 110**	**477**

Comment

Revenue from rates, fees and charges has increased from $1.875m in 1996-97 to $2.118m in 2000-01. This represents a total increase of $0.243m. However, a more significant movement has been the increase in the rates revenue from $1.372m in 1996-97 to $1.946m in 2000-01, which represents an increase of $0.574m. The movement in rates revenue between 1999-2000 and 2000-01 was $0.190m. This significant increase is the result of advice from an independent financial advisor, who conducted a review of the council's viability in 1999-2000.

In the three year period from 1996-97 to 1998-99 the grant revenue remained constant. In 1999-00 grants increased by $0.298m as a result of Natural Heritage Trust funding of $0.095m for the Sheffield Waste Water Treatment Plant project and $0.160m from the Department of Primary Industries, Water and Environment for the Clean Water Quality Program. Grant revenue increased again in 2000-01 because of Commonwealth Road to Recovery funding totalling $0.789m.

Non operating revenue in 1999-00 of $0.900m reflects Council's acquisition of its ownership interest in the North West Water Authority (trading as Cradle Coast Water). The State Government returned control of the bulk water supply assets to the councils who were supplied by the former North West Regional Water Authority. A corresponding non current investment was recognised to reflect the asset balance of the acquisition.

Non operating expenditure of $0.323m in 1997-98 includes $0.157m compost inventory written off, which was in previous years considered saleable, but failed to attract a market. In addition, the written down value of bridges replaced during the year, totalling $0.167m was written off as an asset disposal.

Non operating expenditure in 1999-00 totalled $1.713m. This included an asset write off totalling $1.349m (treated as a disposal for nil consideration), which represents the long term lease of elderly person units owned by Council to Tandara Nursing Homes Inc. In addition, the written down value totalling $0.365m of the Gowrie Park Recreation Centre, which was recorded as an asset of Council, but not controlled, was written off.

The depreciation expense in 1998-99 decreased by $0.040m. This was the result of the transfer of the elderly person units. The buildings were not depreciated in the 1998-99 financial period.

The depreciation expense in 2000-01 increased by $0.396m from the previous year. The depreciation of road assets was changed as a result of Council's current practices being inconsistent with benchmark rates provided by a consultant engaged by my Office. In particular, problems were noted in Council's policy of not depreciating gravel roads. After consultation with Council, the gravel roads were depreciated based upon engineering advice recently received by Council, which resulted in an additional $0.387m being expensed.

In the first 3 years under review, the Council incurred significant losses (excluding non operating revenues and expenses). However, improvement was noted in 1999-00 and in 2000-01, in which Council recorded profits form ordinary activities.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	631	385	428	709	1 264
Receivables	85	138	75	128	235
Investments	484	36	37	37	0
Inventories	184	27	27	0	0
Other	31	27	26	0	70
Total Current Assets	**1 415**	**613**	**593**	**874**	**1 569**
Property, plant & equipment	25 329	24 609	22 714	22 553	22 575
Investments		912	912	1 737	1 737
Other	116	92	68	86	83
Total Non-Current Assets	**25 445**	**25 613**	**23 694**	**24 376**	**24 395**
Payables	238	357	305	156	281
Borrowings	38	105	128	144	81
Provisions	98	82	83	10	16
Other	175	30	30	1	1
Total Current Liabilities	**549**	**574**	**546**	**311**	**379**
Borrowings	515	616	587	670	589
Provisions	19	30	32	37	33
Other	48	24	0	0	0
Total Non-Current Liabilities	**582**	**670**	**619**	**707**	**622**
Net Assets	**25 729**	**24 982**	**23 122**	**24 232**	**24 963**
Reserves	26 159	26 163	26 091	26 091	26 291
Retained surpluses(deficits)	(430)	(1 181)	(2 969)	(1 859)	(1 328)
Total Equity	**25 729**	**24 982**	**23 122**	**24 232**	**24 963**

Comment

The cash balance at 30 June 2001 totalled $1.264m, which was an increase of $0.555m from 1999-00. The balance reflects Council holding unexpended grant funds totalling $0.295m.

The balance of receivables has fluctuated between the periods being reviewed. However, the balance in 2000-01, totalling $0.235m represents an increase of $0.107m from the prior period. The increase consists of a movement in the balance of rates outstanding of $0.076m. Council is experiencing problems with the collection of rate debtors, but is undertaking appropriate action to reduce the balance outstanding.

The inventories balance decreased by $0.157m between 1996-97 and 1997-98. This was the result of the previously mentioned write off of the compost inventory.

The balance of other current assets in 2000-01 totalled $0.070m. This balance consists of $0.065m owing to Council in relation to the GST.

Property, plant and equipment has remained fairly consistent over the period of review. However, in 1998-99, the balance decreased by $1.895m which is attributable to the previously mentioned write off of elderly person units transferred to Tandara Nursing Homes Inc and disposal of the Gowrie Park Recreation Centre.

Non current investments at 30 June 2001 consisted of Council's ownership interests, as a participating council, in the Kentish/Latrobe Joint Authority, totalling $0.837m and the North West Water Authority, recorded as $0.900m.

The investment in the Kentish/Latrobe Joint Authority was made in 1997-98 by the equity contribution of cash and assets, totalling $0.912m. The investment was reduced by $0.075m in 1999-00 with the return of several motor vehicles to the Council. The Latrobe Council has formalised its intentions to withdraw from the Joint Authority, which is currently being dissolved by an independent Liquidator. It is envisaged that the repayment of cash and return of assets will materially offset the current balance held by the Council.

The investment in the North West Water Authority occurred in 1999-2000. As noted previously, the State Government returned control of the bulk water supply assets to the councils who were supplied by the former North West Regional Water Authority. A corresponding revenue item was recognised to reflect the acquisition, which occurred without any contributions being made by Council.

The majority of other non current assets reflects a loan, totalling $0.068m, in lieu of an equity contribution to the Dulverton Regional Waste Management Authority. The Authority provides a waste disposal site to a number of member councils on the north west coast.

Creditors has been stable over the 5 year period, excepting the 1999-00 balance of $0.156m, in which problems were encountered with Council's accounting system. Council processed cheques drawn in July 2000 as June payments. This resulted in both the cash and creditor balances being understated.

Other current liabilities in 1996-97 include $0.165m relating to prepaid donor fees for the elderly persons units. These were transferred in 1997-98 when Tandara Nursing Home Inc took over the operations of the units.

Total borrowings balance has remained constant over review period. The increase in the current repayment balances for the 3 years covering 1997-98 to 1999-00 represents a short term financing arrangement with Tas Span for the construction of several bridges in 1997-98. The loan was finalised in 2000-01.

The balance of provisions reduced in 1999-00 as a result of employees previously seconded to the Kentish/Latrobe Joint Authority, being transferred to the Authority. Leave balances were paid to the Joint Authority.

Other non current liabilities in 1996-97 and 1997-98 comprise of the municipal property revaluation liability, which was payable in 5 annual instalments.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 975	1 937	2 032	2 002	2 175
Payments to suppliers and employees	(2 730)	(2 669)	(2 700)	(2 826)	(3 105)
Interest received	70	36	26	35	63
Borrowing costs	(63)	(77)	(67)	(69)	(61)
Cash from operations	**(748)**	**(773)**	**(709)**	**(858)**	**(928)**
Payments for investments	0	(400)	0	0	0
Payments for P, P & Equipment	(365)	(670)	(537)	(569)	(669)
Proceeds from sale of P, P & E	100	77		16	19
Cash used in investing activities	**(265)**	**(993)**	**(537)**	**(553)**	**(650)**
Proceeds from borrowings	0	0	100	240	0
Repayment of borrowings	(35)	(120)	(105)	(141)	(143)
Cash from financing activities	**(35)**	**(120)**	**(5)**	**99**	**(143)**
Cash Flows from Government	**1 225**	**1 192**	**1 295**	**1 593**	**2 239**
Net increase in cash	**177**	**(694)**	**44**	**281**	**518**
Cash at the beginning of the period	938	1 115	421	465	746
Cash at end of the period	**1 115**	**421**	**465**	**746**	**1 264**

Comment

The net cash from operations has remained fairly stable over the five years under review.

Payments for investments recorded as an investing outflow in 1997-98 represents the cash paid to the Kentish/Latrobe Joint Authority, as a part of Council's equity contribution.

Proceeds from borrowings, recorded under financing activities, indicates two new loans in the period under review. However, in 1997-98, Council incurred a loan debt to Tas Span for bridge replacement projects. The debt totalling $0.219m is not recorded in the Cash Flow Statement, as there were no cash transaction.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(403)	(425)	(147)	211	482
Operating margin	>1.0	0.89	0.88	0.96	1.06	1.12
Financial Management						
Current ratio	>1	2.58	1.07	1.09	2.81	4.14
Cost of debt	7.5%	10.5%	9.8%	9.4%	8.5%	9.1%
Debt collection	30 days	17	28	15	24	40
Creditor turnover	30 days	47	56	43	23	43
Other information						
Staff numbers FTEs		-	-	-	9	8
Average staff costs ($'000s)		-	-	-	18	55

Comment

The financial performance of the Council over the 5 year period has resulted in accumulated losses from ordinary activities totalling $0.474m. However, the accumulated losses from operations, which excludes non operating transactions, totalled $0.282m. The operating margin ratio tracks the losses in the 3 year period from 1996-97 to 1998-99. In each of these financial periods, Council failed to meet the benchmark. However, Council was above the benchmark balance in 1999-00 and 2000-01.

Council was above the benchmark current ratio in all the 5 years under review. The increases in cash balances held in 1999-2000 and 2000-01 have significantly improved Council's liquidity position.

The cost of debt ratio has exceeded the benchmark rate in all the years under review. An analysis of the weighted average interest rate at 30 June 2001 indicates an effective rate of 8.6%.

The debt collection ratio has been consistently below the benchmark of 30 days. The only exception noted was due to increased rate debtors at 30 June 2001.

The creditor turnover figure has been consistently above the benchmark ratio of 30 days. The only exception was in 1999-00, with a ratio of 23 days. The 1999-00 ratio was distorted by Council treating creditor payments in July 2000 as June payments. This resulted in the understatement of both cash and the creditors balances.

Although the creditor ratio appears to indicate delays in the payment of outstanding creditors, in general Council adheres to its policy to settle creditors within specific trading terms.

In April 2000, the corporate services functions undertaken by the Kentish/Latrobe Joint Authority were transferred back to Council. However, none of the employees previously employed by Council returned. Council commenced with totally new employees. This has resulted in Council being unable to provide reliable employee numbers for the 3 year period covering 1996-97 to 1998-99. Consequently, the analysis on average staff costs was not prepared for these years.

The average staff costs for 1999-00 are distorted, as the majority of the 9 employees at 30 June 2001 did not commence until March-April 2000, with the transfer of the corporate services function.

OVERALL COMMENT

In the five years to 30 June 2001, Council has recorded a net operating deficit of \$0.282. (excludes non-operating items). However, operating profits were recorded in 1999-00 and 2000-01.

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

A review of Council's road asset records noted that the valuations of sealed and unsealed roads were significantly below the benchmarks provided by our consultant. Given Council's decision to deem carrying values at cost, I have not pursued the matter.

However, I endorse Council's decision to review its road valuations during 2001-02.

During 2000-01, the Local Government review Board undertook a review of the Council. An Interim Report was submitted to the Premier on 14 May 2001.

The report provided a number of recommendations relating to governance, regulatory functions and the roles and responsibilities of elected members.

However, of particular interest were the comments and recommendations relating to asset management and financial matters. These major finding and recommendations are summarised below.

The Board determined a view that Council's Asset Management practices and procedures were of a poor and ineffective standard and that Council demonstrates little understanding of the impending Asset Funding crisis that was upon it. Consequently, it was recommended that:

- Urgent priority be given to the development of an Asset Management Plan and the formulation of contemporary asset policies and procedures for all classes of infrastructure assets;

- A significant allocation be made in the coming Budget's operational expenses for the development of proper policies and procedures culminating in an Asset Management Plan; and

- Rating policies be increased dramatically to cover the Operating deficit and Capital Works Programs.

In the view of the Board, the Asset Valuation and Depreciation changes will substantially reduce the recorded financial viability of Council. Consequently, it was recommended that:

- Council develop a Financial Management Plan that includes a focus on depreciation and asset management data to provide a strong link between asset management strategies; and financial operating capabilities; and

- Council address its decreases in operating capability with a clearly defined strategy for the ensuing 5 to 10 years.

In addition, the Board formed the view that successive Councils have not progressively and responsibly increased their rates revenue to deal with the underlying operating deficit. Furthermore, it was the Board's view that over the last 5 years, Council could have increased its rate levels, demonstrated a serious attitude to taking advantages of resource sharing and grasped the issues associated with the introduction of AAS 27 Accounting Standard.

4.4.6 KING ISLAND COUNCIL

INTRODUCTION

The King Island Council (proclaimed 1993) originates from the King Island Municipality, which was established in 1907. The municipality covers an area of approximately 1100 square kilometres with Council services provided to a population of approximately 1800 people.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements were received on 6 November 2001. An unqualified audit report was issued on 20 November 2001

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	2 024	2 032	2 103	2 147	2 182
Grants	923	930	1 087	3 347	1 915
Other operating revenue	154	138	197	274	360
Non-operating revenue	0	0	939	0	1
Total Revenue	**3 101**	**3 100**	**4 326**	**5 768**	**4 458**
Borrowing costs	54	39	24	15	11
Depreciation	1 082	1 085	1 106	1 102	1 138
Other operating expenses	2 541	2 430	2 480	2 673	4 861
Non-operating expenses	24	12	9	30	47
Total Expenses	**3 701**	**3 566**	**3 619**	**3 820**	**6 057**
Result from Ordinary Activities	**(600)**	**(466)**	**707**	**1 948**	**(1 599)**

Comment

Revenue from rates, fees and charges has steadily increased during the 5 years to 30 June 2001.

The increased grant revenue in 1999-00 includes $1.660m for the Networking the Nation project. Non-operating revenue in 1998-99 of $0.939m represents road, water, sewerage and stormwater infrastructure taken over by Council from Minga King

Island Pty Ltd at Grassy township during the reporting period and the recognition of Millers Bay Road.

Borrowing costs have decreased from $0.054m in 1996-97 to $0.011m in 2000-01. The decrease is attributable to regular repayments of loan borrowings, which has resulted in a reduction in the balance of loans outstanding.

Other operating expenses have increased by $2.188m in 2000-01. The major additional item included this year is a one-off payment of $1.660m for costs associated with the Networking the Nation project. Corresponding grant funds were received during the previous year.

Council's results from ordinary activities have varied. A profit of $1.948m was recorded for the 1999-00 year largely due to the receipt of the $1.660m grant funding with expenditure incurred in the 2000-01 year. This expenditure, impacted on the 2000-01 result, a loss of $1.599m.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	133	267	160	80	754
Receivables	197	184	246	388	318
Investments	716	1 010	1 196	3 228	3 150
Inventories	185	218	299	404	399
Other	167	38	57	59	32
Total Current Assets	**1 398**	**1 717**	**1 958**	**4 159**	**4 653**
Property, plant & equipment	21 063	20 435	20 238	19 965	19 510
Investments	743	600	600	486	486
Other	0	0	42	28	14
Total Non-Current Assets	**21 806**	**21 035**	**20 880**	**20 479**	**20 010**
Payables	79	60	49	135	1 767
Borrowings	154	147	152	35	36
Provisions	316	306	349	299	314
Other	47	123	139	116	147
Total Current Liabilities	**596**	**636**	**689**	**585**	**2 264**
Borrowings	457	310	163	128	92
Provisions	43	47	34	39	34
Other	0	0	42	28	14
Total Non-Current Liabilities	**500**	**357**	**239**	**195**	**140**
Net Assets	**22 108**	**21 759**	**21 910**	**23 858**	**22 259**
Reserves	2 083	2 323	1 780	1 522	1 700
Retained surpluses	20 025	19 436	20 130	22 336	20 559
Total Equity	**22 108**	**21 759**	**21 910**	**23 858**	**22 259**

Comment

Inventories have increased by $0.214m over the 5-year period largely due to the Council's quarry operations. Stock on hand for quarry operations has grown from $0.018m in 1996-97 to $0.205m in 2000-01.

The balance of cash assets increased from $0.080m at 30 June 2000 to $0.754m at 30 June 2001. The majority of the increase is due to increased funding from government grants for the 1999-00 and 2000-01 years of which not all has yet been paid out. Investment funds have also increased for this reason between 30 June 1999 ($1.796m) and 30 June 2000 ($3.714m).

The balance of other current assets decreased by $0.129m between 1996-97 and 1997-98. During 1997-98 Land ($0.013m) and Buildings ($0.094m) held for resale were re-classified as non-current assets.

Payables have increased significantly for the 2000-01 year by $1.632m. The payables amount of $1.767m includes $1.660m for costs associated with Networking the Nation, which were all outstanding at 30 June 2001.

Borrowings have decreased over the 5-year period under review from $0.611m at 30 June 1997 to $0.128m at 30 June 2001. There have been no new borrowings in this period.

The decrease in reserve balances from 1997-98 to 1999-00 of $0.543m is due to the revaluation of buildings during the year in accordance with the Valuer General's Municipal Valuation.

CASH POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	2 109	2 095	2 117	2 201	2 593
Payments to suppliers and employees	(2 436)	(2 497)	(2 522)	(2 851)	(3 481)
Interest received	95	88	90	108	227
Borrowing costs	(59)	(43)	(29)	(19)	(11)
Cash from operations	**(291)**	**(357)**	**(344)**	**(561)**	**(672)**
Proceeds from investments	1 001	0	0	0	148
Payments for investments	(1 233)	(68)	(190)	(1 955)	0
Payments for P, P & Equipment	(299)	(318)	(578)	(898)	(849)
Proceeds from sale of P, P & E	113	97	56	134	163
Cash used in investing activities	**(418)**	**(289)**	**(712)**	**(2 719)**	**(538)**
Repayment of borrowings	(155)	(150)	(138)	(147)	(35)
Cash from financing activities	**(155)**	**(150)**	**(138)**	**(147)**	**(35)**
Cash Flows from Government	**922**	**931**	**1 087**	**3 347**	**1 919**
Net increase in cash	**58**	**135**	**(107)**	**(80)**	**674**
Cash at the beginning of the period	74	132	267	160	80
Cash at end of the period	**132**	**267**	**160**	**80**	**754**

Comment

The net cash from operations has remained fairly stable over the past 5 years.

Borrowing costs have gradually decreased which reflects the reduction in the level of borrowings outstanding. Interest receipts are increasing in line with growth in cash and investment funds.

The increased cash flows from Government during 1999-00 of $2.260m include the $1.660m Networking the Nation receipt.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(576)	(454)	(223)	1 978	(1 553)
Operating margin	>1.0	0.84	0.87	0.94	1.52	0.74
Financial Management						
Current ratio	>1	2.35	2.70	2.84	7.11	2.06
Cost of debt	7.5%	8.8%	8.5%	7.6%	9.2%	8.6%
Debt collection	30 days	36	33	43	66	53
Creditor turnover	30 days	24	19	14	34	175
Other information						
Staff numbers FTEs		34	28	29	28	26
Average staff costs ($'000s)		40	45	40	43	45

Comment

The financial performance ratios show that Council has incurred operating losses for all years under review except for 1999-00. As previously noted, a profit was recorded in 1999-00 due to additional grants funding.

Council's current ratio was increased in 1999-00 due to additional investment funds. The ratio is above benchmark for all years and indicates that the Council is able to meet all short-term liabilities.

The cost of debt has remained fairly consistent over the 5-year period.

The debt collection ratio has been consistently above the benchmark of 30 days. Whilst rate debtors at 30 June 2000 were comparable with the previous year, sundry debtors increased by $0.108m causing the high result of 66 days. It is noted that the Council has significant exposure to a rate debtor. The debt relates to the Grassy township redevelopment and comprises approximately 47% of total rate debtors at 30 June 2001. It is recommended that Council continue with action to recover this debt.

The creditor turnover figure for 2000-01 is distorted by the $1.660m outstanding payment for Networking the Nation spending. Generally the Council pays its creditors within the benchmark of 30 days.

OVERALL COMMENT

In the 5 years under review Council recorded a total operating deficit (excluding non-operating items) of $0.828m. The total deficit from ordinary activities, including non-operating items is $0.010m.

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

However, during our review of Council's road asset records, it was noted that there was a discrepancy between the road lengths recorded by Council and comparative information obtained from the State Grants Commission. Council should review this matter to ensure the completeness of the road asset network.

4.4.7 SOUTHERN MIDLANDS COUNCIL

INTRODUCTION

Southern Midlands Council was created in 1993 when the former municipalities of Oatlands and Green Ponds and the northern wards of the municipalities of Brighton and Richmond were amalgamated. The Southern Midlands area covers approximately 2 500 square kilometres, including the townships of Oatlands, Tunbridge, Mangalore, Bagdad, Colebrook, Campania and Kempton. The Council services a population of approximately 5 500 persons.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2001, with amended statements received on 12 October 2001. An unqualified audit report was issued on 24 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	2 695	2 801	2 909	3 092	3 160
Grants	3 207	3 342	3 426	3 964	4 111
Other operating revenue	164	162	166	228	189
Non-operating revenue	0	29	0	0	0
Total Revenue	**6 066**	**6 334**	**6 501**	**7 284**	**7 460**
Borrowing costs	180	179	139	124	107
Depreciation	1 969	1 963	1 938	1 794	2 497
Other operating expenses	4 732	5 062	5 029	5 312	5 213
Non-operating expenses	0	0	70	83	94
Total Expenses	**6 881**	**7 204**	**7 176**	**7 313**	**7 911**
Result from Ordinary Activities	**(815)**	**(870)**	**(675)**	**(29)**	**(451)**

Comment

The increase in grant revenue from 1998-99 to 1999-00 of $0.538m is mainly attributable to additional funding received from the Department of Health and Human Services (DHHS) for the Midlands Multi-Purpose Health Centre. The DHHS agreed to fund the Council for the Centre's 1999-00 deficit of $0.324m. Similar funding was received from the DHHS in 2000-01.

Depreciation expense decreased by $0.144m from 1998-99 to 1999-00 due mainly to the transfer of the Colebrook/Mudwalls Road to the State Government. Council subsequently undertook a revaluation of its road assets, which was effective from 1 July 2000. As part of the revaluation Council reviewed the useful lives and depreciation policies for road assets. As a result, depreciation expense for roads increased by $0.676m from 1999-00, which accounts for the majority of the total increase.

Non-operating expenditure mainly relates to the losses on the disposal of property, plant and equipment. The 1997-98 non-operating revenue of $0.029m is comprised of $0.130m in revenue for the recognition of the Callington Mill as a Council asset and a loss on $0.101m relating to the sale of property, plant and equipment.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	399	634	456	561	451
Receivables	353	380	459	598	731
Investments	1 102	1 000	1 500	1 750	2 535
Inventories	92	61	118	163	159
Other	12	14	14	10	49
Total Current Assets	**1 958**	**2 089**	**2 547**	**3 082**	**3 925**
Property, plant & equipment	41 648	41 691	41 735	38 846	67 878
Other	131	88	44	29	15
Total Non-Current Assets	**41 779**	**41 779**	**41 779**	**38 875**	**67 893**
Payables	180	333	325	368	404
Borrowings	229	178	153	168	181
Provisions	165	202	240	192	220
Other	230	313	182	253	229
Total Current Liabilities	**804**	**1 026**	**900**	**981**	**1 034**
Borrowings	1 656	1 439	1 435	1 382	1 400
Provisions	35	40	30	14	32
Other	88	44	0	0	0
Total Non-Current Liabilities	**1 779**	**1 523**	**1 465**	**1 396**	**1 432**
Net Assets	**41 154**	**41 319**	**41 961**	**39 580**	**69 352**
Reserves	1 676	1 608	2 095	2 262	32 775
Retained surpluses	39 478	38 676	37 514	37 318	36 577
Total Equity	**41 154**	**40 284**	**39 609**	**39 580**	**69 352**

Comment

The balance of receivables has increased from $0.353m at 30 June 1997 to $0.731m at 30 June 2001. The increase of $0.378m is due to increased rate debtors of $0.268m and increased sundry debtors of $0.110m. The majority of the increase in sundry debtors relates to large amounts outstanding for private works, particularly as at 30 June 2001.

The investment balance increased by $0.785m during 2000-01, is mainly a reflection of the increase in cash flows from government of $0.487m.

From 1999-00 to 2000-01, the balance of property, plant and equipment increased by $29.032m. The majority of the increase is attributable to the impact of the revaluation of road assets on 1 July 2000. When Council initially recognised its road assets, seal and pavement components were aggregated and depreciated as a single asset. Sealed roads were depreciated over 30 years and unsealed roads were depreciated over 60 years. In 1997, the useful lives were reassessed and changed to 50 years for sealed roads and 100 years for unsealed roads. As a revaluation was not undertaken at this time, the balance of accumulated depreciation was not restated. The impact of the change in useful lives in 1997 has been accounted for as part of the revaluation in 2000-01. As a result, a net adjustment to accumulated depreciation was made of $26.464m. The revaluation adjustment also impacted upon the balance of reserves, which increased by $30.513m.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	2 808	2 910	2 939	3 024	3 295
Payments to suppliers and employees	(4 770)	(4 852)	(5 268)	(4 969)	(5 445)
Interest received	80	77	85	113	162
Borrowing costs	(187)	(188)	(143)	(134)	(110)
Cash from operations	**(2 069)**	**(2 053)**	**(2 387)**	**(1 966)**	**(2 098)**
Proceeds from investments	0	102	0	0	0
Payments for investments	(593)	0	(500)	(250)	(785)
Payments for P, P & Equipment	(1 202)	(978)	(976)	(1 887)	(1 542)
Proceeds from sale of P, P & E	289	97	287	606	157
Cash used in investing activities	**(1 506)**	**(779)**	**(1 189)**	**(1 531)**	**(2 170)**
Proceeds from borrowings	200	170	150	160	200
Repayment of borrowings	(273)	(439)	(178)	(198)	(169)
Cash from financing activities	**(73)**	**(269)**	**(28)**	**(38)**	**31**
Cash Flows from Government	**3 188**	**3 336**	**3 426**	**3 640**	**4 127**
Net increase in cash	**(460)**	**235**	**(178)**	**105**	**(110)**
Cash at the beginning of the period	859	399	634	456	561
Cash at end of the period	**399**	**634**	**456**	**561**	**451**

Comment

The net cash from operations has remained fairly stable over the past five years. Borrowing costs have gradually decreased which reflects the reduction in the level of borrowings outstanding.

Payments for property, plant and equipment amounted to $1.887m in 1999-00, an increase of $0.911m from the prior year. The 1999-00 payments included the purchase of two trucks, a grader and a backhoe. The trade-in of these plant items is reflected in the higher than normal proceeds from sale.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(815)	(899)	(605)	54	(357)
Operating margin	>1.0	0.88	0.88	0.91	1.01	0.95
Financial Management						
Current ratio	>1	2.44	2.04	2.83	3.14	3.80
Cost of debt	7.5%	9.5%	11.1%	8.8%	8.0%	6.8%
Debt collection	30 days	48	50	58	71	84
Creditor turnover	30 days	19	32	31	34	40
Other information						
Staff numbers FTEs		36	34	36	37	43
Average staff costs ($'000s)		38	37	35	35	36

Comment

The financial performance ratios show that Council has incurred operating losses in all years except for 1999-00, when an operating profit of $0.054m was recorded. The operating loss in 2000-01 of $0.357m is attributable to the increased depreciation charge on road assets as a result of the revaluation.

The debt collection ratio has been consistently above the benchmark of 30 days. The largest increase, noted in 2000-01, is due to increased rate debtors and private works outstanding at 30 June 2001.

The creditor turnover figure was calculated as 40 days for 2000-01. This is above the benchmark of 30 days as the payables balance at 30 June 2001 included a number of large invoices.

OVERALL COMMENT

The audit of the financial statements for the 2000-01 financial year was completed with satisfactory results.

4.4.8 TASMAN COUNCIL

INTRODUCTION

The Tasman area was first proclaimed as a Municipality in 1907 and the first council meeting was held on 6 January 1908. In 1993 with amalgamation it took over a part of the municipal area of Sorell Council. The municipal area now includes both the Tasman and Forestier Peninsulas and starts just south of the Dunalley canal. The population serviced by the Tasman Council is in the order of 2 400.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Draft copies of the Statement of Financial Performance, Statement of Financial Position and the Cash Flow Statement, without any accompanying notes, were received on 19 November 2001. No audit review has been performed on these statements. The figures contained in those statements were included for comparative purposes only.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	1 395	1 392	1 456	1 478	1 511
Grants	1 459	1 841	1 428	1 700	2 011
Other operating revenue	76	35	35	114	140
Non-operating revenue	120	87	94	179	63
Total Revenue	**3 050**	**3 355**	**3 013**	**3 471**	**3 725**
Borrowing costs	10	17	19	29	27
Depreciation	963	978	971	1 009	1 231
Other operating expenses	2 480	2 664	2 775	3 021	2 999
Non-operating expenses	103	73	90	76	80
Total Expenses	**3 556**	**3 732**	**3 855**	**4 135**	**4 337**
Result from Ordinary Activities	**(506)**	**(377)**	**(842)**	**(664)**	**(612)**

Comment

In each of the years under review, the Tasman Council has recorded a deficit from operations, with an average deficit over this period of approximately $0.600m per annum. This result is an indication that Council is not budgeting to cover all operating expenses, including depreciation.

The increase in grants for 1997-98 resulted from an additional grant of $0.450m made available for the building of the multi-purpose centre at Nubeena. In 2000-01, additional grants were received for numerous projects, including the rural transaction centre of $0.060m, engagements for community social work at $0.125m, roads to recovery grants at $0.100m and $0.098m for regional health.

Non-operating revenue generally reflects the proceeds from the disposal of non-current assets whilst non-operating expenses reflects the carrying value of plant and equipment disposed of in a given year. However, the significant amount under non-operating revenue in 1999-00 included a significant reimbursement of workers compensation claims.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	596	463	223	523	725
Receivables	231	426	214	240	296
Investments	0	450	771	495	412
Other	18	18	0	30	0
Total Current Assets	**845**	**1 357**	**1 208**	**1 288**	**1 433**
Property, plant & equipment	18 718	17 943	17 331	16 797	16 239
Other	25	0	0	0	31
Total Non-Current Assets	**18 743**	**17 943**	**17 331**	**16 797**	**16 270**
Payables	146	75	5	177	295
Borrowings	7	17	33	35	52
Provisions	220	241	289	315	259
Other	44	50	15	47	55
Total Current Liabilities	**417**	**383**	**342**	**574**	**661**
Borrowings	163	267	433	399	546
Provisions	34	78	37	43	48
Other	114	90	86	92	83
Total Non-Current Liabilities	**311**	**435**	**556**	**534**	**677**
Net Assets	**18 860**	**18 482**	**17 641**	**16 977**	**16 365**
Capital					
Reserves	37	37	37	37	1
Retained surpluses	18 823	18 445	17 604	16 940	16 364
Total Equity	**18 860**	**18 482**	**17 641**	**16 977**	**16 365**

Comment

The largest balance in receivables, noted during the 1997-98 year, was due to an amount outstanding of $0.266m for deficit funding owed by the Department of Health for the Tasman district nursing home.

The fluctuations under payables are related to the timing in the receipt of invoices forwarded by creditors. The significant amount in 2000-01 is concerned with the late receipt of an invoice amounting to $0.100m in relation to the multi-purpose centre.

The increase in the balance of borrowings in 1999-2000 is due to the taking up of a loan of $0.200m for the waste management project at Copping.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 708	1 462	1 549	1 584	1 766
Payments to suppliers and employees	(2 729)	(2 806)	(3 020)	(2 798)	(3 113)
Interest received	24	20	32	50	45
Borrowing costs	(10)	(17)	(19)	(26)	(27)
Cash from operations	**(1 007)**	**(1 341)**	**(1 458)**	**(1 190)**	**(1 329)**
Payments for P, P & Equipment	(325)	(163)	(338)	(500)	(784)
Proceeds from sale of P, P & E	47	0	0	127	51
Cash used in investing activities	**(278)**	**(163)**	**(338)**	**(373)**	**(733)**
Proceeds from borrowings	96	120	200	0	200
Repayment of borrowings	(21)	(25)	(17)	(32)	(36)
Cash from financing activities	**75**	**95**	**183**	**(32)**	**164**
Cash Flows from Government	**1 456**	**1 726**	**1 694**	**1 619**	**2 017**
Net increase in cash	**246**	**317**	**81**	**24**	**119**
Cash at the beginning of the period	350	596	913	994	1 018
Cash at end of the period	**596**	**913**	**994**	**1 018**	**1 137**

Comment

The above average amount in 1998-99 for payments to suppliers and employees is due to increased expenditure supporting the commencement of the construction of the multi-purpose centre. In the 2000-01 year, the increment is due to additional payments for leave and workers compensation of $0.181m, engagement of personnel for social work at $0125m and the engagement of contract nurses and accounting consultants that amounted to $0.104m.

The increase for property, plant and equipment payments in the past two financial years is due to the commencement of the waste management project at Copping. In support of this project, Council obtained additional borrowing funds of $0.200m in the 2000-01 year.

The significant proceeds from sale of property, plant and equipment in 1999-00 is related to the replacement of the vehicle fleet.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(523)	(391)	(846)	(767)	(595)
Operating margin	>1.0	0.85	0.89	0.78	0.81	0.86
Financial Management						
Current ratio	>1	2.03	3.54	3.53	2.24	2.17
Cost of debt	7.5%	5.9%	6.0%	4.1%	6.7%	4.5%
Debt collection	30 days	60	112	54	59	72
Creditor turnover	30 days	21	10	1	21	36
Other information						
Staff numbers FTEs		32	36	37	38	34
Average staff costs ($'000s)		43	41	40	42	44

Comment

The consistent deficit under result from operations has resulted mainly from the depreciation charge not being covered in the rating process, and as increased depreciation expenses are being incurred, the deficit will continue to rise. This results in the low operating margin with an average of 0.84, which is significantly below the benchmark. With the Council's low population base and a depressed tourism based economy, it is difficult for Council to raise additional funding through rate increases.

The debt collection ratio has been historically high. It is understood that especially following the Port Arthur tragedy, tourist numbers, which are very important to the area, were very low, and Council decided to take a lenient approach to local ratepayers to lessen their financial burdens.

OVERALL COMMENT

The financial statements and accompanying notes to the accounts of the Tasman Council are still in the process of being drafted. The drafts of the Statement of Financial Performance, Statement of Financial Position and the Cash Flows Statements for 2000-01 were used for analytical purposes only. These statements have not been audited.

4.5 LOCAL GOVERNMENT BUSINESS UNITS

INTRODUCTION

Section 30 of the *Local Government Act 1993* enables councils to establish a single authority or a joint authority with one or more councils. A single or joint authority may be established to:

- Carry out any scheme, work or undertaking;
- Provide facilities or services; and
- Perform any function or exercise any power of a council under the Local Government Act or any other legislation.

Currently there are 5 joint authorities operating in Tasmania and include:

- Dulverton Regional Waste Management Authority;
- Esk Water Authority;
- Kentish/Latrobe Joint Authority;
- North West Water Authority; and
- Hobart Regional Water Authority.

In addition, the West Coast Council has created a separate company, known as the West Coast Health and Community Services Pty Ltd.

The individual sections in this Report provide details of the nature, functions and financial performance of each entity.

Due to the differences of the activities undertaken by each entity, it is not considered useful to undertake a full comparison of all these business units. However, as the Esk Water Authority, North West Water Authority and Hobart Regional Water Authority perform similar functions, a comparison of financial information for 2000-01 has been completed.

The opening section to Chapter 3 on Government Businesses included comment about Shareholder Value Added methodology and recommended appropriate returns on equity for commercial activities. Nominal post-tax returns of the order of 7% to 8.5% are considered to be reasonable for government business enterprises.

In July 2001 the Government Prices Oversight Commission handed down its final report "Investigation into bulk water Pricing Policies". In that report the Commission suggests that an appropriate commercial rate of return would be 7% real pre-tax.

Assuming a long-term inflation rate of 2.5%, as accepted by the Reserve Bank of Australia, and a taxation rate of 30% an equivalent nominal post-tax rate of return would be approximately 6.75%.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	North West Water Authority	Esk Water Authority	Hobart Regional Water Authority
	$'000s	$'000s	$'000s
Operating revenue	8 011	8 140	19 501
Non-operating revenue	0	9	305
Total Revenue	**8 011**	**8 149**	**19 806**
Borrowing Costs	1 451	606	2 187
Depreciation	1 227	2 106	4 547
Other Operating Expenses	3 916	3 448	10 243
Non-Operating Expenses	27	39	294
Total Expenses	**6 621**	**6 199**	**17 271**
Result from ordinary activities	**1 390**	**1 950**	**2 535**
Income tax expense	(104)	(613)	(675)
Result after taxation	**1 286**	**1 337**	**1 860**

Comment

The majority of operating revenue is received from bulk water sales to constituent councils. The Hobart Regional Water Authority's operating revenue is significantly greater than the other two Authorities because it supplies to 8 councils; in particular, the major population areas of Hobart, Glenorchy and Clarence.

On average, operating expenses represent 47% of operating revenue. The three Authority's operating expenses are consistent with this average.

All three Authorities recorded operating profits after taxation.

FINANCIAL POSITION

	North West Water Authority $'000s	Esk Water Authority $'000s	Hobart Regional Water Authority $'000s
Cash	0	2 042	1 014
Receivables	475	384	4 436
Investments	2 374	0	0
Inventories	112	180	817
Other	227	638	0
Total Current Assets	**3 188**	**3 244**	**6 267**
Property, plant & equipment	56 796	98 179	161 686
Investments	0	0	0
Other	1 144	376	1 254
Total Non-Current Assets	**57 940**	**98 555**	**162 940**
Payables	332	93	4 006
Borrowings	662	0	9 900
Provisions	881	1 182	1 494
Other	751	572	0
Total Current Liabilities	**2 626**	**1 847**	**15 400**
Borrowings	22 034	8 000	23 298
Provisions	416	2 546	4 313
Total Non-Current Liabilities	**22 450**	**10 546**	**27 611**
Net Assets	**36 052**	**89 406**	**126 196**
Capital	0	83 102	5 974
Reserves	28 746	6 034	112 368
Retained profits	7 306	270	7 854
Total Equity	**36 052**	**89 406**	**126 196**

Comment

Each Authority has positive cash/investments balances.

The receivables balance for Hobart Regional Water Authority is considerably greater than the other 2 Authorities. This is due to the balance of $4.436m including a full quarter's water sales for each member council due to the timing of the meter readings at the end of the financial year.

The Hobart Regional Water Authority has a significantly greater amount of property, plant and equipment. The majority of this balance reflects infrastructure assets in the treatment and supply of bulk water. As noted previously the Authority supplies the major population centres and consequently requires a greater level of infrastructure.

The Hobart Regional Water Authority's payables balance of $4.006m is significantly greater than the other Authorities. However, the balance includes the proposed dividend payment of $2.400m. The dividends payable for Esk Water Authority of

$0.915m and the North West Water Authority of $.0514m are recorded as current liability provisions.

The Hobart Regional Water Authority's balance of current loan debt totals $9.900m, which is significantly greater than the other 2 authorities. This is due to the Authority undertaking portfolio management principles over its whole loan portfolio in order to minimise interest costs. The Esk Water Authority has a nil balance, as it holds interest only loans and there are no principal repayments scheduled in 2001-2002.

CASH POSITION

	North West Water Authority	Esk Water Authority	Hobart Regional Water Authority
	$'000s	$'000s	$'000s
Receipts from customers	7 961	7 879	19 524
Payments to suppliers and employees	(4 126)	(3 371)	(10 633)
Interest received	100	108	194
Borrowing costs	(1 400)	(579)	(2 221)
Cash from operations	**2 535**	**4 037**	**6 864**
Payments for P, P & Equipment	(1 065)	(987)	(4 791)
Proceeds from sale of P, P & E	126	72	305
Cash used in investing activities	**(939)**	**(915)**	**(4 486)**
Proceeds from borrowings	0	0	15 000
Repayment of borrowings	(587)	(3 000)	(16 100)
Dividends paid	(345)	(1 016)	(2 500)
Cash from financing activities	**(932)**	**(4 016)**	**(3 600)**
Net increase in cash	**664**	**(894)**	**(1 222)**
Cash at the beginning of the period	1 673	2 936	2 236
Cash at end of the period	**2 337**	**2 042**	**1 014**

Comment

All three Authorities had positive net cash inflows from operations. However, only the North West Water Authority recorded a net increase in cash. The decreases in cash held by the Esk Water Authority and Hobart Regional Water Authority are attributable to material repayment of borrowings and significant dividend payments during 2000-01.

The Hobart Regional Water Authority actively manages its debt portfolio in order to minimise interest costs. This results in material repayments and borrowings each financial period. This is reflected in the cash flows from financing, which reveal $15.000m in borrowings and $16.100 in repayments during 2000-01.

FINANCIAL ANALYSIS

	Bench Mark	North West Water Authority	Esk Water Authority	Hobart Regional Water Authority
Financial Performance				
Result from operations ($'000s)		1 417	1 980	2 524
EBIT ($'000s)		2 841	2 556	4 722
Operating margin	>1.0	1.21	1.32	1.15
Return on assets		4.7%	2.5%	2.8%
Return on equity		3.7%	1.5%	1.5%
Financial Management				
Debt to equity		63.0%	8.9%	26.3%
Debt to total assets		37.1%	7.9%	19.6%
Interest cover	>3	2	4	2
Current ratio	>1	1.21	1.76	0.41
Cost of debt	7.5%	6.3%	6.40%	6.50%
Debt collection	30 days	22	17	81
Creditor turnover	30 days	46	20	35
Returns to Shareholders				
Dividends paid or payable ($'000s)		514	1 337	2 400
Dividend payout ratio	50%	40.0%	100.0%	129.0%
Dividend to equity ratio		1.5%	1.5%	1.9%
Income tax paid or payable ($'000s)		0	0	0
Effective tax rate	30%	-	-	-
Total return to the State ($'000s)		514	1 337	2 400
Total return to equity ratio		1.5%	1.5%	1.9%
Other information				
Staff numbers FTEs		24	27	62
Average staff costs ($'000s)		54	53	56

Comment

The three Authorities all recorded operating profits, which is reflected in the positive operating margins. The North West Water Authority achieved the highest return on assets and equity.

The North West Water Authority’s debt to equity ratio of 63% and debt to total assets ratio of 37.1% are considerably higher than the other Authorities. However, the cost of debt for all three Authorities is consistent and below the benchmark level.

The Hobart Regional Water Authority did not achieve the benchmark current ratio. As noted previously this is the result of the significant current borrowing repayments balance, totalling $9.900m.

The Hobart Regional Water Authority did not achieve the benchmark debt collection ratio of 30 days. As noted previously, this is the result of the receivables balance including three months of water sale for each constituent council.

The average creditor turnover was 34 days, which is consistent with the benchmark. The ratio for the North West Water Authority was above the average as a result of the creditors balance including several material balances of a capital nature.

All three Authorities paid or provided for dividends. The Hobart Regional Water Authority and the Esk Water Authority were both well above the benchmark dividend payout ratio. The Hobart Regional Water Board's dividend is based upon budgeted profits for the financial period, which resulted in a dividend payout ratio of 129%. Esk Water Authority has adopted a policy to pay dividends equal to the full after tax profit.

All the authorities are subject to taxation equivalents, however no tax payments have been made. The tax equivalent calculations for the Authorities do not at present, require the payment of tax due to carried forward losses.

The total return to equity ratio for the Hobart Regional Water Authority was above those of the other two Authorities due to the impact of paying a dividend in excess of after tax profit.

The staff costs of the three Authorities were similar, with an overall average of $54 000.

OVERALL COMMENT

The three Authorities recorded operating profits and have provided for a dividend payment to their shareholders. The review has not indicated any significant issues in relation to the future operations of any of the Authorities.

4.5.1 DULVERTON REGIONAL WASTE MANAGEMENT AUTHORITY

INTRODUCTION

The Dulverton Regional Waste Management Authority was established under Section 38 of the *Local Government Act 1993* effective from 1 January 1995. The joint authority was established for the purpose of conducting a licensed waste disposal landfill.

The Devonport City, Central Coast, Latrobe and Kentish Councils are the four participants in the Authority. Each of the four councils has made contributions by way of loan to the Authority in proportion to their populations.

The Authority consists of seven members, who are required to be either a councillor or an employee of a participating council.

The Portfolio Minister is the Minister for Local Government.

PART 3A AUTHORITY

Local Government (Dulverton Regional Waste Management Authority) Order 1998, which took effect on 2 December 1998, states that the Dulverton Regional Waste Management Authority is an authority to which Part 3A of the *Local Government Act 1993* applies. Part 3A relates to Payments by Single and Joint Authorities.

Section 39D of Part 3A provides for the application of certain provisions of the *Government Business Enterprises Act 1995* to an applicable authority. The provisions apply in relation to the calculation, determination and payment of income tax equivalents, sales tax equivalents and guarantee fees by the authority.

The Dulverton Regional Waste Management Authority is required to apply the Part 3A provisions from 2 December 1998. As noted in my Report No 2 for 1999-00 (page 233), the Authority sought to have the Order revoked, however the application was unsuccessful. The Authority is currently finalising the 2000-01 financial statements, which are to include tax equivalents.

AUDIT OF THE 1999-00 FINANCIAL STATEMENTS

Further to my Report No 2 for 1999-00 (page 233), the initial signed financial statements for 1999-00 were received by my Office on 9 March 2001, with amended statements received on 4 April 2001. A qualified audit report was issued on 6 May 2001. The qualification related to the Authority’s failure to apply the Part 3A provisions of the *Local Government Act 1993*.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The Authority has provided financial statements in draft form. The audit of these accounts has not yet commenced.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	798	956	1 118	1 150	1 212
Total Revenue	**798**	**956**	**1 118**	**1 150**	**1 212**
Borrowing costs	105	105	105	73	65
Depreciation	56	52	69	74	128
Other operating expenses	618	649	704	988	984
Total Expenses	**779**	**806**	**878**	**1 135**	**1 177**
Result from ordinary activities	**19**	**150**	**240**	**15**	**35**
Income tax expense	0	0	0	0	0
Result after taxation	**19**	**150**	**240**	**15**	**35**

Comment

Operating revenue has steadily increased over the past five years, which is mainly due to increased revenue from user charges at the waste disposal facility.

Borrowing costs decreased from $105 000 in 1998-99 to $73 000 in 1999-00 due to a change in the interest rate attaching to the loans provided by the participating councils. The initial interest rate of 10.05% was adjusted to the indicative Treasury rate at 30 June 2000 of 7%.

The increase in other operating expenses from 1998-99 to 1999-00 is partly attributable to a contribution of $104 000 to the Latrobe Council for road works.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	255	340	284	138	127
Receivables	166	165	212	247	345
Total Current Assets	**421**	**505**	**496**	**385**	**472**
Property, plant & equipment	1 003	974	1 296	1 414	1 305
Total Non-Current Assets	**1 003**	**974**	**1 296**	**1 414**	**1 305**
Payables	54	26	44	96	23
Other	59	0	62	2	0
Total Current Liabilities	**113**	**26**	**106**	**98**	**23**
Borrowings	1 046	1 046	1 046	1 046	1 046
Total Non-Current Liabilities	**1 046**	**1 046**	**1 046**	**1 046**	**1 046**
Net Assets	**265**	**407**	**640**	**655**	**708**
Reserves	17	9	559	677	569
Retained profits	248	398	81	(22)	139
Total Equity	**265**	**407**	**640**	**655**	**708**

Comment

The balance of borrowings in the statement of financial position is comprised of the loan funds provided to the Authority by the participating councils. The balance has not changed during the period under review as the Authority intends to repay the loans when funds become available in future years. Interest has been paid to the four councils based on the outstanding balances.

The Authority's total equity has remained fairly consistent in the past three years.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	695	938	1 055	1 108	1 109
Payments to suppliers and employees	(529)	(730)	(623)	(996)	(1 065)
Interest received	19	14	15	7	6
Borrowing costs	(312)	(105)	(105)	(73)	(65)
Cash from operations	**(127)**	**117**	**342**	**46**	**(15)**
Payments for P, P & Equipment	(82)	(32)	(398)	(192)	(2)
Cash used in investing activities	**(82)**	**(32)**	**(398)**	**(192)**	**(2)**
Net increase in cash	**(209)**	**85**	**(56)**	**(146)**	**(17)**
Cash at the beginning of the period	464	255	340	284	138
Cash at end of the period	**255**	**340**	**284**	**138**	**121**

Comment

Borrowing costs paid in 1996-97 amounted to $312 000. The payment related to interest on the council loan funds for 1994-95, 1995-96 and 1996-97.

Payments for property, plant and equipment totalled $398 000 in 1998-99. The payments included an expansion of the landfill site and the construction of composting operations.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		19	150	240	15	35
EBIT ($'000s)		124	255	345	88	100
Operating margin	>1.0	1.02	1.19	1.27	1.01	1.03
Return on assets		8.7%	17.6%	21.1%	4.9%	5.6%
Return on equity		7.2%	44.6%	45.8%	2.3%	5.1%
Financial Management						
Debt to equity		394.7%	257.0%	163.4%	159.7%	147.7%
Debt to total assets		73.5%	70.7%	58.4%	58.1%	58.9%
Interest cover	>3	1	2	3	1	2
Current ratio	>1	3.73	19.42	4.68	3.93	20.52
Cost of debt	7.5%	10.0%	10.0%	10.0%	7.0%	6.2%
Debt collection	30 days	76	63	69	78	104
Creditor turnover	30 days	32	15	23	35	9
Other information						
Staff numbers FTEs		n/a	n/a	n/a	n/a	n/a
Average staff costs ($'000s)		n/a	n/a	n/a	n/a	n/a

Comment

The debt to equity and asset ratios are relatively high as the Authority was established on the basis that the participating councils provide loan funds rather than equity funds. As noted previously, the balance of these loans has not changed over the five-year period as the Authority has not made principal repayments to the participating councils.

The current ratio is consistently above the benchmark and indicates that the Authority is able to meet all short-term liabilities.

The cost of debt reduced in 1999-00 from 10% to 7% following the Authority’s decision to change the interest rate on the loan funds to the indicative Treasury rate at the end of the financial year.

The debt collection ratio has been consistently above the benchmark of 30 days. It is noted that Devonport City Council is the main customer of the Authority and payments are made in accordance with normal trading terms. The calculation of the ratio may therefore be affected by timing differences.

The calculations relating to staff costs are not applicable, as the Authority does not employ any staff.

OVERALL COMMENT

For the five years under review, the Authority has recorded a total surplus from operations of $459 000. The figures for 2000-01 are draft only as the Authority is currently finalising the financial statements for that year. The Authority has indicated that tax equivalents will be included in the final statements for 2000-01.

4.5.2 ESK WATER AUTHORITY

INTRODUCTION

Esk Water Authority was declared as a joint authority by the Minister for Local Government on 25 June 1997. Esk Water Authority commenced operations on 1 July 1997 and had transferred to it all bulk water assets, property, rights, obligations and liabilities of the North Esk Regional Water Supply Scheme, the West Tamar Water Supply Scheme, the Launceston City Council and the Meander Valley Council following enactment of the *Northern Regional Water (Arrangements) Act 1997.*

The Authority is owned and controlled by the Launceston City, West Tamar, Meander Valley and George Town Councils. Representatives from each of the four owner councils serve on the Joint Authority. The Authority has appointed an independent management board to manage the resources of the Authority and be responsible for the collection, treatment, conservation and supply of water in bulk.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of Esk Water Authority were received on 27 August 2001 and an unqualified audit report was issued on 11 September 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Operating revenue	7 786	7 047	7 546	8 140
Non-operating revenue	6	0	10	9
Total Revenue	**7 792**	**7 047**	**7 556**	**8 149**
Borrowing costs	1 032	891	851	606
Depreciation	2 040	2 054	2 081	2 106
Other operating expenses	3 256	3 278	3 399	3 448
Non-operating expenses	61	1 424	16	39
Total Expenses	**6 389**	**7 647**	**6 347**	**6 199**
Result from ordinary activities	**1 403**	**(600)**	**1 209**	**1 950**
Income tax expense	534	339	345	613
Result after taxation	**869**	**(939)**	**864**	**1 337**

Comment

The majority of the Authority's revenue is derived from bulk water sales to municipal, industrial and wayside consumers. Revenue from municipal consumers was relatively large for the first year of operations 1997-98 ($6.497m), decreased during 1998-99 ($5.765m) due to lower water consumption, and has been steadily increasing since then, (1999-00 $6.138m, 2000-01 $6.992m). Overall water consumption has continued to decline over the period of Esk Water Authority's operations due to climatic and water efficiency issues.

The level of borrowings has reduced from $15.150m at 1 July 1997 to $8m at 30 June 2001. Borrowing costs have correspondingly reduced each year, with a decrease between the 1997-98 and 2000-01 financial years of $0.426m.

Non-operating expenses 1998-99 include an extraordinary item of $1.424m. This item relates to a claim made by the West Tamar Council during 1997-98 that the transfer of assets on the formation of Esk Water failed to correctly allocate all assets. The Representatives of the Joint Authority accepted the claim and requested the Management Board to settle the matter.

In considering the claim, the Management Board sought legal advice, which indicated the payment could not be made within the current Esk Water Authority Rules. As a result, the Representatives of the Joint Authority moved by special resolution amendments to the Charter and Rules removing all legal impediments to the payment of the claim. The amendments to the Rules were approved by the Minister for Local Government.

Consequently, at 30 June 1999 an amount was recognised for the claim and recorded as an accrued expense. The payment in settlement of the claim was made in July 1999.

FINANCIAL POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Cash	25	3	71	2 042
Receivables	267	408	42	384
Investments	3 686	4 465	2 865	0
Inventories	69	74	168	180
Other	853	648	596	638
Total Current Assets	**4 900**	**5 598**	**3 742**	**3 244**
Property, plant & equipment	96 684	96 301	96 256	98 179
Other	572	562	339	376
Total Non-Current Assets	**97 256**	**96 863**	**96 595**	**98 555**
Payables	57	107	117	93
Borrowings	32	1 000	3 000	0
Provisions	606	436	854	1 182
Other	279	1 670	527	572
Total Current Liabilities	**974**	**3 213**	**4 498**	**1 847**
Borrowings	13 089	12 000	8 000	8 000
Provisions	1 322	1 614	1 779	2 546
Total Non-Current Liabilities	**14 411**	**13 614**	**9 779**	**10 546**
Net Assets	**86 771**	**85 634**	**86 060**	**89 406**
Capital	83 102	83 102	83 102	83 102
Reserves	2 532	2 532	2 688	6 034
Retained profits	1 137	0	270	270
Total Equity	**86 771**	**85 634**	**86 060**	**89 406**

Comment

Receivables for 1999-00 are lower than usual due to the early payment of June invoices by the local councils supplied by the Authority.

The composition of the inventories balance is different for the 1997-98 and 1998-99 years to the later years. In the first two years of the Authority's operations, inventories were comprised of pipe and equipment and sundry spares. The application of revised Australian Accounting Standard AAS1 during 2001 required the Authority to recognise Cost of Sales. This has changed the composition for the latter two years to include chemicals and water on hand as well as sundry spares. Pipe and equipment spares have been reclassified to within property, plant and equipment.

Other non-current assets include a future income tax equivalent benefit of $0.370m for 2001, (2000, $0.333m, 1999, $0.425m, 1998, $0.442m). The deferred tax assets represent net timing differences

Total borrowings have decreased to $8m at 30 June 2001 from $15.150m at 1 July 1997. Current borrowings have reduced to nil with the repayment of $3m during 2000-01.

Other non-current liabilities for 1998-99 include the accrual of $1.424m for an ex-gratia payment to West Tamar Council. The payment, which was made in July 1999, was included as an Extraordinary Expense in 1998-99.

Non-current provisions include deferred tax equivalent liabilities which total $1.583m at 30 June 2001. Movement in the deferred tax liability accounts for most of the movement in this category for 2000-01 ($0.651m). The deferred tax equivalent liabilities have been reduced by future income tax equivalent benefits attributable to tax losses.

Retained profits reduced to nil during 1998-99 as the balance was returned to shareholders as a dividend.

CASH POSITION

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 831	6 889	7 544	7 879
Payments to suppliers and employees	(3 741)	(3 386)	(4 648)	(3 371)
Interest received	166	221	230	108
Borrowing costs	(964)	(929)	(885)	(579)
Cash from operations	**3 292**	**2 795**	**2 241**	**4 037**
Payments for P, P & Equipment	(327)	(1 571)	(1 591)	(987)
Proceeds from sale of P, P & E	19	5	16	72
Cash used in investing activities	**(308)**	**(1 566)**	**(1 575)**	**(915)**
Repayment of borrowings	(2 029)	(121)	(2 000)	(3 000)
Dividends paid	0	(351)	(198)	(1 016)
Cash from financing activities	**(2 029)**	**(472)**	**(2 198)**	**(4 016)**
Net increase in cash	**955**	**757**	**(1 532)**	**(894)**
Cash at the beginning of the period	2 756	3 711	4 468	2 936
Cash at end of the period	**3 711**	**4 468**	**2 936**	**2 042**

Comment

Payments to suppliers and employees are inflated for the 1999-00 year by the $1.424m ex-gratia payment to the West Tamar Council.

During 1998-99 ($1.571m) and 1999-00 ($1.591m) large payments for property plant and equipment were made. These payments include major capital works carried out including the construction of concrete reservoirs, roofing of existing reservoirs, pipeline construction and treatment plant works.

A significant amount of borrowings have been repaid during the 4 years of the Authority's operations ($7.150m). Borrowing costs have reduced for 2000-01 with the reduction in interest-bearing liabilities from $11m to $8m over the course of the year.

Dividends paid for the 4-year period total $1.565m. Total dividends provided for or paid total $2.480m. A balance of $0.270m is held in retained earnings from the 1999-00 period, the remainder has been returned to owner councils.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01
Financial Performance					
Result from operations ($'000s)		1 458	824	1 215	1 980
EBIT ($'000s)		2 496	1 715	2 060	2 556
Operating margin	>1.0	1.23	1.13	1.19	1.32
Return on assets		2.4%	1.7%	2.0%	2.5%
Return on equity		1.0%	0.6%	1.0%	1.5%
Financial Management					
Debt to equity		15.1%	15.2%	12.8%	8.9%
Debt to total assets		12.8%	12.7%	11.0%	7.9%
Interest cover	>3	2	2	2	4
Current ratio	>1	5.03	1.74	0.83	1.76
Cost of debt	7.5%	7.9%	6.8%	7.1%	6.4%
Debt collection	30 days	13	22	2	17
Creditor turnover	30 days	13	23	24	20
Returns to Shareholders					
Dividends paid or payable ($'000s)		351	198	594	1 337
Dividend payout ratio	50%	37.7%	40.8%	68.8%	100.0%
Dividend to equity ratio		0.4%	0.2%	0.7%	1.5%
Income tax paid or payable ($'000s)		0	0	0	0
Effective tax rate	30%	-	-	-	-
Total return ($'000s)		351	198	594	1 337
Total return to equity ratio		0.4%	0.2%	0.7%	1.5%
Other information					
Staff numbers FTEs		26	26	26	27
Average staff costs ($'000s)		49	49	52	53

Comment

The return on assets and equity ratios were lower for the 1998-99 year due to the extraordinary expense of $1.424m being the West Tamar Council payment.

The debt to equity and asset ratios are decreasing as the outstanding liability decreases.

The current ratio for 1999-00 is below benchmark due to the impending payment of $3m of the loan portfolio, thereby increasing current liabilities for the year.

The debt collection turnover is reduced for the 1999-00 year due to the early payment of June invoices by the member councils.

Average staff costs have been consistent over the period with increases reflecting general increases in salary and wages costs.

As Esk Water Authority has carried forward tax losses, no tax equivalent payments have been made.

OVERALL COMMENT

Esk Water Authority has made an overall profit before tax of $3.962m (after tax $2.131m) for the past 4 years.

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

4.5.3 HOBART REGIONAL WATER AUTHORITY

INTRODUCTION

The Hobart Regional Water Authority was established under Section 38 of the *Local Government Act 1993* following the enactment of the *Hobart Regional Water (Arrangement) Act 1996,* which transferred from 1 January 1997 all assets, property, rights and liabilities of the former Hobart Regional Water Board to the Authority.

The Hobart Regional Water Authority is a joint authority trading under the name of Hobart Water. The Authority is a commercial business owned by the eight constituent councils in the Hobart Regional Water District, which comprises the cities of Hobart, Glenorchy and Clarence and the municipal areas of Kingborough, Sorell, Brighton, Derwent Valley and Southern Midlands. An independent board of management is responsible for the conduct of business and affairs of the Authority. The core business of the Authority is to provide bulk water supplies to its customers. The scope of activities includes:

- Collection and treatment of raw water to the required standard;
- Bulk transport of treated water to reticulation storages or networks;
- Planning, development and management of headworks; and
- Sale of bulk water on a commercial ‘arms length’ basis.

The Responsible Minister is the Premier.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of the Hobart Regional Water Authority were received on 12 October 2001 and an unqualified audit report was issued on 17 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Operating revenue	18 312	17 366	19 048	19 501
Non-operating revenue	353	312	220	305
Total Revenue	**18 665**	**17 678**	**19 268**	**19 806**
Borrowing costs	3 992	1 790	2 107	2 187
Depreciation	4 018	4 526	4 421	4 547
Other operating expenses	8 056	8 256	9 944	10 243
Non-operating expenses	3 836	244	39	294
Total Expenses	**19 902**	**14 816**	**16 511**	**17 271**
Result from ordinary activities	**(1 237)**	**2 862**	**2 757**	**2 535**
Income tax expense	828	(533)	944	675
Result after taxation	**(2 065)**	**3 395**	**1 813**	**1 860**

Comment

As the Authority commenced operations on 1 January 1997, comparatives for the 1996-97 year are not included as the results only cover a six-month period and therefore would not be directly comparable to the other years.

Bulk water sales to constituent councils are noted within the user charges, fees and fines line item, and represents over 95% of revenue for each year under review. The increases noted in the past two years were demand driven, due to prolonged dry periods around the summer months.

Borrowing costs were high in 1997-98 resulting from a restructure of the debt portfolio on 30 June 1998. Non-operating expenses include $3.428m relating to this. All debt is held with the Tasmanian Public Finance Corporation.

Operating expenditure in 1999-00 increased by $1.688m. This included direct costs of power and chemicals in line with increased water sales.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	9	5	19	36	1 014
Receivables	468	4 288	4 113	4 581	4 436
Investments	808	3 500	2 250	2 200	0
Inventories	790	767	781	751	817
Total Current Assets	**2 075**	**8 560**	**7 163**	**7 568**	**6 267**
Property, plant & equipment	173 330	169 856	162 801	162 314	161 686
Other	130	5 619	1 387	1 263	1 254
Total Non-Current Assets	**173 460**	**175 475**	**164 188**	**163 577**	**162 940**
Payables	1 688	7 075	4 463	4 933	4 006
Borrowings	10 941	13 233	8 398	16 000	9 900
Provisions	1 946	597	813	1 069	1 494
Total Current Liabilities	**14 575**	**20 905**	**13 674**	**22 002**	**15 400**
Borrowings	23 463	23 267	27 000	18 298	23 298
Provisions	2 729	7 523	3 074	4 118	4 313
Total Non-Current Liabilities	**26 192**	**30 790**	**30 074**	**22 416**	**27 611**
Net Assets	**134 768**	**132 340**	**127 603**	**126 727**	**126 196**
Capital	5 974	5 974	5 974	5 974	5 974
Reserves	118 438	118 480	112 548	112 359	112 368
Retained profits	10 356	7 886	9 081	8 394	7 854
Total Equity	**134 768**	**132 340**	**127 603**	**126 727**	**126 196**

Comment

Cash in 2000-01 represents both the general cash bank account and the cash management account held with Tasmanian Public Finance Corporation. In previous years, the balance with the Tasmanian Public Finance Corporation has been shown as an investment. This classification change is in line with revised Australian accounting standards that require all cash and cash equivalents to be disclosed together.

Receivables increased significantly from 1996-97 because the Authority changed the timing of meter readings to the end of June instead of at the end of May and therefore council receipts for water became outstanding as at 30 June for each year since.

Other non-current assets from the 1997-98 year onwards include future income tax benefits from significant tax losses, available to be utilised to offset future profits. This balance of this asset varied from year to year according to the result from ordinary activities, changes in tax rates and permanent differences.

Payables peaked at $7.075m in 1997-98 as $3.428m in debt restructure expense executed as at 30 June 1998 was not settled until 3 July 1998. This item was recorded under sundry payables and accrued expenses.

Borrowings have varied significantly between current and non-current for each of the five years under review as the Authority undertakes active management of its whole loan portfolio in order to minimise interest cost.

Non-current provisions include employee entitlements for long service leave and superannuation and a provision for deferred income tax liability. The variability in this line item is due principally to the deferred income tax liability, which has moved in conjunction with the future income tax benefit, due to the reasons noted previously.

CASH POSITION

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	14 418	17 498	18 405	19 524
Payments to suppliers and employees	(9 514)	(6 941)	(9 907)	(10 633)
Interest received	25	122	200	194
Borrowing costs	(3 416)	(2 349)	(2 081)	(2 221)
Cash from operations	**1 513**	**8 330**	**6 617**	**6 864**
Payments for P, P & Equipment	(905)	(3 348)	(3 570)	(4 791)
Proceeds from sale of P, P & E	330	312	220	305
Cash used in investing activities	**(575)**	**(3 036)**	**(3 350)**	**(4 486)**
Proceeds from borrowings	57 182	136 492	48 977	15 000
Repayment of borrowings	(55 152)	(141 022)	(50 077)	(16 100)
Dividends paid	(280)	(2 000)	(2 200)	(2 500)
Cash from financing activities	**1 750**	**(6 530)**	**(3 300)**	**(3 600)**
Net increase in cash	**2 688**	**(1 236)**	**(33)**	**(1 222)**
Cash at the beginning of the period	817	3 505	2 269	2 236
Cash at end of the period	**3 505**	**2 269**	**2 236**	**1 014**

Comment

Borrowing costs in 1997-98 were higher than the other years due to the debt restructuring process that has been commented on previously. As a result of this restructure, which was actually executed during the start of the 1998-99 year, proceeds from and payments for borrowings were significantly higher during this financial year.

Payments for Property, Plant & Equipment were low in 1997-98, as this was the first full year of the Authority's operations, and the new board approved fewer capital works. Since that time, increased capital works undertaken have not only increased the payments for property, plant and equipment, but explains part of the decrease in payments to suppliers and employees in 1998-99, as a significant portion of salary costs were capitalised into capital works jobs

Although cash has been decreasing since 1998-99, significant dividend payments have been made to member councils.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01
Financial Performance					
Result from operations ($'000s)		2 246	2 794	2 576	2 524
EBIT ($'000s)		2 755	4 652	4 864	4 722
Operating margin	>1.0	1.14	1.19	1.16	1.15
Return on assets		1.5%	2.6%	2.8%	2.8%
Return on equity		-1.5%	2.6%	1.4%	1.5%
Financial Management					
Debt to equity		27.6%	27.7%	27.1%	26.3%
Debt to total assets		19.8%	20.7%	20.0%	19.6%
Interest cover	>3	1	3	2	2
Current ratio	>1	0.41	0.52	0.34	0.41
Cost of debt	7.5%	11.3%	5.0%	6.0%	6.5%
Debt collection	30 days	85	86	88	81
Creditor turnover	30 days	16	33	45	35
Returns to Shareholders					
Dividends paid or payable ($'000s)		2 000	2 200	2 500	2 400
Dividend payout ratio	50%	-96.9%	64.8%	137.9%	129.0%
Dividend to equity ratio		1.5%	1.7%	2.0%	1.9%
Income tax paid or payable ($'000s)		0	0	0	0
Effective tax rate	30%	-	-	-	-
Total return to the State ($'000s)		2 000	2 200	2 500	2 400
Total return to equity ratio		1.5%	1.7%	2.0%	1.9%
Other information					
Staff numbers FTEs		48	57	58	62
Average staff costs ($'000s)		52	49	54	56

Comment

Over the past four years, Hobart Water has consistently recorded significant results from operations, and as a result, operating margins have been above the benchmark. However, due to Hobart Water’s large equity base, returns on equity have been quite low, with a peak of only 2.7% being recorded in the 1998-99 year.

The current ratio has been calculated at low levels, but this ratio is strongly influenced by current borrowings, which undergoes significant restructuring each year.

Debt collection results include at least a full quarter's water sales for each of member council due to the timing of meter readings being undertaken at the end of the financial year. Collection of these debts has never been of concern to the Authority, and therefore the debt collection ratio is somewhat misleading.

Hobart Water has made significant dividend payments during each financial year, but once again, due to the high level of equity and the utilisation of tax losses to offset tax equivalent payments, total return to equity ratio is quite low.

OVERALL COMMENT

The audit of the financial statements for the 2000-01 year was completed with satisfactory results, with no major issues outstanding.

4.5.4 KENTISH/LATROBE JOINT AUTHORITY

The Kentish/Latrobe Joint Authority was established under *Section 38 of the Local Government Act 1993* on 12 December 1997.

The Authority is owned and jointly controlled by the Kentish and Latrobe Councils.

The core business of the Authority is to be the primary provider of local government services to both owner Councils.

The Rules of the Authority were amended on 1 December 1999, resulting in the:

- Creation of a Representative Board consisting of three councillors from each council;
- Appointment of a three member Board of Directors to direct the affairs of the Authority in a manner consistent with the strategic and operational plans; and
- Adoption of transition provisions, which transferred employees previously seconded from the participating councils to the Authority.

The Authority trades under the name of Mersey Works.

The Responsible Minister is the Premier.

The financial analysis refers to the four years the Authority has existed. Although the Authority formally commenced in December 1997, the financial statements for 1997-98 relate to the entire 12 month period to 30 June 1998.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Draft statements were received on 9 November 2001. The audit is currently in progress and an audit report has not yet been issued.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Rates, fees and charges	5 594	6 037	5 152	4 827
Other operating revenue	33	33	36	33
Non-operating revenue	50	33	11	7
Total Revenue	**5 677**	**6 103**	**5 199**	**4 867**
Depreciation	208	243	249	253
Other operating expenses	5 450	5 822	4 955	4 557
Non-operating expenses	0	0	117	0
Total Expenses	**5 658**	**6 065**	**5 321**	**4 810**
Result from Ordinary Activities	**19**	**38**	**(122)**	**57**

Comment

The nature of the Authority is to undertake work for the owner councils. There is no specific incentive to make significant profits from the Authority's operations. Revenues and expenditure decreased in 1999-00 and 2000-01 as a result of the corporate service functions being transferred from the Authority back to the owner councils. In these financial periods expenditure reflected primary local government service only.

In three of the years of operations, the Authority has made profits. In the 1999-00 financial period a loss of $122 000 was incurred as a result of an asset revaluation decrement totalling $57 000 and a loss on a stock write-down totalling $60 000.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s
Cash	609	657	632	184
Receivables	707	741	513	1 453
Inventories	22	36	0	9
Other	14	0	10	0
Total Current Assets	**1 352**	**1 434**	**1 155**	**1 646**
Property, plant & equipment	1 338	1 536	1 383	1 137
Total Non-Current Assets	**1 338**	**1 536**	**1 383**	**1 137**
Payables	284	435	253	510
Provisions		8	178	128
Other	107	190	77	45
Total Current Liabilities	**391**	**633**	**508**	**683**
Provisions	0	0	3	16
Total Non-Current Liabilities	**0**	**0**	**3**	**16**
Net Assets	**2 299**	**2 337**	**2 027**	**2 084**
Capital	2 280	2 280	2 027	2 084
Retained surpluses	19	57	0	0
Total Equity	**2 299**	**2 337**	**2 027**	**2 084**

Comment

Cash has remained constant over the first three years of operations, but in 2000-01 reduced by $448 000. The decrease was offset by an increase in the receivables balance. The receivables balance in 2000-01 is $940 000 higher than the previous period and is the result of delays in raising invoices at the end of June 2001.

Property, plant and equipment has reduced over the past three years as a result of the annual depreciation expense.

The provision balance in 1998-99 related to two employees who were employed by the Authority. The employee provisions for the remaining employees, seconded to the Authority, were held by the individual owner councils. In 1999-00, employees were transferred from the owner councils and the balance increased by $173 000 to $181 000 in total. The provisions balance decreased in 2000-01 by $34 000. The majority of the variance reflects a fall in the annual leave liability and on preliminary review is the result of several employee resignations during the period.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 892	5 940	5 370	3 894
Payments to suppliers and employees	(5 110)	(5 517)	(5 094)	(4 378)
Interest received	33	33	29	18
Cash from operations	**(185)**	**456**	**305**	**(466)**
Payments for P, P & Equipment	(374)	(769)	(595)	(34)
Proceeds from sale of P, P & E	168	361	265	52
Cash used in investing activities	**(206)**	**(408)**	**(330)**	**18**
Proceeds from borrowings	1 000	0	0	0
Cash from financing activities	**1 000**	**0**	**0**	**0**
Net increase in cash	**609**	**48**	**(25)**	**(448)**
Cash at the beginning of the period	0	609	657	632
Cash at end of the period	**609**	**657**	**632**	**184**

Comment

Cash flow from operations has varied between the years being reviewed. The impact of the receivables accrual has affected the 1997-98 and 2000-01 net cash flow.

The balance of $1 000 000 recorded in proceeds from borrowing in 1996-97 represents cash paid into the Authority by the owner councils. It was part of the initial equity on formation.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01
Financial Performance					
Result from operations ($'000s)		(31)	5	(16)	50
Operating margin	>1.0	0.99	1.00	1.00	1.01
Financial Management					
Current ratio	>1	3.46	2.27	2.27	2.41
Cost of debt	7.5%	-	-	-	-
Debt collection	30 days	46	45	36	110
Creditor turnover	30 days	35	49	33	58
Other information					
Staff numbers FTEs		64	63	38	32
Average staff costs ($'000s)		39	41	57	43

Comment

As noted above, the Authority operations where not intended to generate significant profits. This is reflected in the results from operations and the operating margin, which has remained constant.

The current ratio has remained above the benchmark balance in all years of operations.

The debt collection ratio is above the benchmark balance of 30 days. In particular, the 110 days calculated for 2000-01 indicates delays in debt recovery. However, the major debtors of the Authority are the two owners councils and the unusually high ratio is the result of delays in issuing invoices relating to works undertaken in May 2001. In general, the Authority has not incurred any problems in the recovery of debt.

The creditor turnover ratio indicates some delays in paying creditors, however the Authority does pay all creditors within a 30 day credit period. The ratio has been distorted by higher than average creditor balances at year end.

Average staff costs have remained consistent over the period, with the exception of the $57 000 balance in 1999-00. This balance is significantly above the average because staff costs include corporate service employee costs from 1 July 1999 to 31 March 2000, but the year end staff number does not reflect these employees. The employees were transferred back to the owner councils with the corporate services function.

OVERALL COMMENT

The operations of the Authority have changed over the four years of its operations to reflect movements in the requirements of both owner councils. However, on 10 September 2001 the Latrobe Council formalised its intentions to withdraw from the Authority. An independent Liquidator has been appointed to oversee the Authority's winding up. It is anticipated all creditors will be paid in full and the owner councils will recover the majority of their equity.

Mersey Works finished trading on 12 October 2001 and it is anticipated the Authority will be dissolved by the end of November 2001.

4.5.5 NORTH WEST WATER AUTHORITY

INTRODUCTION

The Minister for Local Government established the North West Water Authority on 10 August 1999 as a joint authority of the Circular Head, Waratah-Wynyard, Central Coast, Devonport City, Latrobe and Kentish Councils under Section 38 of the *Local Government Act 1993.*

In accordance with the *North West Water (Arrangements) Act 1997* the Minister for Primary Industry, Water and Environment published a notice in the Gazette on 9 August 1999 transferring to North West Water Authority all the prescribed property, obligations and liabilities of the North West Regional Water Authority

The principal activity of the Authority is to operate as a bulk water authority and charge councils for water consumption according to the ‘user pays’ principle.

The Authority is administered by a five person Board of Management and trades under the name of Cradle Coast Water.

The Board of Management is responsible under its Rules to a Governance Board made up of representatives from the six owner councils.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of the North West Water Authority were received on 5 October 2001. An unqualified audit report was issued on 29 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	8 078	8 229	7 448	7 835	8 011
Non-operating revenue	27	13	154	17	0
Total Revenue	**8 105**	**8 242**	**7 602**	**7 852**	**8 011**
Borrowing costs	3 000	2 434	1 663	1 468	1 451
Depreciation	1 903	1 783	1 204	1 225	1 227
Other operating expenses	3 213	3 254	3 106	3 838	3 916
Non-operating expenses	0	3 125	9	4	27
Total Expenses	**8 116**	**10 596**	**5 982**	**6 535**	**6 621**
Result from ordinary activities	**(11)**	**(2 354)**	**1 620**	**1 317**	**1 390**
Income tax expense	0	161	(1 100)	206	104
Result after taxation	**(11)**	**(2 515)**	**2 720**	**1 111**	**1 286**

Comment

The majority of the Authority's revenue is derived from bulk water sales to municipal consumers.

Non-operating expenses for 1997-98 include a net loss on defeasance of debt of $2.747m. The Authority entered into a liability Assumption Agreement with TASCORP to consolidate and restructure its debt. During 1998-99 the Authority sought and obtained approval from the Department of Treasury and Finance to treat the loss on loan defeasance as an allowable deduction for taxation equivalent purposes. The result of the approval resulted in a taxation equivalent benefit of $1.100m.

Borrowing costs have decreased from $3m for the 1996-97 year to $1.451m for the 2000-01 year. They reduced by $0.771m in the 1998-99 year as a result of the debt defeasance in 1997-98.

Depreciation reduced for the 1998-99 year by $0.579m due to the Authority's decision to revalue infrastructure assets on an optimised written down deprival value basis on 30 June 1998. The value of infrastructure assets was reduced by $26.700m.

FINANCIAL POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Cash	0	0	0	0	0
Receivables	49	14	50	62	475
Investments	2 570	1 340	1 900	1 708	2 374
Inventories	37	37	36	112	112
Other	152	99	114	427	227
Total Current Assets	**2 808**	**1 490**	**2 100**	**2 309**	**3 188**
Property, plant & equipment	86 395	58 448	57 030	55 865	56 796
Other	0	685	1 455	1 249	1 144
Total Non-Current Assets	**86 395**	**59 133**	**58 485**	**57 114**	**57 940**
Payables	170	316	175	179	332
Borrowings	5 669	1 339	552	622	662
Provisions	493	1 487	1 693	894	881
Other	1 123	643	710	870	751
Total Current Liabilities	**7 455**	**3 785**	**3 130**	**2 565**	**2 626**
Borrowings	19 434	23 478	23 246	22 659	22 034
Provisions	1 071	745	276	136	416
Total Non-Current Liabilities	**20 505**	**24 223**	**23 522**	**22 795**	**22 450**
Net Assets	**61 243**	**32 615**	**33 933**	**34 063**	**36 052**
Reserves	55 283	28 619	27 889	27 529	28 746
Retained profits	5 960	3 996	6 044	6 534	7 306
Total Equity	**61 243**	**32 615**	**33 933**	**34 063**	**36 052**

Comment

The composition of the inventories balance is different for the 1999-00 and 2000-01 years to the earlier years. The application of revised Australian Accounting Standard AAS1 during 2001 required the Authority to recognise Cost of Sales. This has changed the composition for the latter two years to include chemicals and water on hand as well as sundry spares.

Other non-current assets include a future income tax equivalent benefit of $1.144m for 2001, (2000, $1.249m, 1999, $1.455m, 1998, $0.685m). The deferred tax assets represent net timing differences.

Receivables have increased by $0.413m for the 2000-01 year. This year includes $0.398m due from the local councils supplied by the Authority (1999-00 $0.020m).

There was a reduction in reserves during 1997-98 of $26.664m due to the revaluation of infrastructure assets to an optimised written down deprival value basis. The 2000-01 year saw an increase of $1.217m in reserves due to revaluations of treatment plants ($0.331m), pipelines ($0.394m), water storages ($0.456m) and pump stations ($0.036m).

CASH POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Receipts from customers	7 960	8 214	7 360	7 408	7 961
Payments to suppliers and employees	(2 926)	(3 544)	(3 051)	(5 375)	(4 126)
Interest received	95	52	73	85	100
Borrowing costs	(3 000)	(2 433)	(1 664)	(1 304)	(1 400)
Cash from operations	**2 129**	**2 289**	**2 718**	**814**	**2 535**
Payments for P, P & Equipment	(505)	(618)	(561)	(612)	(1 065)
Proceeds from sale of P, P & E	120	131	94	123	126
Cash used in investing activities	**(385)**	**(487)**	**(467)**	**(489)**	**(939)**
Proceeds from borrowings	1 046	0	1 400	0	0
Repayment of borrowings	(2 756)	(2 893)	(2 420)	(551)	(587)
Dividends paid	0	0	(673)	0	(345)
Cash from financing activities	**(1 710)**	**(2 893)**	**(1 693)**	**(551)**	**(932)**
Net increase in cash	**34**	**(1 091)**	**558**	**(226)**	**664**
Cash at the beginning of the period	2 398	2 432	1 341	1 899	1 673
Cash at end of the period	**2 432**	**1 341**	**1 899**	**1 673**	**2 337**

Comment

Receipts from customers have remained fairly stable over the 5-year period. Payments to suppliers and employees have increased from $2.926m 1996-97 to $4.126m 2000-01 (1999-00 $5.375m).

Borrowing costs have reduced substantially due to the defeasance of debt during 1997-98. Repayment of borrowings for the 1997-98 year includes $2.747m for the debt restructure.

Payments for property, plant and equipment have increased by $0.453m in 2000-01 to a total of $1.065m. Purchases this year include $0.234m for furniture, plant and equipment and the remainder for infrastructure assets. A major component of infrastructure works this year is for the roofing of reservoirs.

Dividends paid for the 4-year period from 1997-98 when the Authority first became liable for dividends total $1.018m. Total dividends provided for or paid total $1.532m.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(38)	758	1 475	1 304	1 417
EBIT ($'000s)		2 989	3 205	3 292	2 785	2 841
Operating margin	>1.0	1.00	1.10	1.25	1.20	1.21
Return on assets		3.4%	4.3%	5.4%	4.6%	4.7%
Return on equity		0.0%	1.3%	8.2%	3.3%	3.7%
Financial Management						
Debt to equity		41.0%	76.1%	70.1%	68.3%	63.0%
Debt to total assets		28.1%	40.9%	39.3%	39.2%	37.1%
Interest cover	>3	1	1	2	2	2
Current ratio	>1	0.38	0.39	0.67	0.90	1.21
Cost of debt	7.5%	12.0%	9.8%	6.8%	6.2%	6.3%
Debt collection	30 days	2	1	2	3	22
Creditor turnover	30 days	30	56	34	25	46
Returns to Shareholders						
Dividends paid or payable ($'000s)		0	0	673	345	514
Dividend payout ratio	50%	-	-	24.7%	31.1%	40.0%
Dividend to equity ratio		-	-	2.0%	1.0%	1.5%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return ($'000s)		0	0	673	345	514
Total return to equity ratio		-	-	2.0%	1.0%	1.5%
Other information						
Staff numbers FTEs		23	23	23	23	24
Average staff costs ($'000s)		50	52	54	55	54

Comment

The result from operations is positive in all years except 1996-97. EBIT has been stable over the 5-year period at around $3m per year. Return on assets has also remained reasonably stable ranging from 3.5% for 1996-97 to 5.7% for 1998-99. 2000-01 resulted in a return on assets of 4.7%.

Return on equity reached its highest level of 8.6% during 1998-99. This return was assisted by the $1.100m tax benefit for this year.

The debt to equity and assets ratios have remained relatively high. The lowest ratio levels were in 1996-97 before the revaluation of assets, which reduced both the overall asset value and the equity value with the reduction in reserves. The level of borrowings has reduced during the period from $25.103m at the end of 1996-97 to $22.696m at the end of 2000-01.

The current ratio has remained below benchmark until the 2000-01 year, partially due to the Authority maintaining minimal cash on hand balances.

Debtors of the Authority have been negligible until the 2000-01 year, thus keeping the debt collection ratio at a very minimal level. The higher ratio for the 2000-01 year is due to the increased debt owed by Local Councils.

The creditor turnover ratio has been around the benchmark for all years except 1997-98 and 2000-01. The balance of payables outstanding at the end of both years included material amounts for capital items, which have distorted the ratio. The major item in the 2000-01 year relates to the roofing of reservoirs. The Authority complies with its policy of paying within applicable terms.

The requirement for the North West Water Authority to pay dividends under division 2 of the *GBE Act 1995* section 83 commenced during the 1997-98 year. Therefore, no dividends were applicable for the 1996-97 year.

The Authority is subject in accordance with Part 3A of the *Local Government Act 1993* to the income tax equivalent provisions of the *GBE Act 1995*. This requirement also commenced during the 1997-98 year, therefore income tax paid or payable is not applicable for the 1996-97 year. As the North West Water Authority has carried forward tax losses, no tax equivalent payments have been made in the years since then.

Average staff costs have been consistent over the period with increases reflecting general increases in salary and wages costs.

OVERALL COMMENT

The Authority has made a profit before tax of $1.962m for the 5 years to 2000-01. During this same period $1.532m of dividends have been provided for or paid. Due to the Authority's carried forward tax losses, no tax equivalent payments have been made.

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

4.5.6 WEST COAST HEALTH AND COMMUNITY SERVICES PTY LTD

The West Coast Council on 6 August 1997 created a company, limited by guarantee, known as the West Coast Health and Community Services Pty Ltd to take over the operations of the Rosebery Hospital. In addition, the Council has transferred control of its community services activities to the company.

The Company is managed by seven Directors..

The Responsible Minister is the Premier.

The financial analysis refers to the four years the company has existed. The financial statements for 1997-98 relate to a period from 24 August 1997 to 30 June 1998.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The amended financial statements of the Company were signed by two Directors on 26 October 2001 and an unqualified audit report was issued on 12 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Rates, fees and charges	154	215	113	169
Grants	1 188	1 325	1 398	1 565
Other operating revenue	42	129	218	255
Non-operating revenue	0	0	1	0
Total Revenue	**1 384**	**1 669**	**1 730**	**1 989**
Depreciation	18	24	23	23
Other operating expenses	1 395	1 679	1 613	1 935
Non-operating expenses	0	0	4	0
Total Expenses	**1 413**	**1 703**	**1 640**	**1 958**
Result from Ordinary Activities	**(29)**	**(34)**	**90**	**31**

Comment

The majority of the Company's revenue is received through government grants. In the first two years of operations the Company made small losses and were experiencing financial difficulties. Arising from these problems, the Department of Health and Human Services (DHHS) provided an interim funding package, which included indexation of the operating grant, waiver of hospital rental and a waiver of equipment lease payments. The impact of these concessions increased grant revenue and decreased operating expenses in 1999-00, resulting in a profit of $90 000.

In 2000-01, the company maintained its profit position with a surplus of $31 000. In this financial period, operating expenses increased by $322 000 as a result of $97 000 in additional employee expenses and $202 000 in material and contracts. This additional expenditure was offset by increased grant revenue, which included an indexation back payment of $87 000 and funding for a change manager totalling $44 000. In addition, donations revenue increased by $60 000.

FINANCIAL POSITION

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Cash	53	67	132	318
Receivables	21	49	28	70
Investments	5	5	6	16
Inventories	15	25	25	16
Other	14	40	3	23
Total Current Assets	**108**	**186**	**194**	**443**
Property, plant & equipment	167	167	150	152
Total Non-Current Assets	**167**	**167**	**150**	**152**
Payables	54	59	24	58
Borrowings	18	18	0	0
Provisions	38	46	39	84
Other	46	154	141	303
Total Current Liabilities	**156**	**277**	**204**	**445**
Borrowings	57	39	0	0
Provisions	19	29	42	21
Total Non-Current Liabilities	**76**	**68**	**42**	**21**
Net Assets	**43**	**8**	**98**	**129**
Capital	72	72	72	72
Retained surpluses	(29)	(64)	26	57
Total Equity	**43**	**8**	**98**	**129**

Comment

The cash balance has increased by $186 000 in 2000-01. This balance at 30 June 2001 includes cash which is payable to the West Coast Council for payments made on behalf of the Company. In other current liabilities, a balance of $152 000 is recorded as owing to Council.

The receivables balance has increased by $52 000 in 2000-01. this is the result of a significant increase in housing debtors, which totalled $46 000 at 30 June 2001.

Other current assets in 1998-99 represent grant revenue in advance for a grant covering the financial year to December 1999. This accounting treatment has not been adopted in subsequent periods. The balance of $23 000 in other assets for 2000-01 represents GST recoverable at balance date.

The balances in current and non current borrowings in 1997-98 and 1998-99 respectively, relate to a lease with the DHHS to purchase the equipment at the Rosebery Hospital on takeover. As noted previously, the lease payments were waived by the DHHS and the liability written off.

Other current liabilities include the payroll accrual, trust find monies and amounts payable to Council to reimburses expenditure incurred on behalf of the Company. In 1997-98, a cheque was drawn at balance date to offset the liability to Council. In 2000-01, the liability totalled $152 000 and was significantly greater than the previous two periods.

Current and non current provisions relate to both annual and long service leave. In general the balances have remained stable. However, in 2000-01 annual leave increased by $15 000 through the accumulation of leave by employees.

As noted in the review of financial performance, the Company has improved profitability over the four years of operations. This has resulted in the company moving from a retained deficit of $29 000 in 1997-98 to a retained surplus balance of $57 000 in 2000-01.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	157	293	332	378
Payments to suppliers and employees	(1 282)	(1 648)	(1 583)	(1 814)
Interest received	1	1	1	1
Cash from operations	**(1 124)**	**(1 354)**	**(1 250)**	**(1 435)**
Payments for investments	(5)	(1)	0	(10)
Payments for P, P & Equipment	(17)	(18)	(60)	(63)
Proceeds from sale of P, P & E	0	0	56	33
Cash used in investing activities	**(22)**	**(19)**	**(4)**	**(40)**
Cash Flows from Government	**1 197**	**1 387**	**1 319**	**1 661**
Net increase in cash	**51**	**14**	**65**	**186**
Cash at the beginning of the period	0	51	65	130
Cash at end of the period	**51**	**65**	**130**	**316**

Comment

The net cash from operations has remained fairly stable over the past four years. The increase of $231 000 in payments to suppliers and employees in 2000-01 resulted from additional employee and material and contract costs being incurred in the financial period. This was offset by additional cash flow from government grants, totalling $342 000.

The outflows in 1997-98 and 1998-99 totalling $17 000 and $18 000 respectively refer to the payment for equipment at the Rosebery Hospital, which was being purchased under a lease agreement. The outflows for plant and equipment in 1999-00 and 2000-01 represent the purchase of motor vehicles by the Company. The corresponding proceeds from the sale of property plant and equipment reflect the trade in consideration for vehicles disposed of in purchasing the new vehicles.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01
Financial Performance					
Result from operations ($'000s)		(29)	(34)	93	31
Operating margin	>1.0	0.98	0.98	1.06	1.02
Financial Management					
Current ratio	>1	0.69	0.67	0.95	1.00
Cost of debt	7.5%	-	-	-	-
Debt collection	30 days	39	52	31	60
Creditor turnover	30 days	14	13	5	11
Other information					
Staff numbers FTEs		17	18	19	20
Average staff costs ($'000s)		46	49	48	50

Comment

The company has improved its operating margin over the past two years. Additional grant funds and several concessions from DHHS have assisted in the general profitability of the Company.

The current ratio has improved significantly and in 2000-01 the Company has achieved the benchmark ratio. The improvement is reflected by the improvement in the Company's profitability.

The debt collection ratio is above the benchmark balance of 30 days. In particular, the 60 days calculated for 2000-01 indicates delays in debt recovery. The Company has experienced some problems in debt recovery in the past and had to write off $18 000 in bad debts during 2000-01. In general, the Company is undertaking regular reviews of the debtors and taking appropriate action where necessary.

The Company is within the benchmark balance for the creditors turnover ratio. As noted in the Company's accounting policies, creditors are usually paid within 30 days of recognition.

Average staff costs have remained constant over the period.

OVERALL COMMENT

The Company has made a profit of $57 000 for the four year period to 2000-01. The Company is not subject to income tax provisions and the West Coast Council is not seeking to obtain any dividend payments.

The 2000-01 audit was completed satisfactorily with no major issues outstanding.

5.0 STATUTORY AUTHORITIES

INTRODUCTION

Statutory authorities that are subject only to the specific requirements specified in their enabling legislation are sometimes also referred to as State authorities. State authorities usually fulfil a regulatory or supervisory function.

Section 5.1 discusses the results of superannuation authorities during the 2000-01 financial year, while section 5.2 discusses the remaining authorities.

RESPONSIBLE MINISTER/S

The Ministers responsible for the entities within this group are as follows:

Entity	**Responsible Minister**
Superannuation authorities	Treasurer
Legal Aid Commission	Minister for Justice and Industrial Relations
Marine and Safety Authority	Minister for Infrastructure, Energy and Resources
Nominal Insurer	Minister for Infrastructure, Energy and Resources
Private Forests Tasmania	Minister for Infrastructure, Energy and Resources
State Fire Commission	Minister for Health and Human Services
TAFE Tasmania	Minister for Education
Theatre Royal Management Board	Minister for State Development
University of Tasmania	Minister for Education

5.1 SUPERANNUATION FUNDS

A number of different superannuation arrangements operate in the Tasmanian public sector for public sector employees, members of Parliament, the judiciary and statutory legal officers.

Superannuation may be provided in a number of ways:

- *Defined benefit:* such a scheme has benefits that accrue on resignation or retirement or death, and are predetermined according to a formula established in the scheme's rules or regulations. The employer's contributions will vary depending on the performance of the underlying investments and the lifespan of the pensioners, as well as the salary of the contributing employees immediately before their retirement;
- *Accumulation*: Under this scheme the employer's contribution is fixed according to the scheme's rules. The end benefit consists of the accumulated contributions by the employer and employee, together with the investment earnings on the contributions;
- *Unfunded*: An unfunded scheme is one in which the employer financed benefit component is met on an 'emerging costs' basis when the employee becomes entitled to receive his or her payout, and without any money set aside in the scheme by the employer for that individual's benefit; and
- *Funded*: In this type of scheme the employer makes a regular contribution to the fund reflecting the currently accruing liability in regard to employees.

The major defined benefit schemes currently operating in the Tasmanian public sector are the those established under the *Retirement Benefits Act 1993*, the *Parliamentary Superannuation Act 1983*, the *Parliamentary Retiring Benefits Act 1985* and the *Judges' Contributory Pensions Act 1968*. All these schemes are now closed to new employees of the Tasmanian public sector.

The fully-funded Tasmanian Accumulation Scheme (TAS) was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the unfunded RBF non-contributory scheme during the last financial year.

The Parliamentary Superannuation and Retiring Benefits Trust is responsible for management and administration of the Parliamentary Superannuation Fund and the Parliamentary Retiring Benefits Fund, while the Retirement Benefits Fund (RBF) Board manages the remainder of the funds.

In addition there is an investment account which is fully-funded by members and is administered by the RBF Board.

RESPONSIBLE MINISTER

The Responsible Minister is the Treasurer.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Contributory Fund $'000s	TAS $'000s	Investment Account $'000s	PRBF $'000s	PSF $'000s
Investment income	36 835	4 179	10 624	16	859
Changes in net market value of investments	54 505	6 064	15 030	92	(746)
Direct investment expense	(3 914)	(339)	(863)	0	0
Employer contributions	125 826	28 945	13 516	662	0
Member contributions	59 585	12 109	22 298	230	61
Transfers from other funds	0	0	46 564	0	0
Reimbursement of benefits	0	0	0	0	757
Other revenue	1 139	0	2	0	0
Change in net market value of other assets	(1 349)	0	0	0	0
Total revenue	**272 627**	**50 958**	**107 171**	**1 000**	**931**
Administration expenses	5 835	1 200	1 881	102	80
Super contributions surcharge	739	0	32	126	11
Lump sums	82 947	0	0	338	0
Pensions	113 095	0	0	0	1 218
Refunds and interest	971	0	0	0	0
Other expenses	0	2 829	0	0	0
Total expenses	**203 587**	**4 029**	**1 913**	**566**	**1 309**
Surplus before tax	**69 040**	**46 929**	**105 258**	**434**	**(378)**
Income tax expense	(1 631)	(4 616)	690	(86)	58
Surplus after tax	**67 409**	**42 313**	**105 948**	**348**	**(320)**

Comment

The lower performance by both Parliamentary funds was due to a decrease in employer contributions and in the value of the underlying investments. As well, as new members of Parliament are not entitled to join either fund, there is a steady decline in member contributions. This is also impacted by the inability to spread the administration fees among a decreasing number of contributors.

As noted above, the TAS fund had only begun last year.

FINANCIAL POSITION

	Contributory fund	TAS	Investment Account	PRBF	PSF
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	6 689	884	2 615	233	156
Receivables	4 610	9 230	15 920	0	0
Investments	976 752	112 216	279 707	7 215	6 509
Property, plant and equipment	6 613	0	0	0	0
Total assets	**994 664**	**122 330**	**298 242**	**7 448**	**6 665**
Payables	41 718	23	1 073	206	49
Provisions	40 146	6 528	3 070	(5)	0
Total liabilities	**58 330**	**6 551**	**4 143**	**201**	**49**
Net assets	**936 334**	**115 779**	**294 099**	**7 247**	**6 616**

Comment

As noted above, the two Parliamentary schemes have had decreasing assets due to closure of the funds to new members.

CASH FLOW POSITION

	TAS $'000s	Investment Account $'000s
Employer Contributions	28 489	13 685
Member Contributions	12 081	21 625
Other Contributions	469	46 564
Dividends and Interest Received	4 597	11 656
Benefits Paid	(13 685)	(53 501)
Income tax paid	(453)	(1 438)
Direct investment expenses	(339)	(863)
Interfund transfers	(8 891)	(13 349)
Other income	0	2
Management fees paid	(1 375)	(4 771)
Superannuation contribution surcharge	(186)	(44)
Cash from operations	**20 707**	**19 566**
Payment for investment securities	(11 187)	(5 138)
Increase in mortgage loans	(1 811)	(3 259)
property purchases	(5 886)	(9 989)
Cash used in investing activities	**(19 524)**	**(18 386)**
Net increase in cash	1 183	1 180
Cash at the beginning of the period	4 799	16 520
Cash at end of period	**5 982**	**17 700**

Comment

Cash flows were strong for both of these funds.

The other superannuation funds are not required to produce Statements of Cash Flows under AAS 25 Financial Reporting by Superannuation Funds.

FINANCIAL ANALYSIS

	Bench Mark	Contributory Fund	TAS	Investment Account
Financial Performance				
Investments ($'000s)		976 752	112 216	279 707
Net Investment Income ($'000s)		87 426	9 903	24 791
Return on investments	5.5%	9.0%	8.8%	8.9%
Working capital ratio		98.2%	91.7%	39.8%

Comment

The returns for the year reflect the performance of the RBF Board Australian share managers who outperformed the market.

	Bench Mark	PRBF	PSF
Financial Performance			
Net assets available to pay benefits($'000)		6 899	6 616
Results from ordinary activities ($'000)		808	(378)
Operating margin	>1.0	1.62	0.71
Return on assets		12.0%	-5.52%

Comment

The comparatively lower performance of the Parliamentary funds was due to below average performance of some of their investments.

OVERALL COMMENT

The Investment Account, Contributory Fund and TAS are performing well above expectations, while the Parliamentary funds have not fared as well. As a result, investment objectives of these funds have been re-assessed and the Trust has adopted a more growth-oriented strategy, similar to the RBF Board's approach.

5.1.1 PARLIAMENTARY SUPERANNUATION FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust is responsible for the management and administration of the Fund established under the *Parliamentary Superannuation Act 1973*.

Membership of the Parliamentary Superannuation Fund (PSF) was closed to new members as at 11 November 1985 with Retirement Benefits Fund being the default scheme for their superannuation.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of the Fund were received on 22 October 2001 and an unqualified audit report was issued on 31 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Interest	13	23	7	5	5
Income from unit trusts	636	687	817	476	854
Changes in net market values	331	(241)	(308)	305	(746)
Reimbursement of benefits	1 603	1 026	1 541	1 565	757
Members' contributions	162	137	91	67	61
Total Revenue	**2 745**	**1 632**	**2 148**	**2 418**	**931**
Administration Expenses	59	95	88	83	80
Lump Sums	204	548	1 152	1 149	0
Pensions	854	1 029	1 178	1 188	1 218
Refund of contribtions	0	0	0	2	0
Superannuation contributions surcharge	0	0	0	6	11
Total Expenses	**1 117**	**1 672**	**2 418**	**2 428**	**1 309**
Result from ordinary activities	**1 628**	**(40)**	**(270)**	**(10)**	**(378)**
Income tax expense	5	0	0	(4)	58
Net Assets available to pay benefits at year start	**5 627**	**7 260**	**7 220**	**6 950**	**6 936**
Net Assets available to pay benefits at year end	**7 260**	**7 220**	**6 950**	**6 936**	**6 616**

Comment

Performance of the fund was down due to the reduction of revenues from $2 418 000 in 1999-00 to $931 000 in 2000-01. The decrease in revenue was caused by a decrease in reimbursements from government and a decrease in the value of investments.

Reimbursements from government decreased from $1 565 000 in 1999-00 to $757 000 in 2000-01 mainly as a result of a decrease in lump sum payments made by the fund. Section 8 of the *Parliamentary Superannuation Act 1973*, specifies that half of lump sum payments are to be reimbursed to PSF, $575 000.

The net market value of investments held by PSF decreased in value in 2000-01 by $746 000, compared to an increase in value of $305 000 in 1999-00. This was the result of below average performance of investments held by PSF.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Investments	6 782	7 297	7 068	6 952	6 509
Interest receivable	0	2	0		0
Sundry debtors	0	8	4	33	0
Cash at Bank	520	0	0	53	156
Total Assets	**7 302**	**7 307**	**7 072**	**7 038**	**6 665**
Sundry Creditors	42	87	93	92	87
Income tax payable	0	0	0		(54)
Provision for deferred income tax	0	0	0	4	0
Superannuation contributions					
surcharge payable	0	0	0	6	16
Bank overdraft	0	0	29		0
Total Liabilities	**42**	**87**	**122**	**102**	**49**
Net Assets Available To Pay Benefits	**7 260**	**7 220**	**6 950**	**6 936**	**6 616**

Comment

The financial position of the fund has remained stable with a gradual decrease in net assets, as new members cannot be accepted into the fund.

The liability for accrued benefits (scheme as a whole) was $18.961m ($18.174m in 1999-00).

The liability for vested benefits (scheme as a whole) was $20.252m ($19.293m in 1999-00). Vested benefits are benefits that are not conditional upon continued membership of the scheme (or any factor other than resignation from it) being benefits that members were entitled to receive had they terminated their membership as at the reporting date.

Amounts were determined in accordance with Australian Accounting Standards *AAS25 – Financial reporting by Superannuation Plans.*

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Net assets available to pay benefits		7 260	7 220	6 950	6 936	6 616
Results from ordinary activites		1 628	(40)	(270)	(10)	(378)
Operating margin	>1.0	2.46	0.98	0.89	1.00	0.71
Return on assets		25.27%	-0.55%	-3.81%	-0.14%	-5.58%

Comment

The Parliamentary Superannuation Fund performance for 2000-01 was hampered as a result of the below average performance of some of its investments.

OVERALL COMMENT

PSF administration costs of $80 000 were greater than member contributions of $61 000. The closure of the fund means that new members are not available to defray increasing administration costs.

As a result of the below average performance of investments held by the Parliamentary Superannuation Fund, investment objectives and the investment strategy of the fund was reviewed. The Trust has adopted a more growth-orientated strategy. This is more inline with the strategy used by Retiring Benefits Fund. The change in strategy was commenced with the redemption of the capital protected managed funds for a balanced fund with different investment managers. The change in investment strategy has taken into consideration the risk and return of the different investment strategy.

5.1.2 PARLIAMENTARY RETIRING BENEFITS FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust is responsible for the management and administration of the Fund established under the *Parliamentary Retiring Benefits Act 1985*.

The Parliamentary Retiring Benefits Fund (PRBF) was closed to new members as at 1 July 1999 with Retirement Benefits Fund being the default scheme for their superannuation.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of the Fund were received on 22 October 2001 and an unqualified audit report was issued on 31 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Interest	18	40	20	23	16
Changes in net market values	865	414	465	702	92
Employer contributions	685	759	679	1 150	662
Members' Contributions	246	271	250	236	230
Insurance Proceeds	0	0	335	0	0
Demutalisation proceeds	0	0	0	10	0
Total Revenue	**1 814**	**1 484**	**1 749**	**2 121**	**1 000**
Administration Expenses	42	116	118	152	102
Lump Sums	75	84	2 073	1 053	338
Superannuation contributions surcharge	0	0	0	108	126
Total Expenses	**117**	**200**	**2 191**	**1 313**	**566**
Result from ordinary activities	**1 697**	**1 284**	**(442)**	**808**	**434**
Income tax expense	(88)	(102)	(87)	(154)	(86)
Net Assets available to pay benefits at year start	**3 983**	**5 592**	**6 774**	**6 245**	**6 899**
Net Assets available to pay benefits at year end	**5 592**	**6 774**	**6 245**	**6 899**	**7 247**

Comment

Performance of the fund was down due to the reduction of revenues from $2 121 000 in 1999-00 to $1 000 000 in 2000-01. The result was caused by a decrease in employer contributions and a lower increase in the value of investments.

Employer contributions decreased from $1 150 000 in 1999-00 to $626 000 in 2000-01. This was the result of the Department of Treasury and Finance making extra payments of $564 000 in the 1999-00 period on the advice of the actuary.

The net market value of investments held by PRBF increased in value in 2000-01 by $92 000, compared to an increase in value of $702 000 in 1999-00. This was the result of the below average performance of investments held by PRBF.

Lump sum payments have been declining since the election held in the 1998-99 period with fewer members leaving the fund.

FINANCIAL POSITION

	1996-97	**1997-98**	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Investments	5 068	6 591	5 546	6 993	7 215
Interest receivable	2	9	1	1	0
Sundry debtors	104	28	335	45	0
Cash at Bank	517	310	491	45	233
Total Assets	**5 691**	**6 938**	**6 373**	**7 084**	**7 448**
Sundry Creditors	36	70	64	65	96
Income tax payable	50	89	64	125	89
Provision for deferred income tax	13	5	0	6	(5)
Superannuation contributions surcharge payable	0	0	0	(11)	21
Total Liabilities	**99**	**164**	**128**	**185**	**201**
Net Assets Available To Pay Benefits	**5 592**	**6 774**	**6 245**	**6 899**	**7 247**

Comment

The financial position of the fund has remained stable with a gradual decrease in net assets, as new members cannot be accepted into the fund.

The liability for accrued benefits (scheme as a whole) was $8.439m ($7.710m in 1999-00).

The liability for vested benefits (scheme as a whole) was $8.003m ($6.803m in 1999-00). Vested benefits are benefits that are not conditional upon continued membership of the scheme (or any factor other than resignation from it) being benefits that members were entitled to receive had they terminated their membership as at the reporting date.

Amounts were determined in accordance with Australian Accounting Standards *AAS25 – Financial reporting by Superannuation Plans.*

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Net assets available to pay benefits		5 592	6 774	6 245	6 899	7 247
Results from ordinary activites		1 697	1 284	(442)	808	434
Operating margin	>1.0	15.50	7.42	0.80	1.62	1.77
Return on assets		35.5%	20.8%	-679.0%	12.3%	6.1%

Comment

The Parliamentary Retiring Benefits Fund performance for 2000-01 was hampered as a result of the below average performance of some of its investments.

OVERALL COMMENT

PRBF administration costs of $102 000 were approximately half member contributions of $230 000. The closure of the fund means that new members are not available to defray increasing administration costs.

As a result of the below average performance of investments held by the Parliamentary Retiring Benefits Fund, investment objectives and the investment strategy of the fund were reviewed. The Trust has adopted a more growth-orientated strategy. This is more inline with the strategy used by Retiring Benefits Fund. The change in strategy was commenced with the redemption of the capital protected managed funds for a balanced fund with different investment managers. The change in investment strategy has taken into consideration the risk and return of the different investment strategy.

5.1.3 RETIREMENT BENEFITS FUND BOARD – CONTRIBUTORY SCHEME

INTRODUCTION

The Retirement Benefits Fund Board (RBFB) is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993, Retirement Benefits Regulations 1994; Retirement Benefits (Transitional) Regulations 1994* and the *Public Sector Superannuation Reform Act 1999.*

With the closure of the Non-Contributory scheme on the 25 April 2000, the Fund now has two Schemes (Contributory and Tasmanian Accumulation Scheme - TAS) and an Investment Account, each of which has separate financial statements and specific governing rules within the Regulations. The Contributory Scheme has been closed to new members since 15 May 1999.

Members of the Contributory Scheme, a defined benefits scheme, receive benefits based on their final average salary, years of service and contribution rate. Regulation 90 provides that the Treasurer or the relevant State Employing Authority is to meet a proportion of the costs of benefits paid by the Board. Based on actuarial advice, the proportion payable by the Treasurer and State Authorities as from 1 July 1996 has generally been 70%, with the balance of 30% being met by the Board.

The financial statements are prepared in accordance with Australian Accounting Standard AAS 25 ‘Financial Reporting by Superannuation Plans’.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements were received on 29 October 2001 and an unqualified audit report was issued on 31 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Investment Income	50 405	45 622	41 632	41 340	36 835
Change in net market value of investments	86 540	44 585	14 569	56 820	54 505
Direct investment expense	(2 677)	(3 644)	(3 729)	(5 156)	(3 914)
Employer contributions	142 934	146 825	186 117	116 113	125 826
Menber contributions	45 961	47 964	60 161	56 995	59 585
Miscellaneous revenue	703	185	4 359	2 008	1 139
Change in net market value of other assets	0	(1 717)	(1 991)	(1 838)	(1 349)
Total Revenue	**323 866**	**279 820**	**301 118**	**266 282**	**272 627**
Administration expenses	8 735	6 765	5 453	6 064	5 835
Superannuation contributions surcharge	0	0	0	1 081	739
Lump sums	119 248	119 064	171 245	72 412	82 947
Pensions	98 176	97 956	103 477	104 484	113 095
Refunds and interest	716	981	1 234	1 143	971
Miscellaneous Expenses	0	0	0	81 171	0
Total Expenses	**226 875**	**224 766**	**281 409**	**266 355**	**203 587**
Surplus before Tax	**96 991**	**55 054**	**19 709**	**(73)**	**69 040**
Income tax expense	(5 063)	(605)	(7 637)	13 545	1 631
Net Assets available to pay Benefits at year start	**693 743**	**785 671**	**840 120**	**852 192**	**865 664**
Net Assets available to pay Benefits at year end	**785 671**	**840 120**	**852 192**	**865 664**	**936 335**

Comment

The net assets of the Contributory Scheme increased by $70.671m to $936.335m in 2000-01 mainly as a result of normal member and employer contributions for the period.

Employer contributions increased by $9.709m to $125.826m in 2000-01 and lump sums payments increased by $10.535m to $82.947m in 2000-01. Both increases reflect the return to normal operation after an abnormally high number of lump sum payments were made in relation to the redundancy programs in 1998-99. The contribution from employing authorities is only recognised upon receipt following payment to the ex-employee.

Miscellaneous expenses of $81.098m in 1999-00 relate to assets transferred to the Tasmanian Accumulation Scheme and the wind up of the Non-Contributory Scheme in accordance with the requirements of the *Public Sector Superannuation Reform Act 1999.*

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash at bank	0	2 788	6 834	4 510	6 689
Investments	803 273	866 508	864 237	880 095	976 752
Contributions and pensions receivable	2 605	1 170	1 134	1 288	2 613
Interest and income receivable	7 324	1 131	841	1 070	654
Sundry debtors	1 347	1 624	10 199	4 147	1 343
Property, plant & equipment	4 089	3 732	3 386	6 646	6 613
Total Assets	**818 638**	**876 953**	**886 631**	**897 756**	**994 664**
Provision for income tax	1 451	3 692	9 407	(3 520)	(2 302)
Provision for deferred income tax	10 001	8 539	9 033	12 070	13 151
Provision for employee entitlements	3 806	4 676	5 015	5 426	5 763
Bank overdraft	5 628	0	0	0	0
Sundry creditors and accruals	1 353	9 027	921	6 246	30 552
Contributions and pensions payable	454	311	1 662	1 907	112
Contribution in advance	7 421	7 703	8 401	8 929	9 482
Superannuation contributions surcharge payable	0	0	0	1 034	1 572
Refundable fees	2 823	2 877	0	0	0
Security deposits	30	8	0	0	0
Total Liabilities	**32 967**	**36 833**	**34 439**	**32 092**	**58 330**
Net Assets to Pay Benefits	**785 671**	**840 120**	**852 192**	**865 664**	**936 334**

Comment

Sundry debtors decreased by $2.804m to $1.343m in 2000-01.

Sundry creditors and accruals increased to $30.552m in 2000-01 mainly due to the timing of clearing inter-entity balances prior to the close of the financial year.

The amount of the superannuation contributions surcharge liability relates to financial years ended 30 June 1997 through to 30 June 2000, and was based on the actual surcharge calculated by the Australian Taxation Office.

The liability for accrued benefits (Scheme as a whole) and the liability to be funded from scheme assets as at 30 June 2001 has been determined at $2.918bn and $0.801bn respectively.

The liability for vested benefits (Scheme as a whole) and the liability to be funded from Scheme assets as at the 30 June 2001 has been determined at $3.410bn and $0.928bn respectively.

Amounts for both accrued and vested benefits were determined in accordance with the methodology required by Accounting Standard AAS25.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Investments ($'000)		803,273	866,508	864,237	880,095	976,752
Net Investment Income ($'000)		134,268	86,563	52,472	93,004	87,426
Return on Investments	5.5%	16.7%	10.0%	6.1%	10.6%	9.0%
Working Capital Ratio		98.1%	99.1%	97.5%	98.0%	98.2%

Comment

The returns for 2000-01 reflect both the asset allocations decisions made by the RBFB Board during the year and strong performance by the Board's specialist investment managers.

5.1.4 RETIREMENT BENEFITS FUND BOARD – INVESTMENT ACCOUNT

The Retirement Benefits Fund Board (RBFB) is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993, Retirement Benefits Regulations 1994; Retirement Benefits (Transitional) Regulations 1994* and the *Public Sector Superannuation Reform Act 1999.*

With the closure of the Non-Contributory scheme on the 25 April 2000, the Fund now has two Schemes (Contributory and Tasmanian Accumulation Scheme - TAS) and an Investment Account, each of which has separate financial statements and specific governing rules within the Regulations.

The investment account is an accumulation scheme, fully funded by members. Member Investment Choice was introduced on 1 October 1999. Member Investment Choice was subsequently expanded to include members of both the TAS-SG Account and the Allocated Pension Account.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Investment income	3 563	4 433	8 500	9 333	10 624
Change in net market values	9 023	5 826	5 236	16 261	15 030
Direct investment expense	(217)	(351)	(768)	(1 142)	(863)
Employer contributions	10 581	7 829	7 460	10 690	13 516
Members contributions	2 309	7 595	21 558	13 132	22 298
Transfers from other funds	26 345	39 929	89 190	32 579	46 564
Other revenue	0	0	0	0	2
Total Revenue	**51 604**	**65 261**	**131 176**	**80 853**	**107 171**
Superannuation contributions surcharge	0	0	0	68	32
Management fee	994	1 623	2 782	2 891	1 881
Other expenses	0	0	3 346	0	0
Total Expenses	**994**	**1 623**	**6 128**	**2 959**	**1 913**
Benefits Accrued before Tax	**50 610**	**63 638**	**125 048**	**77 894**	**105 258**
Income tax expense	(1 888)	(153)	(1 593)	(2 395)	690
Benefits Accrued as a result of operations	**48 722**	**63 485**	**123 455**	**75 499**	**105 948**
Benefits paid	(15 883)	(22 389)	(32 840)	(53 312)	(52 220)
Liability for Accrued Benefits at year start	**53 624**	**86 463**	**127 569**	**218 184**	**240 371**
Liability for Accrued Benefits at year end	**86 463**	**127 559**	**218 184**	**240 371**	**294 099**

Comment

The Contributory Scheme of the Fund paid the operating expenses of the Investment Account. To recoup the outlay, the Investment Account was charged a management fee of 0.85% of net assets on a weekly basis.

Benefits paid, $52.220m, were consistent with the prior year, $53.312m.

Transfers from other funds increased by $13.985m from $32.579m in 1999-00 to $46.564m in 2000-01. The 1998-99 amount was abnormally high due to transfers associated with redundancy programs.

FINANCIAL POSITION

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Investments	83 453	123 329	224 600	245 319	279 707
Cash at bank	6 888	9 196	5 535	3 341	2 615
Interest receivable	173	227	179	242	146
Sundry debtors	266	23	2 198	2 449	15 774
Total Assets	**90 780**	**132 775**	**232 512**	**251 351**	**298 242**
Sundry creditors	994	1 623	10 275	5 771	14
Provision for income tax	419	1 122	1 251	1 437	3 065
Provisions for deferred income tax	2 904	2 461	2 802	3 760	5
Superannuation contribution surcharge payable	0	0	0	12	1 059
Total Liabilities	**4 317**	**5 206**	**14 328**	**10 980**	**4 143**
Net Assets Available To Pay Benefits	**86 463**	**127 569**	**218 184**	**240 371**	**294 099**
Represented by:					
Liability for Accrued Benefits					
Allocated to members accounts	73 768	114 754	215 639	233 169	284 260
Not yet allocated	12 695	12 815	2 545	7 202	9 839
Total Liability For Accrued Benefits	**86 463**	**127 569**	**218 184**	**240 371**	**294 099**

Comment

Sundry debtors increased to $15.774m in 2000-01 mainly due to the timing of clearing inter-entity balances prior to the close of the financial year.

The amount of the superannuation contributions surcharge liability relates to financial years ended 30 June 1997 through to 30 June 2000, and was based on the actual surcharge calculated by the Australian Taxation Office.

Net assets available to pay benefits increased by $53.728m to $294.099m in 2000-01.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Employer contributions	10 581	7 829	7 194	10 825	13 685
Member contributions	28 654	7 595	21 446	13 380	21 625
Transfers from other funds *	0	39 929	89 190	32 579	46 564
Interest received	2 714	3 270	6 184	3 307	5 313
Dividends received	2 141	3 491	4 578	6 544	6 343
Benefits paid	(15 882)	(22 389)	(31 035)	(53 837)	(53 501)
Income tax paid	(985)	106	(1 122)	(1 251)	(1 438)
Direct investment expenses	(217)	(351)	(589)	(1 228)	(863)
Interfund transfers	(648)	(993)	(1 795)	(621)	(13 349)
Other expenses	0	0	0	(5 576)	0
Other contributions to be allocated	0	0	0	1 587	0
Management fees paid	(267)	241	(1 623)	(2 782)	(4 771)
Superannuation contribution surcharge	0	0	0	(57)	(44)
Other Income	0	0	0	0	2
Cash from operations	**26 091**	**38 728**	**92 428**	**2 870**	**19 566**
Payment for investment securities	(18 996)	(32 857)	(85 419)	(2 196)	(5 138)
Increase in mortgage loans	517	(1 556)	(2 807)	(3 132)	(3 259)
Direct property purchases	103	4 355	(1 911)	(2 771)	665
Indirect property purchases	(6 001)	(6 362)	(12 089)	4 891	(10 654)
Cash used in investing activities	**(24 377)**	**(36 420)**	**(102 226)**	**(3 208)**	**(18 386)**
Net decrease/increase in cash	**1 714**	**2 308**	**(9 798)**	**(338)**	**1 180**
Cash at the beginning of the period	5 174	6 888	26 656	16 858	16 520
Cash at end of the period	**6 888**	**9 196**	**16 858**	**16 520**	**17 700**

Comment

Cash flows from Member and Employer Contributions were invested in Australian and Overseas shares, direct property and mortgages.

Cash flow from operations for 1998-99 was significantly high because of an inter fund transfer amount of $89.190m.

FINANCIAL ANALYSIS

	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance					
Investments ($'000)	83,453	123,329	224,600	245,319	279,707
Net Investment Income ($'000)	12,369	9,918	12,968	24,452	24,791
Return on Investments	14.8%	8.0%	5.8%	10.0%	8.9%
Working Capital Ratio	91.9%	92.9%	96.6%	97.6%	93.8%

Comment

RBFB invested in Australian and Overseas shares during 2000-01 with a reduction in exposure to fixed interest investments.

The returns for the year reflect the performance of the RBFB Australian share managers who outperformed the market by up to 9%.

5.1.5 RETIREMENT BENEFITS FUND BOARD – TASMANIAN ACCUMULATION SCHEME

INTRODUCTION

The Retirement Benefits Fund Board (RBFB) is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993, Retirement Benefits Regulations 1994; Retirement Benefits (Transitional) Regulations 1994* and the *Public Sector Superannuation Reform Act 1999.*

With the closure of the Non-Contributory scheme on the 25 April 2000, the Fund now has two Schemes (Contributory and Tasmanian Accumulation Scheme - TAS) and an Investment Account, each of which has separate financial statements and specific governing rules within the Regulations.

The Tasmanian Accumulation Scheme was established under the *Public Sector Reform Act* 1999 and commenced on 25 April 2000. Currently employers contribute to TAS at the rate of 8% of the gross salaries of those employees who are members of the Scheme.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01
	$'000s	$'000s
Investment Income	955	4 179
Change in net market values	2 724	6 064
Direct Investment Expense	(164)	(339)
Employer contributions	3 240	28 945
Member contributions	3 127	12 109
Other contributions	78 132	(1 024)
Total Revenue	**88 014**	**49 934**
Superannuation contributions surcharge		
Management fee	175	1 200
Death and incapacity insurance	107	1 805
Total Expenses	**282**	**3 005**
Benefits Accrued before Tax	**87 732**	**46 929**
Income tax expense	510	4 616
Benefits Accrued as a result of operations	**87 222**	**42 313**
Benefits paid	527	13 015
Liability for Accrued Benefits at year start	**0**	**86 679**
Liability for Accrued Benefits at year end	**86 695**	**115 977**

Comment

The Tasmanian Accumulation Scheme (TAS) was charged a management fee of 1.25% of net assets on a weekly basis on the Superannuation Guarantee component and 1.50% on the Allocated Pensions component. This allows for the Contributory Scheme to recoup the outlay for TAS operating expenses.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s
Investments	85 751	112 216
Cash at bank	971	884
Interest receivable	90	63
Sundry debtors	1 761	9 167
Total Assets	**88 573**	**122 330**
Sundry creditors	175	8
Provision for income tax	453	4 623
Provisions for deferred income tax	57	51
Provision for death and incapacity insurance	728	1 854
Contributions payable	477	0
Superannuation contribution surcharge payable	4	15
Total Liabilities	**1 894**	**6 551**
Net Assets Available To Pay Benefits	**86 679**	**115 779**
Represented by:		
Liability for Accrued Benefits		
Allocated to members accounts	84 084	113 914
Not yet allocated	2 595	1 865
Total Liability For Accrued Benefits	**86 679**	**115 779**

Comment

TAS was initially funded using surplus assets from the Contributory Scheme.

Sundry debtors increased to $9.167m in 2000-01 mainly due to the timing of clearing inter-entity balances prior to the close of the financial year.

The amount of the superannuation contributions surcharge liability relates to financial years ended 30 June 1997 through to 30 June 2000, and was based on the actual surcharge calculated by the Australian Taxation Office.

CASH POSITION

	1999-00	2000-01
	$'000s	$'000s
Employer contributions	3 696	28 489
Member contributions	3 127	12 081
Other contributions	77 338	469
Interest received	406	2 027
Dividends received	630	2 570
Benefits paid	(527)	(13 005)
Income tax paid	0	(453)
Direct investment expenses	(164)	(339)
Interfund transfers	(268)	(8 891)
Other contributions to be allocated	21	0
Management fees paid	0	(1 375)
Death and incapacity benefits paid	28	(680)
Superannuation contribution surcharge	(118)	(186)
Cash from operations	**84 169**	**20 707**
Payment for investment securities	(64 542)	(11 827)
Increase in mortgage loans	(4 381)	(1 811)
Direct property purchases	(2 388)	(77)
Indirect property purchases	(8 059)	(5 809)
Cash used in investing activities	**(79 370)**	**(19 524)**
Net decrease/increase in cash	**4 799**	**1 183**
Cash at the beginning of the period	0	4 799
Cash at end of the period	**4 799**	**5 982**

Comment

On 25 April 2000, the initial balances of TAS, being the account balances of the Non-Contributory Scheme as at that date, were funded using surplus assets from within the Contributory Scheme, adjusted to take account of the income taxation differences between the two Schemes.

Cash flows from Member and Employer Contributions were invested in Australian and Overseas shares, direct property and mortgages.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01
Financial Performance			
Investments ($'000)		85,751	112,216
Net Investment Income ($'000)		3,515	9,903
Return on Investments	5.5%	4.1%	8.8%
Working Capital Ratio		96.8%	91.7%
Profit Return on Total Assets		10.2%	35.3%
Revenue on Total Assets		11.2%	41.7%
Contribution Revenue on Benefits Paid		1208.2%	315.4%

Comment

The current financial year is the first year of full operation of the Scheme.

OVERALL COMMENT

Total funds under management for RBFB have increased since 1996-97. The rate of return on total funds under management has been solid with the rate outperforming the average return for growth-orientated funds.

5.2.1 LEGAL AID COMMISSION

INTRODUCTION

The Commission is an independent statutory body established by the *Legal Aid Commission Act 1990*. It is principally funded by the State and Commonwealth Governments, with other sources of income derived from the recovery of legal costs in successful cases, contributions from legally assisted clients and interest on invested moneys.

The Commission seeks to increase access to justice for all Tasmanians by the provision of legal representation, advice, information and referral services. The Commission ensures that within the limits of funds available, no person is denied access to the law by reason of financial or social disadvantage.

The Responsible Minister is the Minister for Justice and Industrial Relations.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed statements were received from the Commission on 25 September 2001. Subsequently, revised signed statements were received on 23 November 2001 and an unqualified audit opinion was issued on 26 November 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
State Government Grants	2 738	2 700	2 735	2 770	3 086
Commonwealth grants	5 202	4 493	4 581	4 687	4 727
User charges, fees and fines	650	495	537	402	310
Other operating revenue	217	157	82	56	62
Non-operating revenue	0	0	0	0	1
Total Revenue	**8 807**	**7 845**	**7 935**	**7 915**	**8 186**
Depreciation	280	438	257	200	99
Other operating expenses	8 713	8 610	9 136	8 375	7 219
Non-operating expenses	0	49	0	0	0
Total Expenses	**8 993**	**9 097**	**9 393**	**8 575**	**7 318**
Result from Ordinary Activities	**(186)**	**(1 252)**	**(1 458)**	**(660)**	**868**

Comment

In 1997-98, the decrease in Commonwealth grants occurred as the previous year included some one-off grants relating to the Commonwealth Access to Justice Fund and for Veterans Affairs.

A formal independent valuation of the Commissions' freehold property was undertaken as at 30 June 1998, based on current market value on an existing use basis. This revaluation resulted in a write down of $0.049m and it is the only non-operating item noted in the five-year analysis.

The decrease in other operating expenses to $8.375m in 1999-00 was due to a decrease in payments to private practitioners of $0.593m, mainly as a result of the cessation of the State Civil Law program part way through the year.

An operating deficit is noted for each of the four years from 1996-97, whereas a profit of $0.868m was noted in the current year (2000-01). This profit was a direct result of the decrease in other operating expense, as the 2000-01 year was the first full year where the State Civil Law Program did not operate.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
Cash	2 747	2 022	687	353	1 230
Receivables	474	322	340	135	183
Other	28	18	18	42	11
Total Current Assets	**3 249**	**2 362**	**1 045**	**530**	**1 424**
Property, plant & equipment	1 230	803	653	498	477
Total Non-Current Assets	**1 230**	**803**	**653**	**498**	**477**
Payables	112	83	88	104	108
Provisions	302	314	291	284	315
Total Current Liabilities	**414**	**397**	**379**	**388**	**423**
Provisions	63	60	69	50	19
Total Non-Current Liabilities	**63**	**60**	**69**	**50**	**19**
Net Assets	**4 002**	**2 708**	**1 250**	**590**	**1 459**
Capital	325	325	325	325	325
Reserves	39	0	0	0	0
Retained surpluses	3 636	2 384	925	265	1 134
Total Equity	**4 000**	**2 709**	**1 250**	**590**	**1 459**

Comment

Cash held in 1998-99 was lower than the previous year, primarily due to an increase in operating expenses of $0.526m. This increase was due principally to increases in payments to private practitioners. Similarly, the increase in cash noted in the 2000-01 year is a function of the decrease in payments to private practitioners, as noted previously.

In 1996-97, the Burnie office premises were redeveloped, and the higher level in the property, plant and equipment balance reflects this work. In 1997-98, the non current assets value decreased due to the downward revaluation of the library assets and the freehold property in Burnie and the increase in depreciation expense for that year of $0.158m.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
State Government Grants	2 548	2 845	2 717	3 004	3 022
Commonwealth grants	5 202	4 493	4 581	4 687	4 727
Receipts from customers	587	505	517	348	309
Payments to suppliers and employees	(8 705)	(8 629)	(9 130)	(8 386)	(7 155)
Interest received	224	159	87	57	52
Cash from operations	**(144)**	**(627)**	**(1 228)**	**(290)**	**955**
Payments for P, P & Equipment	(286)	(98)	(106)	(44)	(78)
Cash used in investing activities	**(286)**	**(98)**	**(106)**	**(44)**	**(78)**
Net increase in cash	**(430)**	**(725)**	**(1 334)**	**(334)**	**877**
Cash at the beginning of the period	3 177	2 747	2 022	687	353
Cash at end of the period	**2 747**	**2 022**	**688**	**353**	**1 230**

Comment

The largest recorded net deficit in cash occurred in the 1998-99 year, which amounted to $1.334m. This increased deficit was due to the increase in payments to private legal practitioners during the financial year. This deficit has gradually decreased in line with the decrease in payments to the private practitioners. Ultimately, this has resulted in an increment in cash of $0.877m, the first increase recorded in the five years under analysis.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		(186)	(1 203)	(1 458)	(660)	867
Operating margin	>1.0	0.98	0.87	0.84	0.92	1.12
Financial Management						
Current ratio	>1	7.85	5.95	2.76	1.37	3.37
Debt collection	30 days	n/a	n/a	n/a	n/a	n/a
Creditor turnover	30 days	25	8	12	13	14
Other information						
Staff numbers FTEs		58	57	56	51	50
Average staff costs ($'000s)		40	45	49	57	57

Comment

The debt collection ratio has been deemed not applicable, as the vast majority of the Legal Aid Commissions' revenue is derived from Commonwealth and State Government Grants, which are not invoiced for. In light of this, receivables balances are traditionally low, with little impact on the operations of the Commission.

OVERALL COMMENT

The audit of the Commission's accounts for the 2000-01 financial year was completed with satisfactory results.

5.2.2 MARINE AND SAFETY AUTHORITY

INTRODUCTION

The Authority was created by the *Marine and Safety Authority Act 1997*. The functions of the Authority are to:

- Ensure safe operations of vessels;
- Provide and manage marine facilities; and
- Manage environmental issues relating to vessels.

The Authority commenced operations on 30 July 1997. A large number of marine facilities were transferred to the Authority by the former Department of Transport and the former Port Authorities. The Port Authorities divested all boat ramps and jetties and all the navigation aids that were outside their immediate port areas or were not part of their core commercial activities. The Authority also assumed the assets and liabilities of the former Navigation and Survey Authority of Tasmania.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The signed financial statements of the Authority were received on 27 September 2001 and an unqualified audit report was issued on 15 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 786	2 252	2 325	2 659
Total Revenue	**1 786**	**2 252**	**2 325**	**2 659**
Depreciation	420	567	575	582
Other operating expenses	1 270	2 213	2 564	2 390
Non-operating expenses	0	0	121	0
Total Expenses	**1 690**	**2 780**	**3 260**	**2 972**
Result from ordinary activities	**96**	**(528)**	**(935)**	**(313)**

Comment

A general increase in Operating revenue each year is a result of the significant increase in the number of recreational vessel registrations. This was augmented in

2000-01 when a $10 Safety levy was introduced to fund specific boating safety programs. Revenue from commercial vessel operations has benefited from increasing activity in the aquaculture/fishing industries. During 1998-99 a new fee structure for certificates competency was introduced, and in 2000-01 a new fee structure for commercial vessel survey was implemented resulting in a decrease in revenue but delivering significant cost savings to industry and the Authority.

The increase in Depreciation from 1998-99 was due to the take on of the Ulverstone breakwater, wharf and training wall from 16 June 1997.

The increase in Operating expenses from 1998-99 was due to increased maintenance works on marine facilities. Also in that year there were recreational boating expenses of $282 000, that were funded in the prior year but not expended until that year. The increase in Operating expenses in 1999-00 was due to an increase in the number of employees.

Non-operating expenses in 1999-00 was a write-off of marine facilities where ownership had been vested originally in the Authority, but subsequently discovered that ownership vested elsewhere.

FINANCIAL POSITION

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Cash	775	716	280	542
Receivables	21	148	27	77
Other	5	6	6	19
Total Current Assets	**801**	**870**	**313**	**638**
Property, plant & equipment	9 559	9 144	8 669	8 141
Total Non-Current Assets	**9 559**	**9 144**	**8 669**	**8 141**
Payables	137	303	202	230
Provisions	77	83	80	147
Total Current Liabilities	**214**	**386**	**282**	**377**
Provisions	1	12	19	6
Total Non-Current Liabilities	**1**	**12**	**19**	**6**
Net Assets	**10 145**	**9 616**	**8 681**	**8 396**
Capital	9 939	9 939	9 939	9 939
Reserves	420	186	0	29
Retained profits/(losses)	(214)	(509)	(1 257)	(1 572)
Total Equity	**10 145**	**9 616**	**8 682**	**8 396**

Comment

The higher Cash balances at the end of 1998 and 1999 were mainly due to a Treasury appropriation not spent until 1999-00 on capital purchases.

Receivables increased by $127 000 during 1998-99 as a result of moneys being owed from Treasury for the sale of slipways, $85 000, and salaries for the secondment of a staff member, $32 000. Receivables increased in 2000-01 due to the new fee structure for commercial vessels.

The increase in Other assets in 2000-01 was due to increases in prepayments for insurance and the National Marine and Safety Committee subscription.

The reduction in Property, plant and equipment is the result of depreciation.

Creditors increased by $166 000 in 1998-99 as a result of outstanding payments for work carried out on the Denison Canal and redevelopments at Bicheno.

The increase in Provisions in 2000-01 is due to the inclusion of superannuation, FBT and Payroll Tax attributable to leave entitlements.

In 1998-99 and 1999-00 there were transfers from the Facilities Maintenance Reserve to Retained profits/(losses). The amount in 2000-01 is due to the net result of a total asset revaluation undertaken during the year.

The increasing Retained losses are a result of operating losses sustained during the past three years. The accumulated loss sustained by the Authority as at 30 June 2001 of $1 572 648 relates mainly to non-cash transactions, in particular depreciation expenses for Navigation Aids and Marine Facilities. It is expected these losses will continue in future years.

CASH POSITION

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 773	2 157	2 401	2 576
Payments to suppliers and employees	(1 223)	(2 028)	(2 583)	(2 305)
Interest received	22	41	34	32
Cash from operations	**572**	**170**	**(148)**	**303**
Payments for investments	0	0	0	(41)
Payments for P, P & Equipment	(25)	(229)	(288)	0
Cash used in investing activities	**(25)**	**(229)**	**(288)**	**(41)**
Net increase in cash	**547**	**(59)**	**(436)**	**262**
Cash at the beginning of the period	228	775	716	280
Cash at end of the period	**775**	**716**	**280**	**542**

Comment

Reasons for variations in Cash flows amounts and Cash balances reflect the comments made for variations in the Statement of Financial Performance and movements in the Cash amount in the Statement of Financial Position.

The cash position of MAST has remained relatively strong since the Authority's inception in 1997.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01
Financial Performance					
Result from operations ($'000s)		516	39	(239)	269
Operating margin	>1.0	1.41	1.02	0.91	1.11
Financial Management					
Current ratio	>1	3.74	2.25	1.11	1.69
Debt collection	30 days	11	5	15	6
Creditor turnover	30 days	38	50	35	44
Other information					
Staff numbers FTEs		12	14	14	17
Average staff costs ($'000s)		48	51	66	59

Comment

Most performance indicators show fluctuations over the four years in accordance with the activities of the Authority.

OVERALL COMMENT

Nil

5.2.3 NOMINAL INSURER

INTRODUCTION

The Nominal Insurer is an independent statutory body established under section 121 of the *Workers Rehabilitation and Compensation Act 1988*. Its main purpose is to ensure that a worker is not disadvantaged in circumstances where an employer is not insured, where an employer cannot be located, or has been declared bankrupt, or where an employer/insurer has defaulted in payment of an accepted claim. The entity's main activity is to make payment of claims arising under the above scenarios. The ability to pay claims settled is by way of contributions received from licensed insurers and self-insurers as and when necessary to call up in accordance with section 128 of the Act.

The Nominal Insurer operates the following funds:

- An account established in accordance with sections 16A through 16D of the *Workers Compensation Act 1927*;
- The Nominal Insurer No 4 Account established under sections 121-131 of the *Workers Compensation Act 1988*; and
- The Nominal Insurer No 5 Account (National Employers' Mutual) established under sections 16A through 16D of the *Workers Compensation Act 1927*.

Approved insurers under the 1927 Act have the responsibility to meet the cost of the 1927 Act claims. Under the 1988 Act, licensed and self-insurers are required to accept liability for claims against uninsured employers and failed workers' compensation insurers.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed statements were received on 19 November 2001. An unqualified opinion was issued on 20 November 2001. This was the first year that the Nominal Insurer prepared accrual accounts. During the 2000-01 year, the collapse of HIH Ltd had a profound impact on the workers' compensation coverage for the State, and has resulted in a dramatic impact in outstanding claims (reported as both 'Receivables' and 'Payables' as claims are lodged, processed and settled).

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
Other operating revenue				726	761
Non-operating revenue				0	0
Total Revenue				**726**	**761**
Other operating expenses				963	611
Total Expenses				**963**	**611**
Result from Ordinary Activities				**(237)**	**150**

Comment

Operating revenue consists of Insurers' Contributions to meet the costs of claims made by claimants and Claims Recovery which are received from employers who have failed to take out an insurance policy, or from insurance brokers who did not obtain insurance on behalf of their employer/client. These amounts by their nature can vary from year to year, but were consistent for the past two years. The impact from the HIH Ltd collapse will start to impact revenue in the next year.

Operating expenses primarily comprise Claims Expenses which are payments of weekly compensation paid to claimants, and expenses incurred for medical and hospital treatments, rehabilitation fees and legal expenses associated with workers' compensation claims. The other main component is Distribution to Insurers which are reimbursements of dividends received from the Official Liquidator. The distribution is made on the proportion contributed by each licensed insurer in the initial establishment of the No 5 Account and subsequent calls made for funds. This amount as well can vary between years.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
Cash				391	509
Receivables				413	17 111
Other					32
Total Current Assets				**804**	**17 652**
Receivables				808	33 258
Total Non-Current Assets				**808**	**33 258**
Payables				362	17 061
Provisions				51	50
Other					
Total Current Liabilities				**413**	**17 111**
Other				808	33 258
Total Non-Current Liabilities				**808**	**33 258**
Net Assets				**391**	**541**
Retained surpluses				391	541
Total Equity				**391**	**541**

Comment

Receivables are an estimate of the outstanding claims to be settled. The amount and timing (current/non-current) is based on advice from solicitors who are handling the claims. The amount outstanding is subject to annual review and the value changes each year. The impact of HIH Ltd's collapse is evident in the marked increase in current and non-current receivables, and represents $16.7m and $32.8m respectively of each class of receivables.

Similarly the same amounts under current and non-current liabilities relate to outstanding HIH claims, as well as an actuarial estimate.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
Receipts from customers				706	745
Payments to suppliers and employees				(963)	(644)
Interest received				20	17
Cash from operations				**(237)**	**118**
Net increase in cash				**(237)**	**118**
Cash at the beginning of the period				628	391
Cash at end of the period				**391**	**509**

Comment

The variances between the past two years are consistent with the accrual statements, as well as timing issues of processing recoveries to insurance companies from the Official Liquidator.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)					(237)	150
Operating margin	>1.0				0.75	1.25
Financial Management						
Current ratio	>1				1.95	1.03

Comment

Due to the nature of estimates for receivables and payables, meaningful creditors and debtors analysis is not possible. The negative result last year was due to timing variances in paying out claims and being reimbursed by insurers. As cash balances for both years were sufficient, this was not an issue, and is reflected in a current ratio of just over 1 for both years.

OVERALL COMMENT

The volume of activity for the Nominal Insurer has begun to increase dramatically over the past year since the collapse of HIH Ltd, and is expected to continue for the foreseeable future, due to the large number of policies held by employers with that insurer.

5.2.4 PRIVATE FORESTS TASMANIA

INTRODUCTION

Private Forests Tasmania was established as a state authority on 1 July 1994 under the *Private Forests Act 1994*.

The Authority took over the assets, liabilities, functions and responsibilities previously managed by the Private Forestry Division of the former Forestry Commission.

According to the Authority's Strategic Plan, ' The objective of the Authority is to facilitate and expand the development of the private forest resource in Tasmania for commercial purposes and to maintain a healthy and productive rural environment in a manner which is consistent with sound forest land management practice '.

The Authority's Board of Directors consists of five members, appointed by the Responsible Minister plus the Chief Executive Officer.

The Responsible Minister is the Minister for Infrastructure, Energy and Resources.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of Private Forests Tasmania were received on 30 August 2001 and an unqualified audit report was issued on 9 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97 $'000s	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s
Operating revenue	1 974	1 859	1 891	1 858	2 273
Total Revenue	**1 974**	**1 859**	**1 891**	**1 858**	**2 273**
Borrowing costs	133	133	130	125	102
Depreciation	35	40	41	41	60
Other operating expenses	1 755	1 699	1 735	1 804	2 039
Total Expenses	**1 923**	**1 872**	**1 906**	**1 970**	**2 201**
Result from ordinary activities	**51**	**(13)**	**(15)**	**(112)**	**72**
Income tax expense	0	0	0	0	0
Result after taxation	**51**	**(13)**	**(15)**	**(112)**	**72**

Comment

The primary functions of Private Forests Tasmania include the administration of funds on-lent from the Tasmanian Government to private plantation owners and the completion of projects which facilitate sound forest management practice.

The objective of these operations is to perform a function rather than to provide substantial returns to Government. The operating results for the last five years reflect this aim. The results are small profits or losses with the one exception in the 1999-00 year, where the Authority made a larger loss of $0.112m. This loss was principally due to a decrease in operating grants of $0.021m and a general increase in operating expenditure of $0.064m. The increase is mainly due to increased employee expenses, which were $0.055m greater than the previous year.

Borrowing costs have been steadily reducing over the five-year period as the outstanding borrowings decrease.

Other operating expenses have increased during the 2000-01 financial year principally due to employment costs, which are greater than the previous year by $0.240m. This is offset by an increase in revenues of $0.415m over the same period.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	740	477	827	111	595
Receivables	28	59	23	30	53
Investments	500	850	850	1 850	1 900
Other	121	145	175	178	168
Total Current Assets	**1 389**	**1 531**	**1 875**	**2 169**	**2 716**
Property, plant & equipment	143	140	142	184	192
Other	1 843	1 886	1 844	1 552	1 390
Total Non-Current Assets	**1 986**	**2 026**	**1 986**	**1 736**	**1 582**
Payables	31	19	26	58	56
Borrowings	105	130	170	171	161
Provisions	206	217	203	213	239
Other	462	592	931	1 315	1 757
Total Current Liabilities	**804**	**958**	**1 330**	**1 757**	**2 213**
Borrowings	2 298	2 322	2 277	2 002	1 856
Provisions	0	17	9	13	24
Total Non-Current Liabilities	**2 298**	**2 339**	**2 286**	**2 015**	**1 880**
Net Assets	**273**	**260**	**245**	**133**	**205**
Retained profits	273	260	245	133	205
Total Equity	**273**	**260**	**245**	**133**	**205**

Comment

The cash balance for Private Forests reduced at the end of 1999-00 as surplus funds of $1 million were transferred to investments for the year.

Property plant & equipment increased by $0.042m in 1999-00 as the Authority purchased computer equipment for new NHT grant projects.

Other non-current assets are comprised of the private plantation pine loan debtor receivables, which have gradually decreased over the five-year period.

Other current liabilities are comprised of accrued expenses and unexpended grants. Under Treasurer’s instruction GBE 08-52-01 all government grants & subsidies received by the Authority are to be recognised as revenue in the year the expense is incurred. This accounting treatment results in a liability being recognised for the amount of any unexpended grants. Unexpended grants at 30 June 2001 totalled $1.716m (2000 $1.283m). It is expected that the majority of the unexpended grants will be expended during 2001-02 as a number of projects reach completion of their current stage.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	2 042	1 855	2 032	2 139	2 642
Payments to suppliers and employees	(1 774)	(1 761)	(1 691)	(1 849)	(2 179)
Interest received	81	51	61	84	144
Borrowing costs	(53)	(58)	(82)	(98)	(96)
Cash from operations	**296**	**87**	**320**	**276**	**511**
Payments for investments	0	(350)	0	(1 000)	(50)
Payments for P, P & Equipment	(77)	(37)	(43)	(83)	(68)
Cash used in investing activities	**(77)**	**(387)**	**(43)**	**(1 083)**	**(118)**
Proceeds from borrowings	40	64	146	364	273
Repayment of borrowings	(25)	(27)	(73)	(273)	(182)
Cash from financing activities	**15**	**37**	**73**	**91**	**91**
Net increase in cash	**234**	**(263)**	**350**	**(716)**	**484**
Cash at the beginning of the period	506	740	477	827	111
Cash at end of the period	**740**	**477**	**827**	**111**	**595**

Comment

The timing of cash transactions due to project scheduling can cause disparity between cash receipts and payments. Project funding is shown as a receipt from customers for the year during which it is received. As projects can run for long periods, the corresponding payments to suppliers and employees are spread over a number of financial years. The level of unexpended grants funding contributes to the level of cash and investments held within the Authority. Hence, there are several variables that effect the net movement in cash for each financial year.

Interest receipts have increased by $0.060m in the 2000-01 year as a result of the extra funds ($1.000m) invested during the 1999-00 financial year.

Proceeds from borrowings do not represent additional loan funding obtained by Private Forests, but shows the level of net loans repaid from customers as Private Forests administer plantation loans. During recent years a number of loan debtors have elected to pay the full portion of their loan balances resulting in increased proceeds from borrowings. The additional repayments have then been passed on to the State Government by Private Forests as repayment of their debt to Treasury.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		51	(13)	(15)	(112)	72
EBIT ($'000s)		184	120	115	13	174
Operating margin	>1.0	1.03	0.99	0.99	0.94	1.03
Return on assets		5.5%	3.5%	3.1%	0.3%	4.2%
Return on equity		18.7%	-4.9%	-5.9%	-59.3%	42.6%
Financial Management						
Debt to equity		880.2%	943.1%	998.8%	1633.8%	983.9%
Debt to total assets		71.2%	68.9%	63.4%	55.6%	46.9%
Interest cover	>3	1	1	1	0	2
Current ratio	>1	1.73	1.60	1.41	1.23	1.23
Cost of debt	7.5%	5.5%	5.5%	5.3%	5.4%	4.9%
Debt collection	30 days					
Creditor turnover	30 days	16	11	12	27	26
Other information						
Staff numbers FTEs		18	18	15	19	21
Average staff costs ($'000s)		57	56	62	51	59

Comment

Private Forests Tasmania is not required to pay income tax equivalent or dividend payments to the Tasmanian Government.

Due to the nature of Private Forest Tasmania's operations and the composition of the balance sheet the return on asset and equity ratios vary from year to year. Generally, the operating margin has been close to the benchmark figure for each of the past five financial years.

The level of borrowings held to facilitate the private plantation loans is substantial. This has resulted in consistently large debt to equity and debt to total asset ratios. The debt to total assets ratio has been steadily declining as the borrowings are repaid and total assets increasing.

Private Forests Tasmania's cost of debt has remained relatively stable over the five-year period at around 5.5%. The percentage has reduced in 2000-01 as a result of a reduction in overall interest rates.

As the majority of revenue is derived from funding received from either State or Commonwealth Governments, the debt collection ratio is not relevant to Private Forests Tasmania.

OVERALL COMMENT

The audit of the financial statements of 2000-01 was completed with satisfactory results.

Further to my comments on page 198 of my Report No 2 for 1999-00 relating to the possible implementation of a private forests service levy, I note that extensive consultation has been undertaken between the Authority and stakeholders. A position has now been agreed upon and a Bill has been drafted for introduction into Parliament.

5.2.5 STATE FIRE COMMISSION

INTRODUCTION

The State Fire Commission was established under the Fire Service Act 1979. The role of the State Fire Commission (the Commission) is to protect life, property and the environment from fire and other emergencies. The Commission provides a rapid emergency response and promotes fire safety in partnership with the community.

The Commission comprises seven members: one person being the Chief Officer (Chairperson), one person nominated by the United Fire-fighters Union (Tasmanian Branch), one nominated by the Tasmanian Volunteer Fire-fighters Association, one person nominated by the Tasmanian Volunteer Fire Brigades Association, one person nominated by the Secretary of the Department of Treasury and Finance and two persons nominated by the Local Government Association of Tasmania.

The Responsible Minister is the Minister for Health and Human Services.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of the Commission were received by Audit on 18 September 2001 and an unqualified audit report was issued on 4 October 2001.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
State government contribution	1 942	2 777	1 982	2 741	4 026
Commonwealth contribution	163	166	168	168	184
User charges, fees and fines	2 599	2 434	2 504	2 899	3 080
Other operating revenue	28 782	29 493	29 085	29 521	31 535
Non-operating revenue	986	1 174	1 097	1 567	912
Total Revenue	**34 472**	**36 044**	**34 836**	**36 896**	**39 737**
Borrowing costs	715	673	594	584	474
Depreciation	2 529	2 162	2 499	2 615	2 780
Other operating expenses	28 377	29 344	28 517	30 642	34 032
Non-operating expenses	1 048	1 074	1 257	1 941	1 028
Total Expenses	**32 669**	**33 253**	**32 867**	**35 782**	**38 314**
Result from Ordinary Activities	**1 803**	**2 791**	**1 969**	**1 114**	**1 423**

Comment

The peaks in State Government contributions noted in 1997-98 and 2000-01 relate to the receipt of wildfire fighting contributions, with $1.303m being received in the most recent financial year.

Other operating revenue consists almost entirely of fire service contributions from local councils and the fire levy paid by Insurance companies.

The increase in other operating expenses recorded in 2000-01 is a result of a number of factors. There was a four per cent wage increase for fire-fighters effective from January 2001 and a significant rise of $0.386m in computer expenses in the 2000-01 year. There was a general increase across most expenditure areas caused principally by the 2000-01 year having a very busy fire season.

FINANCIAL POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
Cash	29	1 214	2 977	542	3 244
Receivables	2 317	474	368	509	819
Investments	1 970	1 600	0	1 500	0
Inventories	674	677	602	627	697
Other	1 824	1 879	1 967	2 457	1 111
Total Current Assets	**6 814**	**5 844**	**5 914**	**5 635**	**5 871**
Property, plant & equipment	47 221	50 501	52 200	52 090	55 317
Total Non-Current Assets	**47 221**	**50 501**	**52 200**	**52 090**	**55 317**
Payables	2 234	1 715	2 196	1 897	3 843
Borrowings	2 511	0	2 868	1 830	4 698
Provisions	4 075	4 345	4 483	4 702	4 698
Other	1 682	1 764	1 084	0	0
Total Current Liabilities	**10 502**	**7 824**	**10 631**	**8 429**	**13 239**
Borrowings	3 198	5 709	2 841	3 879	1 011
Provisions	447	329	246	249	451
Total Non-Current Liabilities	**3 645**	**6 038**	**3 087**	**4 128**	**1 462**
Net Assets	**39 888**	**42 483**	**44 396**	**45 168**	**46 487**
Capital	5 464	5 464	5 464	0	0
Reserves	27 689	32 053	1 704	1 362	1 258
Retained surpluses	6 735	4 966	37 228	43 806	45 229
Total Equity	**39 888**	**42 483**	**44 396**	**45 168**	**46 487**

Comment

During the most recent financial year, there was a significant increase in payables, which was due to the purchase of some computer equipment near the end of the financial year.

Other current liabilities in the first 3 years under review represented capital commitments. In the 1999-00 year, it was resolved that the majority of these balances did not meet the definition of a liability and hence they were no longer recorded.

Although the borrowings have moved significantly between current and non-current in the past 5 years, the net outstanding balance has always remained at $5.709m. This is due to the fact that the Commission annually refinances its borrowings portfolio held with Tascorp.

Before the 2000-01 year, the Commission had a general capital balance which represented the net assets taken up by the Commission on conversion to accrual accounting. This amount was transferred to retained surpluses in accordance with changes to Australian Accounting Standards.

CASH POSITION

	1996-97	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s	$000s
Receipts from customers	31 151	35 624	33 208	34 011	39 015
Payments to suppliers and employees	(26 527)	(28 767)	(27 434)	(30 131)	(32 096)
Interest received	150	87	78	75	88
Borrowing costs	(715)	(673)	(594)	(585)	(474)
Cash from operations	**4 059**	**6 271**	**5 258**	**3 370**	**6 533**
Proceeds from investments	3 160	370	1 600	0	1 500
Payments for investments	0	0	0	(1 500)	0
Payments for P, P & Equipment	(8 035)	(6 630)	(6 192)	(5 872)	(6 242)
Proceeds from sale of P, P & E	986	1 174	1 097	1 567	912
Cash used in investing activities	**(3 889)**	**(5 086)**	**(3 495)**	**(5 805)**	**(3 830)**
Net increase in cash	**170**	**1 185**	**1 763**	**(2 435)**	**2 703**
Cash at the beginning of the period	(141)	29	1 214	2 977	542
Cash at end of the period	**29**	**1 214**	**2 977**	**542**	**3 245**

Comment

The decrease in cash in the 1999-00 year was due principally to payments for investments of $1.500m. In several other years proceeds from the sale of investments assisted in a net increase in cash being recorded.

FINANCIAL ANALYSIS

	Bench Mark	1996-97	1997-98	1998-99	1999-00	2000-01
Financial Performance						
Result from operations ($'000s)		1 865	2 691	2 129	1 488	1 539
Operating margin	>1.0	1.06	1.08	1.07	1.04	1.04
Financial Management						
Current ratio	>1	0.65	0.75	0.56	0.67	0.44
Debt collection	30 days	25	6	5	7	10
Creditor turnover	30 days	55	27	35	30	60
Other information						
Staff numbers FTEs		388	391	387	407	420
Average staff costs ($'000s)		35	37	37	37	39

Comment

Although it appears that the current ratio is low, there are two current liabilities that have a significant impact on the results above. Firstly, although the Commission recognises a current liability for borrowings, the previous comments have highlighted that the actual borrowings balance has not decreased in the past five years. Secondly, a significant current liability for long service leave is noted, but actual expenditure incurred has been significantly less in subsequent years. If allowance were made to eliminate these two items, the current ratio for 2000-01 would have been 1.09, which is above the benchmark.

The increase in creditor turnover is directly related to the purchase of computer equipment noted previously.

OVERALL COMMENT

The 2000-01 audit was completed with satisfactory results.

5.2.6 TAFE TASMANIA

INTRODUCTION

TAFE Tasmania was established under the *TAFE Tasmania Act 1997* as a provider of vocational and further education.

The Authority is managed by a board of seven directors appointed by the Government.

The Responsible Minister is the Minister for Education.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

Signed financial statements of the Authority were received by audit on 30 October 2001 and an unqualified audit report was issued on 1 November 2001.

FINANCIAL RESULTS

As TAFE commenced operations on 1 January 1998, the results for 1997-98 only reflect six months of activity.

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**
	$000s	$000s	$000s	$000s
State Government grants	29 744	65 139	66 763	65 640
User charges, fees and fines	3 723	6 664	6 072	6 711
Other operating revenue	3 003	7 293	9 047	8 326
Total Revenue	**36 470**	**79 096**	**81 882**	**80 677**
Borrowing costs	0	0	226	147
Depreciation	3 289	6 617	6 498	6 733
Other operating expenses	35 318	72 609	74 308	74 983
Non-operating expenses	64	97	3 208	312
Total Expenses	**38 671**	**79 323**	**84 240**	**82 175**
Result from Ordinary Activities	**(2 201)**	**(227)**	**(2 358)**	**(1 498)**

Comment

Non-operating expenses for 1999-00 principally include a loss on asset revaluations and transfer of assets to the Crown. In 1999-00, other operating revenue rose significantly due to increases in commercial services revenue.

Borrowing costs relate to a loan facility through the Department of Treasury and Finance to fund a redundancy program.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01
	$000s	$000s	$000s	$000s
Cash	3 110	3 991	8 493	4 182
Investments	1 748	1 797	2 349	2 221
Inventories	794	459	394	446
Other	104	61	74	525
Total Current Assets	**5 756**	**6 308**	**11 310**	**7 374**
Property, plant & equipment	145 311	145 855	141 676	143 069
Total Non-Current Assets	**145 311**	**145 855**	**141 676**	**143 069**
Payables	1 561	1 328	2 379	1 618
Borrowings	294	581	629	305
Provisions	7 877	9 044	4 027	4 316
Other	1 496	730	399	325
Total Current Liabilities	**11 228**	**11 683**	**7 434**	**6 564**
Borrowings	1 449	2 404	1770	680
Provisions	1 663	1 576	7 209	6 940
Other	0	0	10	11
Total Non-Current Liabilities	**3 112**	**3 980**	**8 989**	**7 631**
Net Assets	**136 727**	**136 500**	**136 563**	**136 248**
Reserves	0	0	2 421	3 605
Retained surpluses	136 727	136 500	134 142	132 643
Total Equity	**136 727**	**136 500**	**136 563**	**136 248**

Comment

Cash increased in 1999-00 due mainly to the timing of the receipt of Government funding.

A re-assessment of employee entitlement provisions in 1999-00 resulted in a change in amounts classified as current and non-current.

A revaluation of Infrastructure assets during 1999-00, culminated in the creation of an asset revaluation reserve.

CASH POSITION

	1997-98 $000s	1998-99 $000s	1999-00 $000s	2000-01 $000s
State Government grants	32 872	65 501	66 763	65 640
Receipts from customers	5 928	14 039	13 997	21 474
Payments to suppliers and employees	(32 110)	(71 136)	(73 256)	(84 812)
Borrowing costs	0	0	(226)	(146)
Cash from operations	**6 690**	**8 404**	**7 278**	**2 156**
Payments for P, P & Equipment	(3 678)	(7 258)	(2 240)	(5 185)
Proceeds from sale of P, P & E	84	29	51	131
Cash used in investing activities	**(3 594)**	**(7 229)**	**(2 189)**	**(5 054)**
Repayment of borrowings	0	(294)	(587)	(1 413)
Cash from financing activities	**0**	**(294)**	**(587)**	**(1 413)**
Net increase in cash	**3 096**	**881**	**4 502**	**(4 311)**
Cash at the beginning of the period	14	3 110	3 991	8 493
Cash at end of the period	**3 110**	**3 991**	**8 493**	**4 182**

Comment

Cash increased in 1999-00 due mainly to the timing of the receipt of government funding.

Receipts from customers and payments to suppliers and employees have increased during 2000-01 principally due to the GST.

FINANCIAL ANALYSIS

	1997-98	1998-99	1999-00	2000-01
Financial Performance				
Result from operations ($000s)	(2 137)	(130)	850	(1 186)
Operating margin	0.94	1.00	1.01	0.99
Current ratio	0.51	0.54	1.52	1.12
Debt collection	96	47	59	56
Creditor turnover	72	25	41	29
Other information				
Staff numbers FTEs	905	923	955	931
Average staff costs ($'000s)	28	56	56	59

Comment

Over the last four years TAFE's operating result has shown an accumulated deficit of $2.603 million.

The current ratio improved significantly in 1999-00 mainly due to a reclassification of employee provisions.

The debt collection ratio as at June 2001 still remains high at 56 days due principally to late receipts of some commercial and student fees.

Average staff costs in 1997-98 only reflect six months of activity.

Staff numbers as shown do not include sessional teacher, adult education tutors or casual staff. The staff FTE equivalent for these categories is between 150 – 190 in any given year. As such the average staff costs are overstated by this amount. Based on an estimated staff FTE of 1 120 the average staff costs in 2000-01 is approximately $49 000.

OVERALL COMMENT

Several issues were raised with management following the completion of the 2000-01 Audit. These included the need for regular completion of suspense account reconciliations and improved procedures for the follow-up of outstanding debtors.

5.2.7 THEATRE ROYAL MANAGEMENT BOARD

INTRODUCTION

The functions of the Board include the management of the Theatre Royal as a place of theatre and performing arts and to arrange for, organise and promote performing arts in the Theatre Royal and other places in Tasmania.

The Responsible Minister is the Minister for State Development.

AUDIT OF THE 2000-2001 FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2000 of the Theatre Royal Management Board were signed by the Board on 21 March 2001 and an unqualified audit report was issued on 27 March 2001

Notes to the financial statements include comment that 'the ability of the Theatre to continue as a going concern and pay its debts as and when they fall due is dependent upon the continued financial support of the Theatre's financiers by way of loans and through the assistance of administration and programme grants through the State Government.'

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996	**1997**	**1998**	**1999**	**2000**
	$000s	$000s	$000s	$000s	$000s
Government grants	183	157	272	120	127
User charges, fees and fines	1 322	1 097	360	509	498
Other operating revenue	0	0	629	731	701
Total Revenue	**1 505**	**1 254**	**1 261**	**1 360**	**1 326**
Depreciation	18	17	22	20	17
Other operating expenses	1 479	1 226	1 362	1 262	1 279
Total Expenses	**1 497**	**1 243**	**1 384**	**1 282**	**1 296**
Result from Ordinary Activities	**8**	**11**	**(123)**	**78**	**30**

Comment

The significant movements that occurred in 1998 were described on page 204 of my 1999 Report. Comments were in reference to the Board's operations which resulted in a loss on both Theatre Royal activities, and on Entrepreneurial activities which resulted in the Board disclosing negative equity at 31 December 1998. Those losses resulted from an inability by the Board to obtain accurate management reports during the first 9 months of the year to enable timely corrective action to be taken; inadequately documented hire contracts which resulted in settlement disputes; and the fact that the significant growth in audience during 1997 was not sustained during 1998.

With the appointment of a new Chief Executive Officer in March 1999, more selective scheduling of productions for 1999, and the implementation of improved financial reporting mechanisms, the Board reduced expenses in 1999 to record an Operating surplus for the year. The operating result after both abnormal items and grants and subsidies, for the 1999 year was a surplus of $78 000 compared with a deficiency in the prior year of $123 000.

While the Board returned a positive result for the year 2000 after grants and subsidies, there is no doubt that it remains dependent upon Government support, at least in the foreseeable future, to enable it to meet its debts as they fall due.

FINANCIAL POSITION

	1996	1997	1998	1999	2000
	$000s	$000s	$000s	$000s	$000s
Cash	24	28	6	52	197
Receivables	42	50	165	18	19
Investments	17	2	0	0	0
Inventories	13	17	2	5	4
Other	26	40	5	2	5
Total Current Assets	**122**	**137**	**178**	**77**	**225**
Property, plant & equipment	45	69	47	43	34
Other	0	0	24	21	17
Total Non-Current Assets	**45**	**69**	**71**	**64**	**51**
Payables	14	14	164	53	99
Borrowings	6	29	42	7	7
Provisions	8	8	8	7	7
Other	76	81	62	27	90
Total Current Liabilities	**104**	**132**	**276**	**94**	**203**
Other	0	0	22	18	14
Total Non-Current Liabilities	**0**	**0**	**22**	**18**	**14**
Net Assets	**63**	**74**	**(49)**	**29**	**59**
Reserves	55	63	74	(49)	29
Surpluses	8	11	(123)	78	30
Total Equity	**63**	**74**	**(49)**	**29**	**59**

Comment

The significant movements, which occurred in 1998 are referred to above.

Receivables in 1998 included the special purpose grant assistance from DSD, which was used to pay creditors and accruals resulting from 1998 operations.

The movement in other Non Current Assets is due to a lease liability contract for motor vehicles.

The Board concluded 1999 with a positive equity of $29 000 compared with a negative equity of $49 000 for the 1998 year. Equity again improved to $59 000 in 2000.

CASH POSITION

	1996	1997	1998	1999	2000
	$000s	$000s	$000s	$000s	$000s
Government grants	184	157	272	248	127
Receipts from customers	1 330	1 156	892	1 224	1 257
Payments to suppliers and employees	(1 520)	(1 309)	(1 210)	(1 373)	(1 230)
Interest received	9	4	0	0	1
Borrowing costs	0	0	(1)	(2)	(2)
Cash from operations	**3**	**8**	**(47)**	**97**	**153**
Payments for P, P & Equipment	(30)	(41)	(6)	(13)	(3)
Proceeds from sale of P, P & E			19	0	0
Cash used in investing activities	**(30)**	**(41)**	**13**	**(13)**	**(3)**
Proceeds from borrowings	8	6	3	0	0
Repayment of borrowings	(4)	(4)	(6)	(6)	(4)
Cash from financing activities	**4**	**2**	**(3)**	**(6)**	**(4)**
Net increase in cash	**(23)**	**(31)**	**(37)**	**78**	**146**
Cash at the beginning of the period	64	41	10	(27)	51
Cash at end of the period	**41**	**10**	**(27)**	**51**	**197**

Comment

The significant movements in 1998 and 1999 have been previously commented on.

FINANCIAL ANALYSIS

	Bench Mark	1996	1997	1998	1999	2000
Financial Performance						
Result from operations ($'000s)		8	11	(123)	78	30
Operating margin	>1.0	1.01	1.01	0.93	1.07	1.02
Financial Management						
Current ratio	>1	1.18	1.04	0.64	0.81	1.11

Comment

Apart from 1998 when a significant operating loss occurred, the Authority has made small operating profits.

OVERALL COMMENT

The Board remains dependent upon Government support to enable it to meet its debts as they fall due.

5.2.8 UNIVERSITY OF TASMANIA

INTRODUCTION

The University of Tasmania is administered under the provisions of the *University of Tasmania Act 1992*. The University relies predominantly on Commonwealth support for its recurring activities.

The Consolidated financial accounts comprise the accounts of the University, being the primary entity, and the entities under its control during the financial year. These entities include Unitas Consulting Limited and University of Tasmania Foundation Inc.

The University reports on a calendar year basis, and hence the financial results noted here relate to the year ended 31 December 2000.

The Responsible Minister is the Minister for Education.

AUDIT OF THE 2000 FINANCIAL STATEMENTS

The Tasmanian Audit Office received the financial statements of the University of Tasmania on 31 May 2001 and an unqualified audit report was issued on that date.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1996	**1997**	**1998**	**1999**	**2000**
	$000s	$000s	$000s	$000s	$000s
State government grants	2 177	3 103	3 594	7 349	6 277
Commonwealth grants	103 874	100 533	95 509	99 264	98 018
User charges, fees and fines	33 783	39 000	41 880	42 466	47 466
Other operating revenue	16 138	19 444	20 349	18 871	22 291
Non-operating revenue	989	4 105	1 345	9 892	1 461
Total Revenue	**156 961**	**166 185**	**162 677**	**177 842**	**175 513**
Depreciation	7 980	7 993	7 950	14 322	14 734
Other operating expenses	136 422	133 135	137 109	147 344	159 457
Non-operating expenses	1 571	9 999	3 812	1 945	1 617
Total Expenses	**145 973**	**151 127**	**148 871**	**163 611**	**175 808**
Result from Ordinary Activities	**10 988**	**15 058**	**13 806**	**14 231**	**(295)**

Comment

The increase in User charges, fees and fines over the five-year period reflects the increase in HECS funding the University has received from the Commonwealth government.

In 1997, non-operating income included investment income from government and semi-government investments recorded when the University commenced disclosing their investments at market value. The non-operating expenses included redundancy costs of $6.367m and a write down in the value of the library collection asset of $2.406.

In 1999 non-operating income included $1.592m from a decrease in the supplementary pension scheme liability and $6.905m in recognition of the Commonwealth's supplementation of the retirement benefit fund liability. There was also a significant increase in depreciation, which was due to the University increasing the general depreciation rate for Buildings from 1% up to 2.5%. This resulted in additional expenditure of $5.213m.

Operating expenses rose to $147.344m in 1999 due principally to an increase in employee expenses of $6.551m. This resulted from a 4% pay increase to academic staff and a 2.5% wage increase for general staff.

The increase in operating expenses in 2000 resulted from a general increase in expenditure across the University, including increases of $1.825m in consumables, $3.462m in maintenance and $1.084m in library materials.

FINANCIAL POSITION

	1996	1997	1998	1999	2000
	$000s	$000s	$000s	$000s	$000s
Cash	238	337	469	1 380	1 980
Receivables	3 098	2 243	2 634	4 256	5 219
Investments	35 577	47 402	42 997	43 784	53 848
Inventories	165	340	663	646	453
Other	375	116	735	1 085	2 448
Total Current Assets	**39 453**	**50 438**	**47 498**	**51 151**	**63 948**
Investments	23 247	30 466	37 902	40 822	33 498
Property, Plant and Equipment	318 757	318 967	323 868	256 024	253 078
Other	23	3	0	6 188	6 409
Total Non-Current Assets	**342 027**	**349 436**	**361 770**	**303 034**	**292 985**
Payables	4 462	6 890	6 119	6 083	5 300
Borrowings	322	344	67	0	0
Provisions	14 153	13 444	13 006	13 736	15 858
Other	10 921	10 478	9 901	8 744	10 223
Total Current Liabilities	**29 858**	**31 156**	**29 093**	**28 563**	**31 381**
Provisions	24 847	24 976	24 493	21 889	21 649
Total Non-Current Liabilities	**24 847**	**24 976**	**24 493**	**21 889**	**21 649**
Net Assets	**326 775**	**343 742**	**355 682**	**303 733**	**303 903**
Restricted Funds	9 208	11 141	11 445	14 664	21 027
Reserves	270 923	272 832	270 966	204 786	205 338
Retained surpluses	46 644	59 769	73 271	84 283	77 538
Total Equity	**326 775**	**343 742**	**355 682**	**303 733**	**303 903**

Comment

In 1999 there was a significant decrease in Property, plant and equipment due to the revaluation of land and buildings. As part of this revaluation, the useful lives of buildings were reassessed from 100 years to 40 years, resulting in a write-down of the written down value. A non-current asset amounting to $6.188m was also created in 1999 to reflect the Commonwealth's supplementation of the retirement benefit fund liability.

There was a change in the mix of investments held at the end of the year 2000, as the University's fund manager moved away from longer-term investments, and instead invested heavily in shares, securities and legal trust funds.

CASH POSITION

	1996 $000s	1997 $000s	1998 $000s	1999 $000s	2000 $000s
State government grants	2 232	3 186	3 606	7 349	6 277
Commonwealth grants	103 906	100 034	95 274	99 144	100 121
Receipts from customers	47 585	56 312	54 634	52 582	61 507
Payments to suppliers and employees	(136 190)	(137 423)	(139 973)	(148 042)	(160 523)
Interest received	2 008	5 666	6 851	4 520	6 788
Borrowing costs					
Cash from operations	**19 541**	**27 775**	**20 392**	**15 553**	**14 170**
Proceeds from investments	6 672	0	0	0	0
Payments for investments	(822)	(4 635)	(30 480)	(4 027)	(8 891)
Payments for P, P & Equipment	(10 456)	(11 591)	(15 458)	(13 809)	(11 667)
Proceeds from sale of P, P & E	989	1 037	1 345	1 395	837
Cash used in investing activities	**(3 617)**	**(15 189)**	**(44 593)**	**(16 441)**	**(19 721)**
Net increase in cash	**15 924**	**12 586**	**(24 201)**	**(888)**	**(5 551)**
Cash at the beginning of the period	17 337	33 261	45 847	21 646	20 758
Cash at end of the period	**33 261**	**45 847**	**21 646**	**20 758**	**15 207**

Comment

The change in net increase in cash over the past three financial years is a result of the University changing its investment focus from cash investments, such as bank bills, to non-cash investments, like shares and securities. This can be seen by the steady increase in payments for investments over the same three-year period.

FINANCIAL ANALYSIS

	Bench Mark	1996	1997	1998	1999	2000
Financial Performance						
Result from operations ($'000s)		11 570	20 952	16 273	6 284	(139)
Operating margin	>1.0	1.08	1.15	1.11	1.04	1.00
Financial Management						
Current ratio	>1	1.32	1.62	1.63	1.79	2.04
Debt collection	30 days	29	24	24	33	41
Other information						
Staff numbers FTEs		1,516	1,437	1,595	1,641	1,466
Average staff costs ($'000s)		48	48	44	48	54

Comment

The 2000 financial year was the first time in five years that the University had recorded an operating loss, but despite this they have still maintained an operating margin equal to one.

The increase in debt collection ratio was influenced by some significant state government invoices, which were raised at the end of December. Without these invoices the ratio would have been in line with the previous years debt collection ratio of 33.

OVERALL COMMENT

The year 2000 audit was completed with satisfactory results, however several issues were addressed to the University Council for comment. These issues included suggestions for improvement of debtor management, reconciliation and clearance of suspense accounts, and reconciliation of plant and equipment asset registers with the general ledger.

6 MISCELLANEOUS PUBLIC BODIES

The following public bodies (with the exception of St Giles Society Inc.) received ***unqualified audit reports*** on their financial statements for 2000-01. No particular comments are required.

- Aboriginal Land Council;
- Anzac Day Trust;
- Ben Lomond Skifield Management Authority;
- Fruit Crop Insurance;
- Government Prices Oversight Commission;
- Launceston Sailors Home Fund Trust;
- Office of the Tasmanian Energy Regulator;
- Remus Consortium,
- St Giles Society Inc;
- Tasmanian Building and Construction Industry Training Board;
- Tsuneichi Fujii Fellowship Trust;
- Wellington Park Management Trust; and
- Workplace Safety Board.

Other

As noted in my Report No. 2 for 1999-2000 (page 125) the *Dairy Industry Amendment Act 2000* removed the Tasmanian Dairy Industry Authority's powers to regulate the milk market and consequently the pool operations ceased as at 30 June 2000. The Authority has continued its operations as a Statutory Authority and is concentrating on food safety and quality assurance functions.

The revenue and expenditure of the Authority for 2000-01 has significantly reduced from the 1999-00 financial period because of the cessation of the milk pool. The majority of Authority's assets were disposed of prior to 30 June 2000. At 30 June 2001, the Authority's major asset was cash.

From 1 October 2000, the processing of the Authority's revenue and expenditure transactions was transferred to the Department of Primary Industries, Water and Environment.

Further to my Report No. 2 for 1999-2000 (page 262), final signed statements for the Inveresk Railyards Management Authority for the year ended 31 December 1999 were received on 13 March 2001 and an unqualified opinion issued on 19 April 2001. Final financial statements for the Tasmania's West/North West Councils (now Cradle Coast Authority) for 1998-99 were received on 13 January 2001 and our opinion has not yet been issued. Draft financial statements for 1999-2000 were submitted on 15 November 2001 and our audit is still progressing.

The following auditees have not submitted signed statements for 2000-01 as at 26 November 2001:

- Tasmanian Dairy Industry Authority;
- Cradle Coast Authority (formerly Tasmania's West/North West Councils);
- Tasmanian Beef Industry (Research and Development) Trust.

The following auditees have submitted draft or signed statements for 2000-01 and the audit of the their accounts is currently in progress:

- Inveresk Railyard Management Authority (year ended 31 December 2000); and
- Tasmanian State Service Workers Compensation Scheme.

7 OTHER ISSUES

7.1 POTENTIAL LACK OF PARLIAMENTARY SCRUTINY OVER 'OTHER EXPENDITURE' FROM THE CROWN LANDS ADMINISTRATION FUND

In my last report I discussed the potential for funds from the Crown Lands Administration Fund (CLAF) to be dispersed and expended outside the State's Budgetary process, with public scrutiny only possible after the event.

I have since received a response from the Treasurer, who considered that 'there has been appropriate transparency and accountability to Parliament' in relation to the transfer during 1998-99 of $16.538m to an account of the Department of Health and Human Services. Further, he stated that:

> The general nature of the CLAF is the same as any account is the same as any account established in the [Special Deposits and Trust Fund] in accordance with section 13 of the *Public Account Act 1986*, that is to receive and disperse monies for the purposes for which the account was established. In the case of the CLAF, it should also be recognised that the account is specifically referred to in the provisions of the [*Crown Lands Act 1976* (CLA)]. Accordingly, Parliament was aware, when considering the legislation, that various transactions would be processed through the CLAF, and that the Treasurer would be provided the power under the CLA to authorise certain expenditures from the CLAF.

The Minister for Primary Industries, Water and Environment has provided me with a similar response.

7.2 TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

Under *Section 28 of the Financial Management and Audit Act 1990* (FMAA*)* and *Section 52 of the Government Business Enterprises Act 1995* (GBE) specific dates are set for which the relevant entities are to provide financial statements to audit to formally allow the audit process to commence. The dates specified are as follows:-

- FMAA Within 2 months after the end of the financial year
- GBE Within 60 days after the end of the financial year

In most cases entities have a 30 June financial year making 31 August the statutory date.

These dates have been set to allow sufficient time for the audit to be completed and an Annual Report produced for tabling in Parliament by 30 November each year. The situation regarding State Owned Corporations and Local Government is set out in Part 3.4, 3.5 and Part 4 respectively of this Report.

However in 2000-01 as set out below, a considerable number of entities did not meet the target statutory date by providing a full set (or draft) of financial statements.

There are no exemptions from meeting the statutory date under the FMAA, and there are no penalties for not meeting this date. Under GBE legislation (Section 53) there is a provision for exemption in certain circumstances, provided an application for exemption is made by the required date. There is also no penalty for not meeting the date. This year no exemptions were requested or granted.

To assist with the implementation in government departments of accrual reporting and the implementation of Australian Accounting Standard AAS 29, Financial Reporting by Government Departments, I instituted from 1995-96 an Award for the best set of financial statement working papers. For the 2000-01 financial year I do not propose to present an award.

There is still considerable room for improvement to the processes and structures associated with the preparation of supporting working papers. In a number of cases agencies prepared supporting working papers after preparation of the financial statements. This suggests that the working papers are being prepared for audit purposes and not as a means for compiling the financial statements and allowing agencies to carry out their own quality assurance processes before submitting the financial statements for audit.

In summary the purposes of financial statement working papers are:

- A framework for the compilation of financial statements by current and future preparers;

- A central reference to the evidence required to support transactions, balances and estimates disclosed in the financial statements;
- A trail between the entity's financial records for the year and the financial statements for the year, which can be followed by persons having a quality assurance function; and
- A record of the quality control processes employed in the preparation of the financial statements.

The common shortcomings were:

- No systematic checking for compliance with Treasurer's Instructions and Accounting Standards;
- Lack of documentation of explanations for variations and major shifts in trends; and
- A tendency for heavy reliance on just one person (particularly in smaller agencies) for preparation of virtually all working papers. This was compounded by a penchant to disappear on leave once the financial statements were complete leaving no one to deal with audit queries.

Signed Statements not Received On or Before 3 September 2001

Ministerial Departments

Department of Health and Human Services
Department of Justice and Industrial Relations
Department of Police and Public Safety
Department of State Development

Government Business Enterprises

Forestry Tasmania
Rivers and Water Supply Commission
Southern Regional Cemetery Trust
Tasmanian Grain Elevators Board
Tasmanian International Velodrome Management Authority
The Public Trustee

Other Statutory and Public Bodies

Clyde Water Trust
Council of Law Reporting
Inland Fisheries Commission
Inveresk Railyards Management Authority
Legal Aid Commission
Parliamentary Superannuation Fund
Parliamentary Retiring Benefits Fund
Retirement Benefits Fund Board
Royal Tasmanian Botanical Gardens
St Giles Society Inc.
Tasmanian Beef Industry (Research and Development) Trust
TAFE Tasmania
Tasmanian Museum and Art Gallery

Local Government

Refer to Part 4 for comments.

7.3 COLLECTION AND DESTRUCTION OF FIREARMS

Under section 149 of the *Firearms Act 1996* I am required to conduct an independent audit of all firearms disposed of under this Act, and table in both Houses of Parliament, a report on any audit performed.

The audit for the 1999-00 year was completed with satisfactory results, whilst that for 2000-01 had not yet been completed at the time of tabling this report.

Details of Firearm Disposals

Type of Disposal	2000-01 Quantities	1999-00 Quantities
Destroyed	754	694
Transferred to Reference Library	41	25
Returned to Owner	1	3
Transferred to Museums and other Displays	0	0

Statistics on firearms received and destroyed appear in the Department of Police and Public Safety's Annual Report to Parliament.

APPENDIX A

QUALIFIED AUDIT REPORTS

The following qualified audit reports have been issued since my last Report to Parliament.

2000-01

Dorset Council
Flinders Council
St. Giles Society Inc.
Tasmanian Public Finance Corporation

APPENDIX B

MINISTERIAL PORTFOLIOS as at 30 JUNE 2001

Attorney-General	Hon Peter Patmore MHA
Minister for Education	Hon Paula Wriedt MHA
Minister for Human and Health Services	Hon Judy Jackson MHA
Minister for Infrastructure, Energy and Resources	Hon Paul Lennon MHA
Minister for Justice and Industrial Relations	Hon Peter Patmore MHA
Minister for Police	Hon David Llewellyn MHA
Minister for Primary Industry, Water and Environment	Hon David Llewellyn MHA
Minister for Racing and Gaming	Hon Paul Lennon MHA
Minister for State Development	Hon Jim Bacon MHA
Premier	Hon Jim Bacon MHA
Treasurer	Hon David Crean MLC

APPENDIX C

INFRASTRUCTURE FINANCIAL REPORTING PRACTICE NOTES

1 STATEMENT OF ACCOUNTING AND ENGINEERING CONCEPTS

1.1 Capitalisation of Infrastructure

There is an extensive amount of literature available covering the objectives and principles behind the capitalisation of infrastructure. These practice notes focus on transport assets found in the road alignment (roads and bridges), however the concepts are consistent with those for all infrastructure assets.

Capitalisation and financial reporting of infrastructure has been characterised by inconsistent results since the initial introduction of Australian Accounting Standard 27 (AAS27), that first suggested that infrastructure assets should be measured and reported in the same manner as plant, equipment and buildings had been previously. The considerable research and experience of the past five years has borne out many of the arguments of both advocates and opponents of infrastructure capitalisation, namely:

- Existing investment in infrastructure is large enough to have a major impact on the current and future financial position of most public sector asset custodians and must be included in financial reports to ensure these reflect the true financial position of the entity.

- Some infrastructure assets such as roads are highly variable both geographically (variation between similar assets across a network) and temporally (variation of an asset over time). These variations have consistently frustrated attempts to find techniques that provide consistent measurement of indicators such as asset replacement value and depreciation. The inconsistencies caused by asset variability have been compounded by differences in methods used to calculate asset unit replacement costs and determine economic and remaining life for assets.

All finance and engineering professionals surveyed from the 14 councils in this study supported the principle stated in statements of accounting practice that financial reports should reflect the true financial position of the entity. This is consistent with views expressed during the study of all Victorian Councils in 1997/8 and South Australian Councils is 2000/01. Despite variability in practice and results, most asset custodians support the need to continue improvement to consistently and reliably measure and report on the consumption of asset service potential.

Over the past years some consistent practice has emerged and this practice paper documents the emerging practice based on the collaborative effort of many local government finance and engineering practitioners.

With a few ongoing adjustments most councils should be able to achieve a more consistent and reliable approach to financial reporting of infrastructure. Some councils do need significant effort to move up to the standard practice in this practice paper but most have already identified this and have commenced with a process of improvement to their asset management processes.

1.2 Valuation

"Asset valuation is an essential management tool. It assists in the determination and allocation of costs and provides performance/rate of return reporting, resource allocation, shareholder equity and accountability."[1]

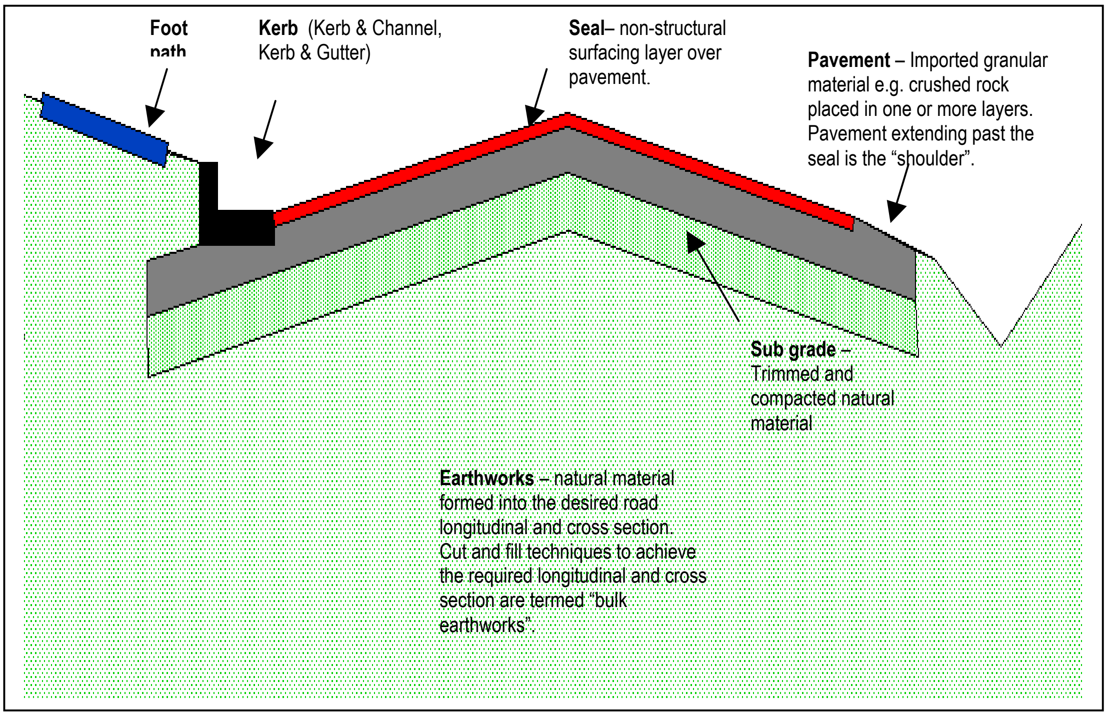
The recommended methodology for road assets is to use current replacement cost based on the unit cost of each of the components.

The distinction between an asset and a component requires the application of judgement and a number of policy tests.

Examples of road assets include

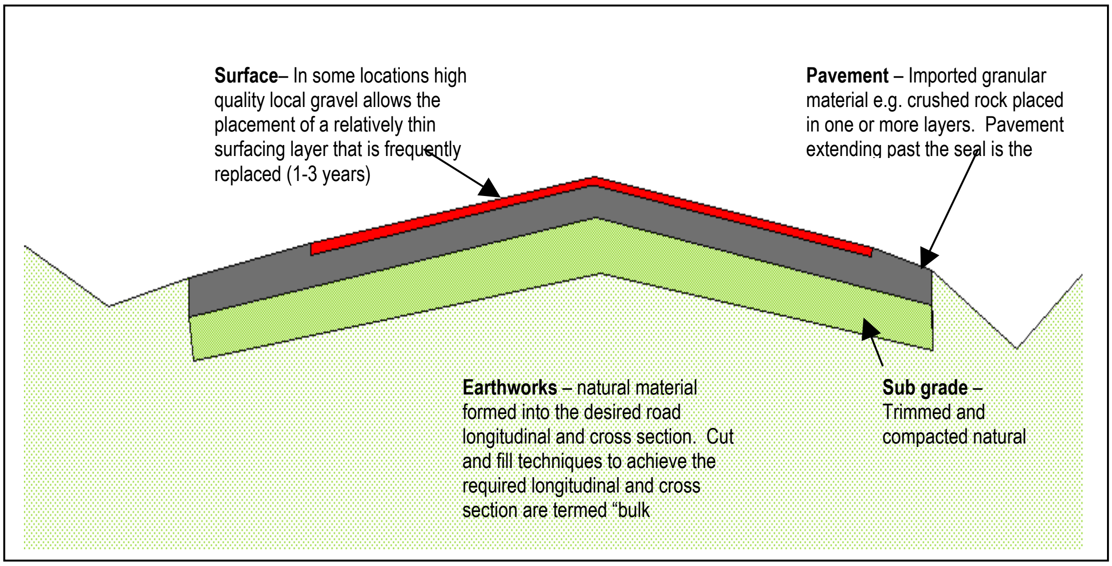
- Sealed Road Pavements per segment
- Sealed Road Surface per segment
- Gravel Road pavement / surface per segment
- Kerb per segment
- Foot paths per segment
- Bridges
- Road Furniture, signs, line marking

Figure 1.2.1 Typical Sealed Road Cross Section Showing Road Assets/ Components



[1] IIMM Section 3.10

1.2.2 Typical Gravel Road Cross Section Showing Road Assets/Components



In the two previous diagrams, the typical components of the road segment are shown. Each component has a different economic life and rate of consumption of service potential (depreciation). This will be discussed in more detail in the following section.

The primary distinction between a component and an asset is that each asset is a separate record in the asset register. Component records may be held either in the asset register or in a subsidiary register. Where component values are material, each component should have a separate value, economic life, remaining life, and depreciation charge. Each asset should have a separate value, economic life, remaining life and depreciation charge.

The decision on whether to treat the components of each road segment as separate assets is covered in more detail in the definition for component.

Unit Cost

The recommended methodology for the calculation of unit cost is to apply a unit cost calculation on each of the components and sub components using the current rates of construction. For example for an Asphalt Road each component / sub component of a road should be costed with supporting calculations and source data.

Item	Unit	Cost per Unit[2]	Comments	Depreciation Policy
Surface Asphalt	M2	$12		Separate Asset
Pavement – Base Layer 150 mm	M2	$12		Sub Component of Pavement
Pavement – Sub Base Layer 150 mm	M2	$12		Sub Component of Pavement
Trim and Compact Sub Grade	M3	$15	Convert to M2	Sub Component of Pavement
Kerb	m	$45		Separate Asset
Subsurface Drain	m	$60		Sub Component of Pavement
Footpath 1200 mm wide	m	$52		Separate Asset
Signs and Markings	m	$5		Expense – asset management plan shows expenditure needed.

1.3 Depreciation

Depreciation is the measure of the consumption of service potential (the rate at which an asset is "used up". The concept of service potential is explained in the statements of accounting concepts (SAC4) and is useful to guide decisions on both policy and practice for infrastructure depreciation.

The two primary variables in the calculation of depreciation are:

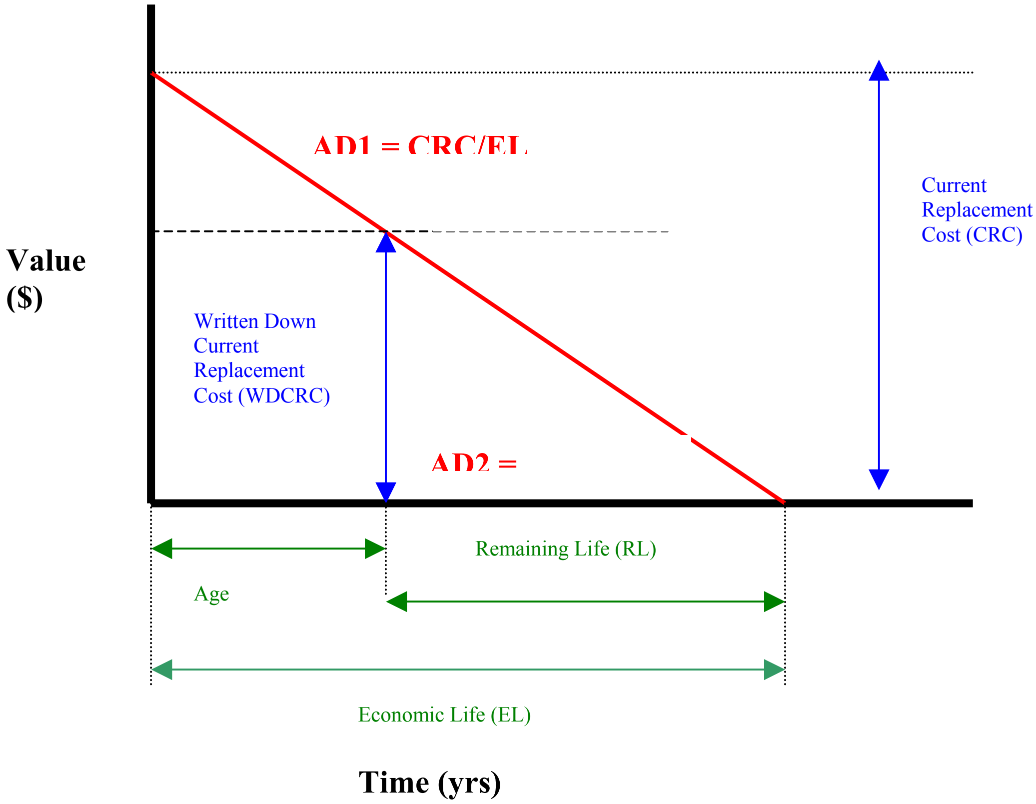
- The age of the asset (service potential consumed to date), and
- The remaining life of the asset (how much service potential remains).

[2] Sample data only

The economic life is the sum of these two variables per asset. The average depreciation over the life of the asset is the current replacement value per asset divided by the economic life. The current depreciation is the written down current replacement cost divided by the remaining life.

If the rate of service consumption does not change throughout the life of the asset the above two calculations give the same result as shown in Figure 1.3.1 below.

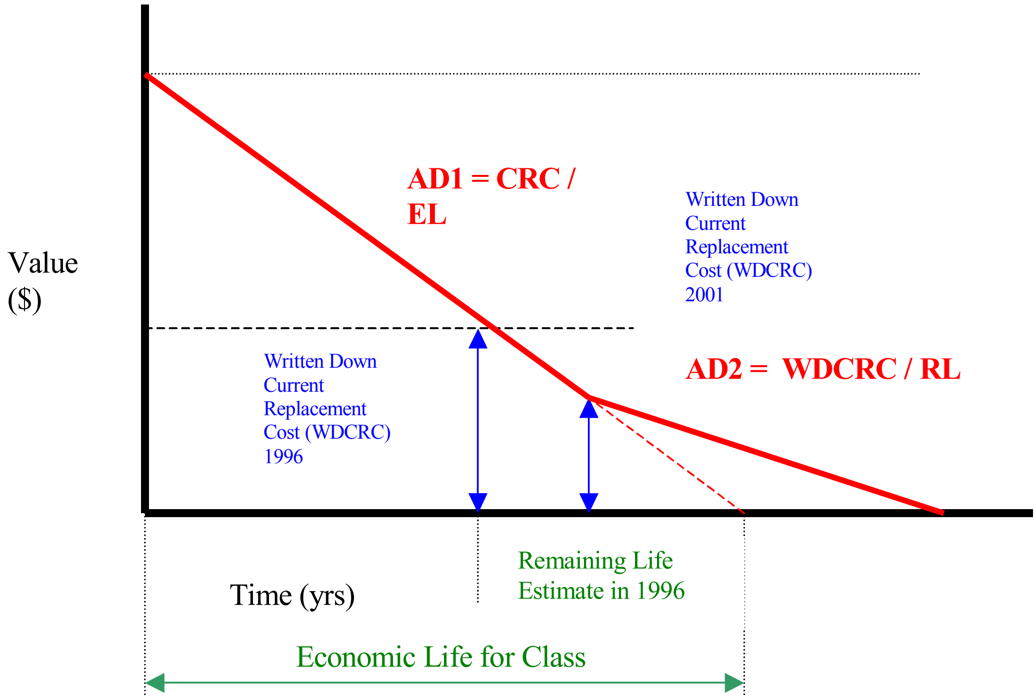
Figure 1.3.1 Depreciation where consumption of asset service potential is constant over time



The rate of service potential for infrastructure is not always the same throughout the life of the asset. Take for example a concrete kerb with an estimated economic life of 50 years. When the kerb was valued in 1996, the remaining life was calculated at 10 years.

The kerb is now known to be 50 years old and in theory has 5 years of remaining life, but is still in good condition and is estimated to have at least another 10 years of remaining life.

Figure 1.3.2 A review of remaining life identifies that the initial assumptions / calculations for total economic life need to be adjusted. (eg due to a change in environmental or operating factors)



In this example, the annual depreciation AD2 more accurately represents the current rate of asset consumption and is not the same as the past depreciation rate AD1, nor is it the same as the depreciation rate for the asset class.

Before the introduction of AAS27, depreciation calculations were applied to items such as plant, equipment and furniture. For these assets the rate of depreciation was reasonably uniform for assets within a class and a rate of depreciation could be applied to all assets within that class. For these assets the sum of age and remaining life for individual assets would not vary materially from the economic life of the asset class.

In the case of infrastructure assets such as roads there are a number of factors that require the application of more sophisticated methods to determine the annual depreciation and written down value. These factors include:

- Age for most road asset pavements is unknown. (Seal age is usually better documented.)
- The total economic life for most road asset pavements is unknown. Of a sample of over 150 councils from SA, VIC, NSW and TAS, none have a statistical basis for economic life. A few have samples for less than 20% of the network and this is likely to represent early failures or renewal due to factors such as upgrade for traffic volumes.
- Road assets vary by as much as 50% of economic life for a class. These variations are caused by geographic changes (topography, materials, traffic loading) and changes over time because of long economic life (changes in materials, construction techniques, traffic loading).
- Road assets are heavily influenced by environmental factors. For example a concrete footpath life is estimated by most councils to have an economic life

in the range of 40 – 80 years. If footpaths are located in areas with extensive mature trees in the footpath area, the actual life of a large proportion of footpaths can be as little as 5 – 10 years if council has a policy of not risking damage to trees by removing tree roots near the paths.

These factors, when combined with the high value of road assets make more detailed analysis critical to ensure financial reports do not dramatically either over or understate the actual depreciation.

Gross errors likely to materially affect financial reports are caused by:

- Over or underestimating economic life
- Limits of using condition based analysis to predict future remaining life where there is not statistical basis to determine the relationship between condition and remaining life.
- Over or understating the asset current replacement cost.

The analysis most likely to reduce these gross errors includes:

Breaking assets into components so that assessment of economic life, remaining life and asset depreciation is made at the level where the variation can be analysed and reported.

There is a scenario where a uniform depreciation rate may be applied across the assets in a class of assets such as road pavements.

- Where it can be shown that the age and remaining life distributions of the assets in the class are symmetrical. This would require an asset management plan that shows that future asset renewals for the asset class at least over one economic life. AND
- Where there is sufficient data on economic life for the assets in the class to calculate an average and show that variations from assets with short economic life cancel out variations from assets with long economic life compared with the average.

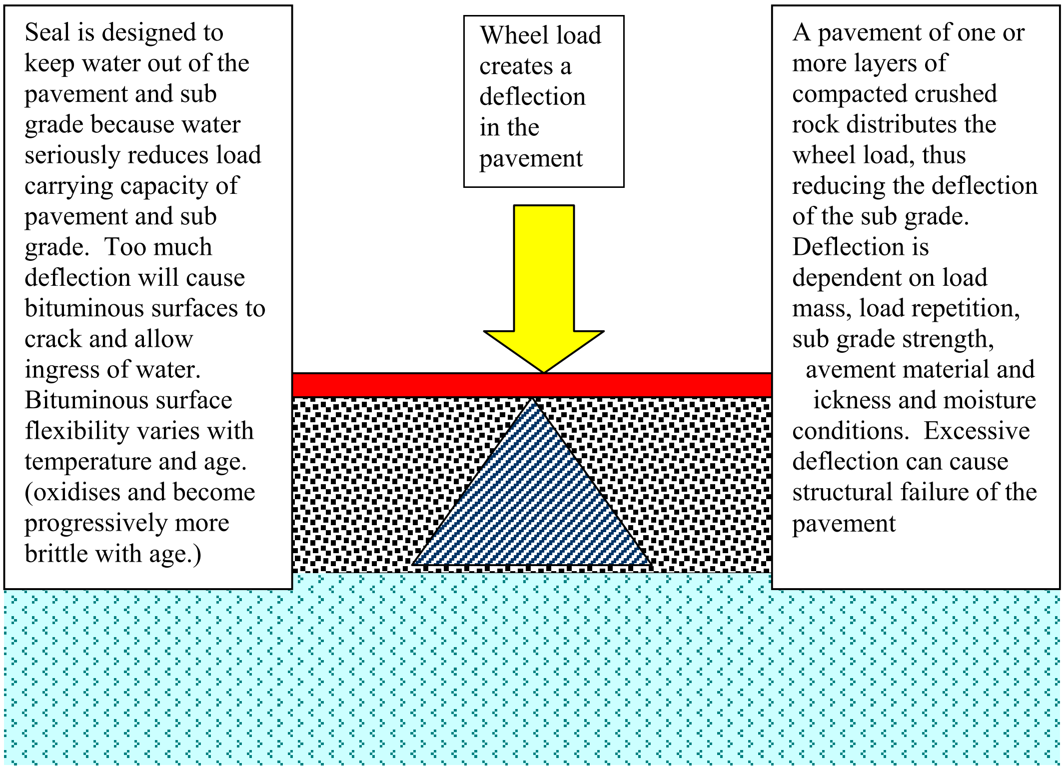
The recommended method is the determination of the remaining life for each asset and then depreciating the written down current replacement cost over the remaining life.

1.4 Economic Life

The lack of knowledge about road economic life is the factor creating the greatest variation and potential error. The issue to address is not that there is variability, rather the lack of supporting statistical data and analysis to demonstrate the actual economic life. The series of graphs in Figure 1.4.2 demonstrates this variability based on the results from 12 Councils in 2001 supplemented by data from councils in 1998.

The variability of road economic life is inherent in the structure of a flexible pavement as shown below.

Figure 1.4.1 Economic life variation inherent in the design of lightly trafficked flexible pavements. Economic life is determined by number of load repetitions, equivalent standard axles (ESA's) and structural and environmental conditions. The design life makes a predictive assessment of these variables, the economic life reflects the actual conditions.



Sub grade is compacted underlying material. The load bearing capacity varies depending on soil type
d i di i

Pavement design is based on assessing these variables and adjusting the thickness and, if possible, quality of the pavement material to minimise the deflection. Traffic loads are based on both volume and weight, converting to equivalent standard axles (ESA's). Pavements therefore have an economic life defined by design, environmental, operating and maintenance conditions. A typical design life specified for lightly trafficed roads in council subdivision specifications is 20 years.

This has a number of consequences for financial reporting:

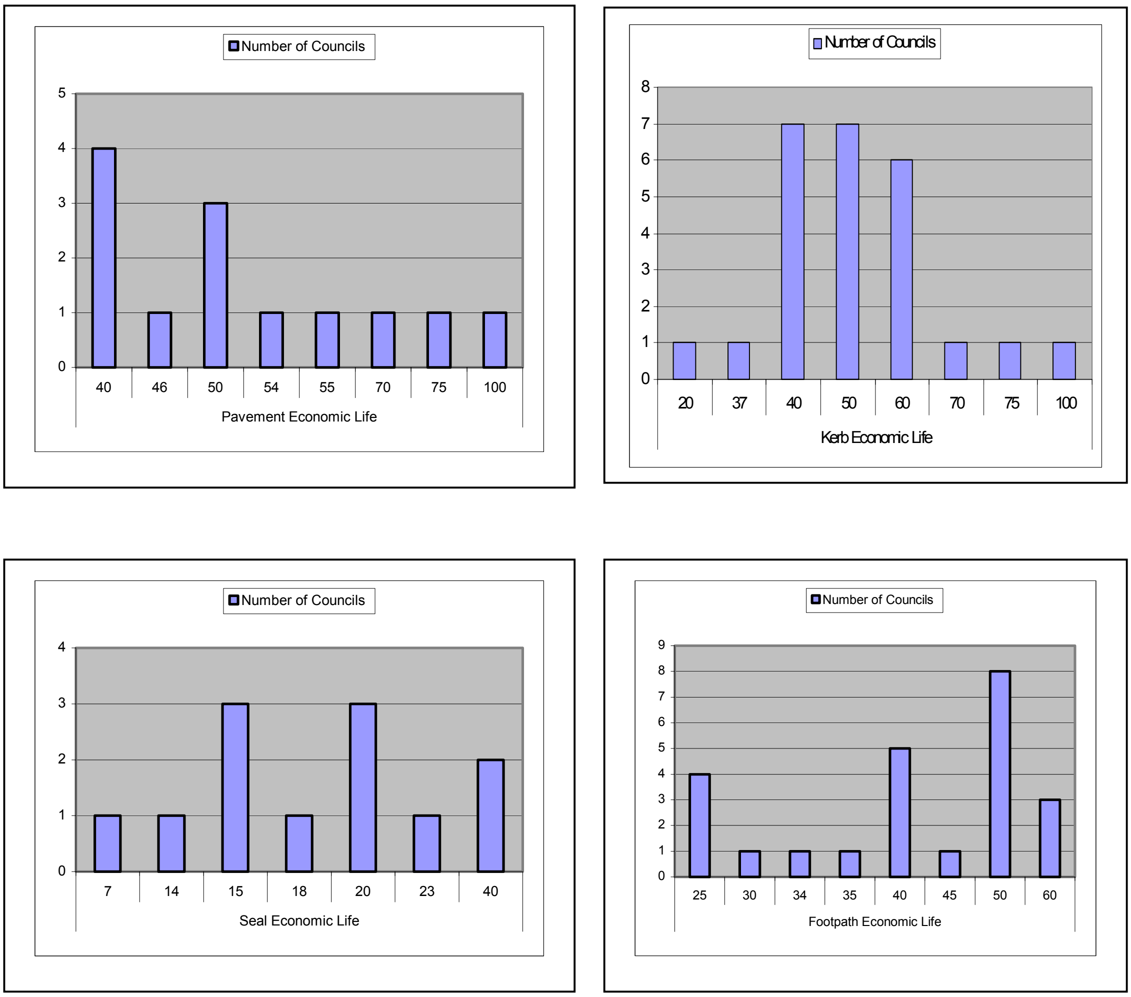
- Under certain conditions for lightly trafficed roads economic life can be very long. There are reported cases exceeding 100 years. This is possible if the surface is regularly replaced, and pavement and subgrade materials are of sufficient strength to resist deflection. The best documented cases are in a number of inner city roads constructured late 1800's early 1900's using the technique developed by MacAdam of hand placing a layer of hard, high quality stone (necessary to withstand very high point loads of steel rimmed wagons). Conversely there is a growing number of road pavements constructed in expanding urban areas in the 70's and 80's that have failed after 20 – 30 years.

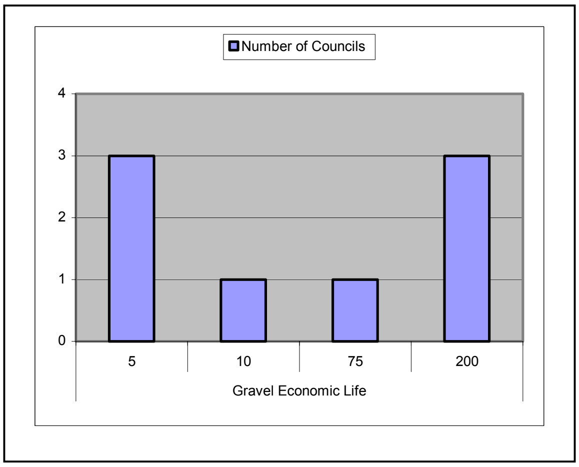
- Each segment of road pavement has a different economic life. The extent of variation is subject to the variation of operating factors. It is therefore necessary to divide a road network into (relatively) homogeneous segments (typically intersection to intersection in urban areas and as necessary in rural areas.

- The economic life of a road pavement can change during its life if operating and environmental factors change, eg changed traffic loading or inadequate reseals allowing ingress of water.

- The sensitivity of depreciation charges to economic life (and remaining life) make some understanding of the pavement network being managed critical to presenting a true representation of councils financial position.

Figure 1.4.2 Economic Lives for Tasmanian Councils
(based on data submitted for each category)





There are a number of concepts that apply to determination of economic life for roads:

- Economic life is linked to expenditure effort. This is shown in Figure 1.4.3 below. Expenditure effort is a policy decision and cannot be guaranteed for the life of an asset. This is one of the reasons for not applying economic lives of 100 years or more (except for individual assets where the economic life is the sum of known age and estimated remaining life).

- Economic life varies from asset to asset as discussed in section 1.3.

- Economic life varies over time, especially for assets with long lives or greater than 20 years.

These variables need to be assessed and the analysis subject to audit.

Figure 1.4.3 Scenarios showing the relationship between expenditure effort and economic life.

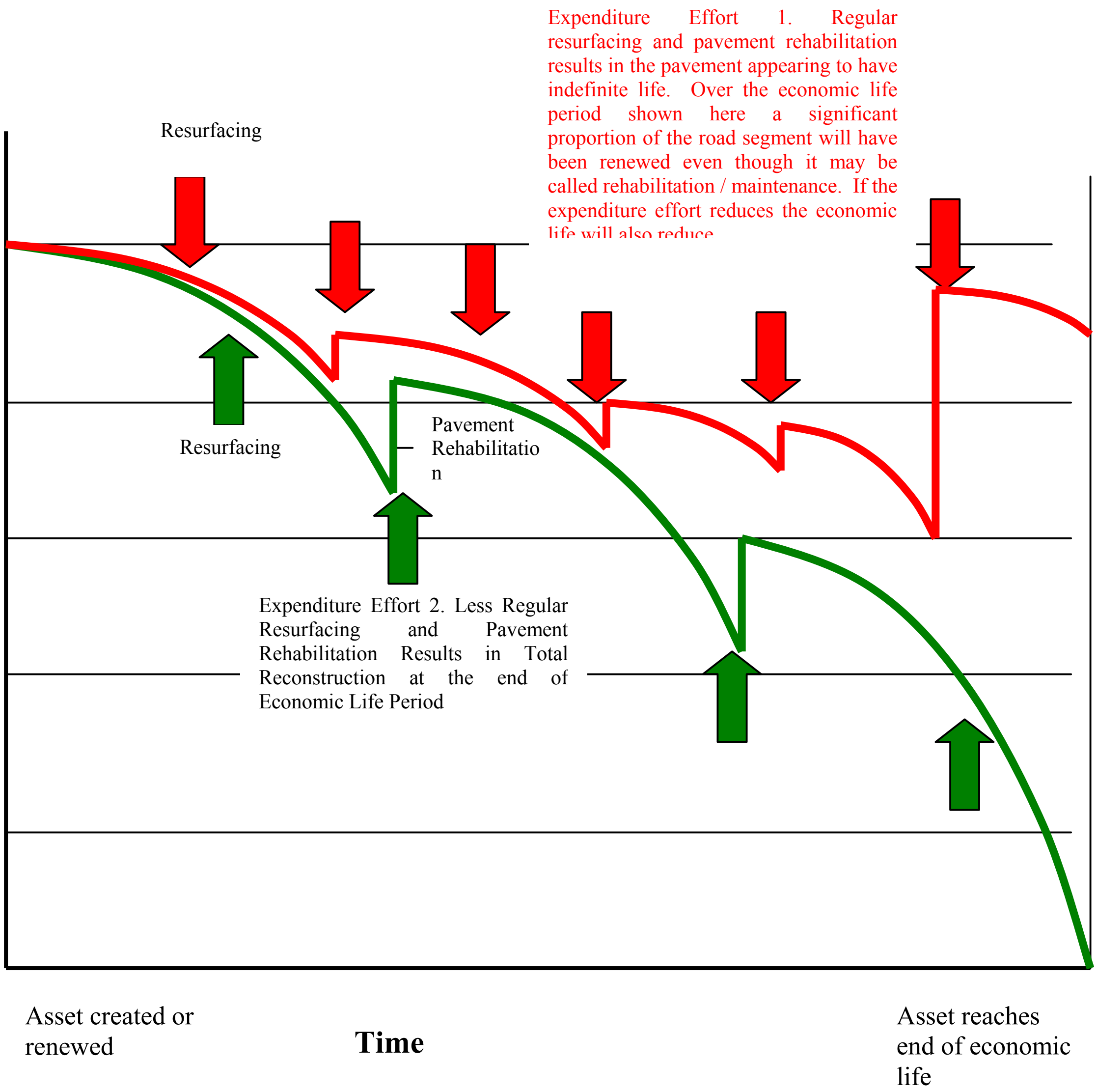


Figure 1.4.4 This section of road pavement has had approximately 20 – 30 % of the segment renewed.

The cumulative effect of "patching" or "road pavement rehabilitation" is to extend the life of the road segment by progressively replacing sections as they fail. If the amount of expenditure on this activity is material or the expenditure effort is sufficient to materially extend the life of the segment, the expenditure should be capitalized.

2 DEPRECIATION GUIDELINES

2.1 Depreciation of Gravel Roads

The variability of the materials and practices used for gravel roads presents substantial difficulties in achieving consistency of practice for financial reporting. Notwithstanding this, the large state wide financial impacts of gravel roads make some consistency of practice essential for Councils with significant gravel road networks.

The decision whether or not to capitalise and depreciate an asset depends largely on its materiality. If the renewal of gravel roads have a substantial impact on council's finances, recording the value and cost of consumption of gravel roads would be important to understand the true financial position of the council.

A decision not to capitalise and depreciate the gravel pavement/surface implies that gravel roads have no potential to impact council's financial position because the expenditure to sustain the asset at present overall service potential can be assured.

This would require an asset management plan[3] to be in place with the following:

1. Council has some statistical base and asset management plan to demonstrate that council allocates the level of expenditure effort necessary to sustain the asset in its current overall condition. For example, the expenditure would need to be sufficient to resheet all gravel roads (or reseal sealed roads) at a frequency necessary to prevent deterioration of the overall network.

AND

2. Council has in place a cash flow projection showing the future likely projections for re sheeting gravel roads (or resealing sealed roads).

AND

3. Council has a policy commitment to meet the asset management plan and cash flow projections necessary to sustain the gravel road network (or sealed surface of the road network). This policy commitment could change because of changing council priorities and/or external funding and this would then need to be accompanied by a corresponding change in accounting policy.

There are three types of practice used by Councils that are custodians of gravel roads.

- **Single layer gravel pavements allowed to deteriorate.**

A single layer of gravel is placed on the earth formation. Maintenance consists of periodic grading which may be accompanied by some limited localised addition of gravel in areas adversely affected by traffic during wet weather. The gravel pavement layer gradually reduces under the effects of weather and traffic until a layer of new material a process commonly termed resheeting replaces it. The economic life of the gravel layer (or period between resheeting) is highly variable and subject to quality of local materials, available funding, traffic, topography and climate. If the investment in the gravel pavement is material, the depreciation of the gravel surface should be calculated. The underlying earth formation would not normally need replacement and should not be depreciated. If council has capitalised earthworks following the

[3] This also applies to road surface for sealed roads

construction of a new road, earthworks should not be depreciated unless there is an established practice of re construction of earthworks being necessary due to harsh environmental factors

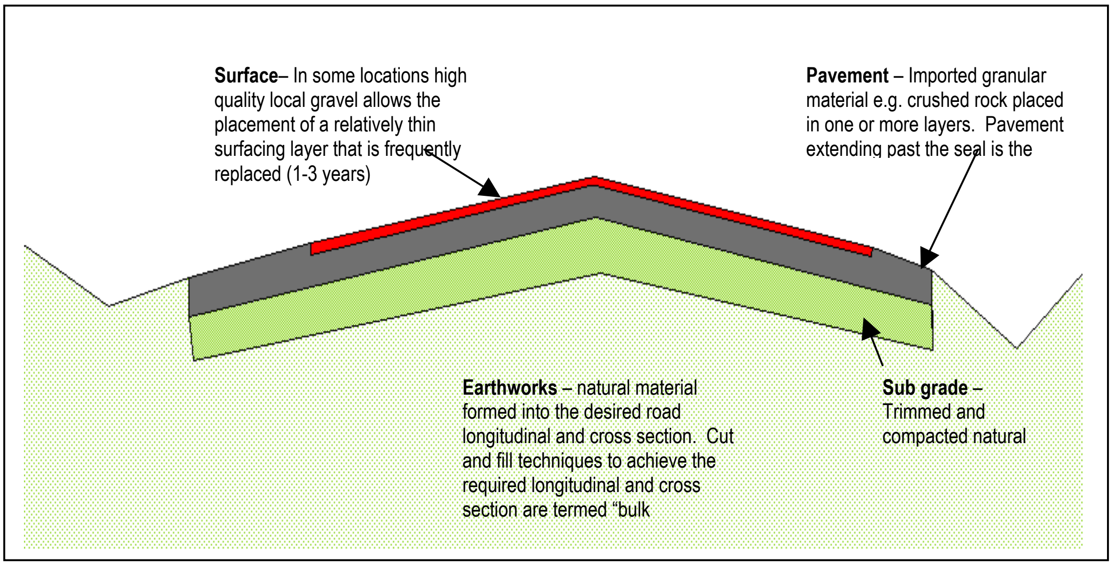
- **Single layer gravel pavements not allowed to deteriorate.**

A single layer of gravel is placed on the earth formation. Maintenance consists of periodic, regular addition of gravel such that the gravel layer does not reduce. The economic life of the gravel layer is highly variable and subject to quality of local materials, available funding, traffic, topography and climate. If the investment in the gravel pavement is material, the depreciation of the gravel surface should be calculated unless the there is a gravel road asset management plan in place as detailed above. The underlying earth formation would not normally need replacement and should not be depreciated. If council has capitalised earthworks following the construction of a new road, earthworks should not be depreciated unless there is an established practice of re construction of earthworks being necessary due to harsh environmental factors

- **Two layer gravel pavements not allowed to deteriorate.**

This practice is similar to 3 above. The difference is that there is an additional thin layer of gravel that is constantly replaced as shown in the Figure below. This practice would normally expense the top gravel surface on the basis that the gravel surface is replaced every 1-3 years in accordance with an asset management plan. The asset management plan should also assess the likely economic life of the underlying gravel pavement. Some councils have very long economic lives for the underlying gravel pavement (greater than 100 years) and this is considered excessive since it is not practically possible to provide supporting analysis for that period and implies that the service potential is not consumed. Concepts such as obsolescence begin to apply over such periods. If there is an investment in an imported gravel pavement, this service potential would normally be consumed gradually rather than writing off the total replacement value very quickly if the upper layer ceases to be adequately maintained or the road is reconstructed into a sealed pavement or the road alignment changes.

Figure 2.1 Typical Cross Section of Gravel Road



3 Financial Reporting Indicators

3.1 Economic Life

3.1.1 Sealed Roads – Typical Component Economic Lives

The level of analysis behind the adopted economic life is a critical indicator of how accurately the financial reports reflect the true financial position. The table below shows some of the main component groupings and the variation that can be expected.

Table 3.1.1 Typical Ranges of Economic Lives

Asset Class	**Asset Type**	**Normal Expected Economic Life Range (Years)**[4]	**Agreed Performance Standards SGC TAS** *(January 2000 review of 1999 performance standards)*
Footpath	Spray Seal Asphaltic Concrete Concrete Pavers Gravel	10 -15 15 – 30 30 – 60 20 – 50 5 – 10	
Kerb	Concrete Sandstone	30 – 80 80 – 150	
Seal	Spray Seal Asphaltic Concrete	10 – 15 15 – 30	Urban – both types 15 Rural – both types 20
Pavement	Flexible Rigid (Concrete) Rigid (Pavers)	20 – 60 60 – 100 40 - 60	Rural 50, Urban 60 (50% for rehabilitation)
Sub grade	Compacted Natural Surface	Not Applicable or 100 based on Obsolescence	
Earthworks	Natural Surface / Cut Fill	Not Applicable or 100 based on Obsolescence	
Signs and Markings	Signs and Markings	5 - 20	
Culverts	Concrete	40 - 80	

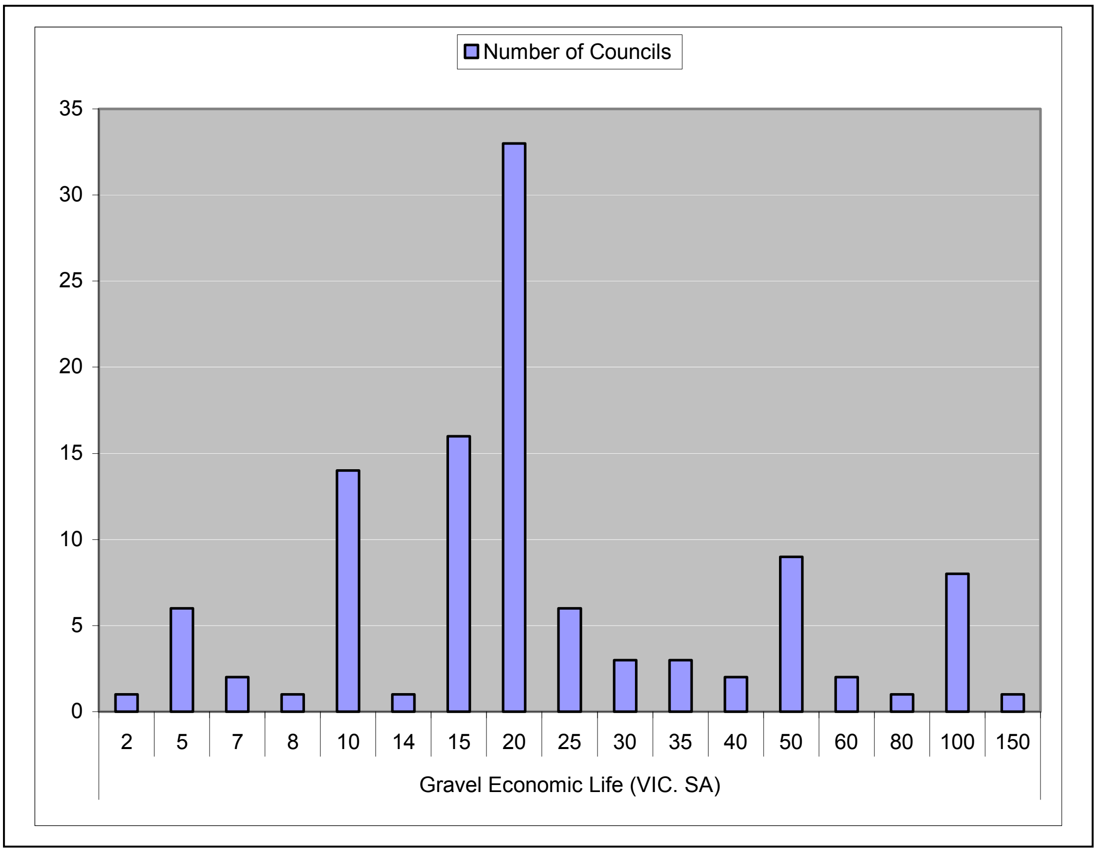
[4] These are a guide and subject to the concepts and techniques outlined in section 1.4. Economic lives should be determined per component group or individual asset depending on variability of the asset type across the network.

3.1.2 Gravel Roads – Typical Component Economic Lives

Table 3.1.2.1 Sample gravel road economic road life.

Asset Class	Asset Type	Normal Expected Economic Life Range (Years)[5]	Agreed Performance Standards SGC TAS *(January 2000 review of 1999 performance standards)*
Gravel Road	Thin gravel surface Gravel Pavement	1- 3 years 5 – 40 years	Re gravelling every 5 years and routine grading every 0.5 years.

Figure 3.1.2.2 Sample of Gravel Road Economic Lives Used in VIC, SA Councils. There is no reliable correlation between council type, or region. The primary factors are availability and quality of local gravel, available funding and traffic type and volume.



[5] These are a guide and subject to the concepts and techniques outlined in section 2.1.4. Economic lives should be determined per component group or individual asset depending on variability of the asset type across the network.

3.2 Unit Costs

Unit cost is one of the variables most easily audited at individual council level. There is still significant variation across councils due to:

- Different application of overheads
- Variation in materials cost (most significant for gravel roads)
- Variation in lane widths where a rate per km is used. Average lane widths in highly urbanized areas are significantly wider than rural areas.

Table 3.2.1 Unit Costs Used By Councils – Gravel Resheet $/m2

Class [6]	Unit Cost Gravel Resheet $/m2	Date
URS	$4.40	06-Jan-01
URM	$6.00	01-Jun-98
URS	$6.63	01-Jun-98
RAL	$7.20	01-Jun-98
UFS	$13.00	01-Jun-98
UCC	$20.00	27-Jun-01
RAS	$20.00	01-Jun-98
URS	$27.32	01-Jun-98
RSG	$34.10	01-Jun-98
URS	$40.00	01-Jun-98

Table 3.2.2 shows the published contract unit rates adopted by the Tasmanian State Grants Commission following a review by CSL Engineers and a committee of six (6) engineers from various councils.

Table 3.2.2 Road Reconstruction Cost State Grants Commission TAS. December 1999 (CSL Engineers)

Activity	$/km	$/m2 (8.4 m width)	$/m2 (6 m width)
Urban Sealed Roads with Asphalt Surfacing[7]	$499,665	$59	
Urban Sealed Roads with Spray Seal	$416,820	$50	
Rural Sealed Roads with Spray Seal	$173,300		$29
Urban and Rural Unsealed Roads	$83,600		$14

6 Australian Classification of Local Governments – See Appendix 4
7 Urban Roads include Footpaths and Kerb

Table 3.2.3 Unit Costs Used by Tasmanian Councils \$/m2 [8]

Class	Date	Gravel	Pave-ment	Seal	Kerb	Path	Over-head	Earth-works	Current Replacement Cost (CRC) Pavement \$000's	CRC Seal and Pavement \$000's
RAL	21-Jun-01	\$0.00	\$14.10	\$3.70	\$25.00	\$40.00	12.00%	Bulk Earthworks Ignored	\$16,887.00	\$21,715.00
RAL	01-Jun-98	\$7.20	\$16.82	\$8.50	\$40.00	\$29.02			\$0.00	\$26,327.00
RAL	02-Jul-01	\$1.71	\$15.28	\$3.66	\$72.10	\$26.88	0.00%	Bulk Earthworks Ignored	\$22,341.00	\$27,693.00
RAL	01-Jun-98		\$19.00		\$28.00	\$25.00			\$0.00	\$36,385.00
RAS	01-Jun-98		\$24.26	\$51.88					\$0.00	\$15,155.00
RAS	01-Jun-98	\$20.00	\$24.00		\$54.00	\$38.00			\$0.00	\$35,808.00
RAV	25-Jun-01	\$0.00	\$0.00	\$47.61	\$0.00	\$0.00	14.00%	Bulk Earthworks Ignored	\$0.00	\$0.00
RAV	06-Jan-01	\$0.00	\$35.00	\$3.00	\$70.00	\$40.00	0.00%	Bulk Earthworks Ignored	\$0.00	\$26,657.00
RAV	01-Jun-98		\$10.50	\$16.17	\$43.00	\$37.00			\$0.00	\$31,965.00
RAV	01-Jun-98			\$10.00					\$0.00	\$56,816.00
RAV	01-Jun-98		\$30.00	\$12.00		\$23.00			\$0.00	\$80,151.00
RAV	18-Jun-01	\$0.00	\$15.00	\$5.00	\$100.00	\$35.00	10.00%	Bulk Earthworks Ignored	\$0.00	\$89,485.00
RSG	01-Jun-98	\$34.10	\$43.00						\$0.00	\$16,758.00
UCC	27-Jun-01	\$20.00	\$44.00	\$44.00	\$110.00	\$68.00	0.00%	Bulk Earthworks Ignored	\$104,694.00	\$152,089.00
UCC	01-Jun-98		\$41.40		\$37.00	\$40.00			\$0.00	\$155,774.00
UFS	01-Jun-98	\$13.00	\$20.00	\$7.30	\$35.00	\$36.00			\$0.00	\$39,297.00
URM	01-Jun-98			\$0.10	\$35.00	\$50.00			\$0.00	\$79,292.00
URM	01-Jun-98	\$6.00	\$25.00	\$8.50	\$41.50	\$35.00			\$0.00	\$107,612.00
URM	01-Jun-98		\$80.00	\$12.00	\$100.00	\$30.00			\$0.00	\$299,832.00
URS	01-Jun-98		\$47.50		\$6.25	\$12.50			\$0.00	\$34,628.00
URS	01-Jun-98	\$27.32	\$33.74	\$13.13	\$81.15	\$62.19			\$0.00	\$51,218.00
URS	06-Jan-01	\$4.40	\$9.04	\$7.41	\$53.34	\$47.37	10.00%	Value CRC but not depreciated	\$33,340.00	\$55,865.00
URS	01-Jun-98	\$40.00	\$40.00	\$15.00	\$40.00	\$35.00			\$0.00	\$78,132.00
URS	01-Jun-98	\$6.63	\$8.28	\$12.00	\$73.00	\$37.80			\$0.00	\$88,097.00
URS	01-Jun-98		\$15.50						\$0.00	\$93,629.00
URS	02-Jul-01	\$0.00	\$90.00	\$0.00	\$0.00	\$0.00	32.00%	Bulk Earthworks Ignored	\$0.00	\$95,829.00

[8] In some cases the same councils have provided data over two periods, 1998 and 2001

3 Financial Reporting Checklist - Road Assets

Indicator	Recommended Practice	Likely Impact of Variation in Practice on Financial Reports
Asset Segmentation	Urban Roads – Intersection to intersection	Lack of segmentation means variations in economic life and remaining life cannot be measured. The impact is therefore dependent on the variability of factors contributing to economic and remaining life. Likely to be material if network has variable traffic conditions.
	Rural Roads – change of surface or engineering judgment based on pavement age, pavement structure, and soil type.	Lack of segmentation likely to be material if road network has variable traffic, pavement material and soil conditions
Asset Components	Separate Roads into components / assets as shown in Figures 1.2.1 and 1.2.2.	Likely to be significant if asset component values are material and have economic lives that vary by more than 20%.
Asset Expenditure Capitalisation - General	All work that extends asset life OR renews a material proportion of the asset should be capitalised. If this expenditure is material, the renewed proportion of asset residual written down value should be written off. For example if 50% of a road segment is renewed, 50 % of the written down value should be written off.	Failing to capitalise renewal work results in either assets being incorrectly depreciated fully to nil written down value, or the use of very long economic lives with inadequate substantiation.
Asset Capitalisation – Road Surface (Sealed Roads)	Generally, road seal and reseals should be capitalised. They have a definite and measurable economic life that is substantially different to the pavement. Expensing road seals is satisfactory practice when the asset management plan criteria set out in section 2.1 are in place.	Road surface has a relatively short life (10-20 years) and high consumption of service potential. Unless the asset management plan can demonstrate that the service potential of the network asset is sustained, the consumption of service potential must be measured and reported to avoid misleading the reader of the financial report.

Indicator	**Recommended Practice**	**Likely Impact of Variation in Practice on Financial Reports**
Asset Capitalisation – Gravel Road Surface (pavement)	The same principle applies as to road surface. See section 2.1.	Road gravel pavement / surface has a relatively short life (5-20 years) and high consumption of service potential. Unless the asset management plan can demonstrate that the service potential of the network asset is sustained, the consumption of service potential must be measured and reported to avoid misleading the reader of the financial report.
Economic Life	The economic life should be based on some analysis of samples within the asset class (eg road pavements) to understand and report on variability and likely accuracy of the economic life value used. Where warranted, different economic lives should be allocated to subgroups of assets within the class.	Depreciation is highly sensitive to economic life. The high variability of economic life creates the potential to significantly over or understate depreciation. The method of analysis and order of accuracy of the depreciation amount should be known and subject to scrutiny.
Remaining Life	Assessment per asset. Review each year as necessary per asset.	The preferred method of depreciation to reduce over or understating depreciation relies on assessing remaining life. Lack of data on economic life can be supplemented by assessment of remaining life.
Depreciation	Calculation as per section 1.3.2.	If the order of accuracy of economic life is poor or unknown, the order of accuracy of depreciation is unknown and may be misleading. Adjustments based on remaining life allow depreciation to be adjusted as knowledge about the asset improves over time. This reduces the scale of major corrections at the time of revaluation.

Appendix 1 - Definitions

These definitions are intended to be consistent with definitions in existing statements of accounting concepts and accounting standards. They have been amplified to be specifically relevant to transport assets (roads, paths and bridges). If the following definitions are interpreted to be inconsistent with accounting concepts, and standards, the latter shall take precedence.

Asset

"An asset of the local government shall be recognised in the statement of financial position when, and only when:

- it is probable that the future economic benefits embodied in the asset will eventuate; and
- the asset possesses a cost or other value that can be measured reliably."[9]

Most road infrastructure assets satisfy both criteria. Exceptions are land under roads and bulk earthworks.

For network assets such as roads, the combined application of the concept of materiality and high variability of the road attributes across the network has resulted in the almost universal and correct practice that assets be broken into segments.

Each asset has a current replacement value, written down current replacement value, annual depreciation amount, and economic and remaining life.

Asset Component

Asset components are the building blocks for asset valuation and allow the required level of consistency and accuracy of financial and management reporting of assets. Asset component values and depreciation charges are usually aggregated to the sum for the asset. Where component economic lives and or / remaining lives are materially different, each component should have a separate value, economic life, remaining life, and depreciation charge. Components are aggregated into assets where the separate reporting at component level will not materially impact the results in the financial report.

Asset Register

An Asset Register is a record of assets and their attributes. This record is a management tool to enable the agency to measure and report service potential and deliver services to agency customers at the lowest possible cost, whilst controlling exposure to risk and loss.

An Asset Register is a dynamic record of assets. Asset Registers contain the asset description, a unique identifier for the asset and additional attributes such as:

- Physical details
- Financial details

[9] AAS27

- Spatial attributes that describe the asset and provide information to asset custodians

The Asset register records these details for assets that are “material” or significant to the delivery of service or financial reporting of service potential.

A monetary threshold, called a materiality threshold usually determines this.

The purpose of an Asset Register is to provide information to asset custodians and, in some cases, agency customers who use the assets.

Attribute

Asset attributes are those characteristics that describe the asset and allow asset custodians to manage and report on the service potential of the asset. Examples are condition, economic life, remaining life, value, and age.

Depreciation

Depreciation is a measure of the consumption of service potential. Most road assets, when constructed, have a design life recognising that the consumption of service potential is inevitable.

Design Life

Assets such as flexible road pavements and bituminous surfaces have a design life based on operational and environmental parameters. For example, flexible road pavements are designed to control deflections from wheel loads. The accumulated impact of these deflections results in a pavement failing when either the deflection becomes excessive with resulting permanent deformation known as “rutting”, or allows excessive cracking of the surface layer allowing the ingress of water into the pavement. In theory, the design life is the same as the economic life. In practice, design life is not a good guide for actual consumption of service potential because the actual operational and environmental conditions vary from those initially assumed particularly in assets with a long life of greater than 20 - 30 years.

Earthworks

Earthworks is bulk cut and fill work carried out in preparation for the road sub grade. Examples include road cuttings and filling depressions in landform to improve a road’s vertical or horizontal alignment. Trim and compacting the sub grade during initial construction or subsequent renewal of pavement is not earthworks for the purpose of this report.

There are many definitions for earthworks and the definition used in this report is one intended to make a distinction between work where the service potential is not consumed (earthworks) and work, which is ancillary to the pavement and is done when asset renewal is carried out.

Economic Life

The economic life of an asset is the period from its initial construction or reconstruction until either the asset is either renewed or retired from service.

Gravel Road

A gravel road consists of an earth formation, which is usually raised to facilitate drainage, surfaced with a layer of granular material that performs better under wet conditions than the underlying natural material. Gravel roads usually use locally available material and as a result, construction and maintenance practices vary considerably from region to region. The replacement or increase in depth of the gravel layer is termed “resheeting”. The issues of capitalisation and depreciation apply specifically to the gravel pavement / surface and not the underlying earthworks.

Materiality

The concept of materiality referred to in accounting standards has been amplified in these guidelines. An asset is material if its omission would result in misleading the reader of the financial report. The convention of an asset being material if greater than 10 – 15 % of asset value is only partly useful for road assets because of historic variability in practice in measuring value. The overriding principle is that financial reports present a true and fair picture of the financial position of the council.

Service Potential

The service potential of an asset is a measure of its capacity to render future service. For a road asset, service potential includes its service characteristics such as:

- traffic carrying capacity (speed, mass and volume),
- level of safety
- vehicle ride comfort

When an asset is new, the full service potential for the designed level of service is available. As the asset renders service by being used, the service potential is said to be “consumed” until the asset reaches the end of its useful life and requires either renewal or retirement from service.

Physical characteristics such as condition attributes (roughness, cracking, rutting, patches etc) are indictors of the current level of service and the extent to which the initial service potential has been consumed.

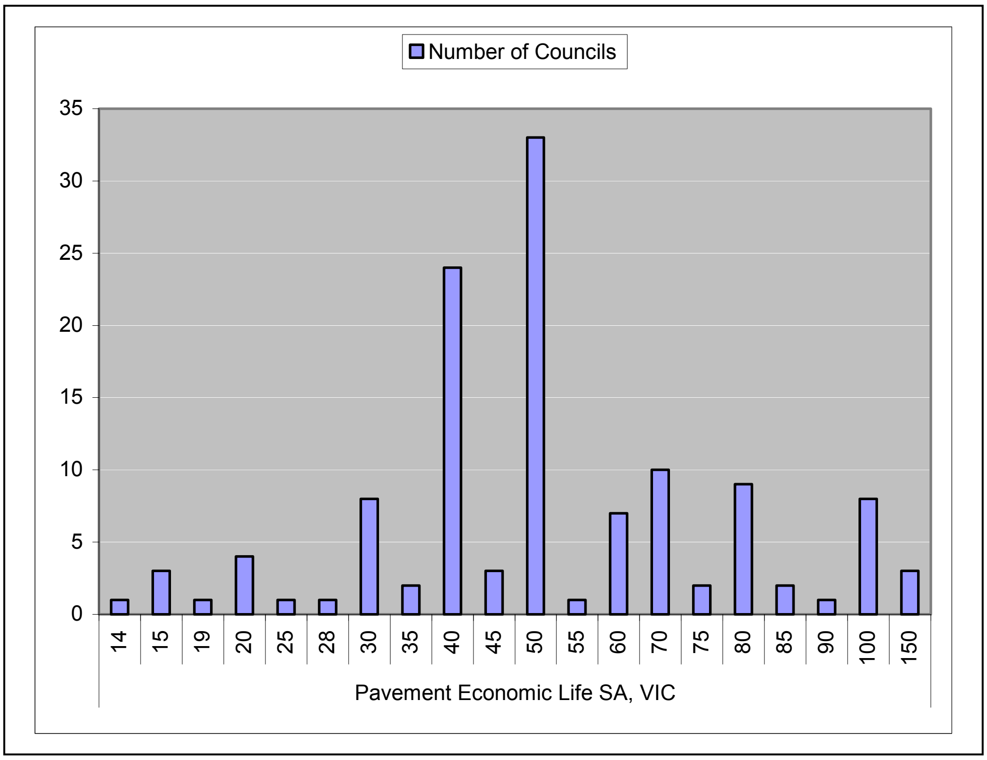
Road segment

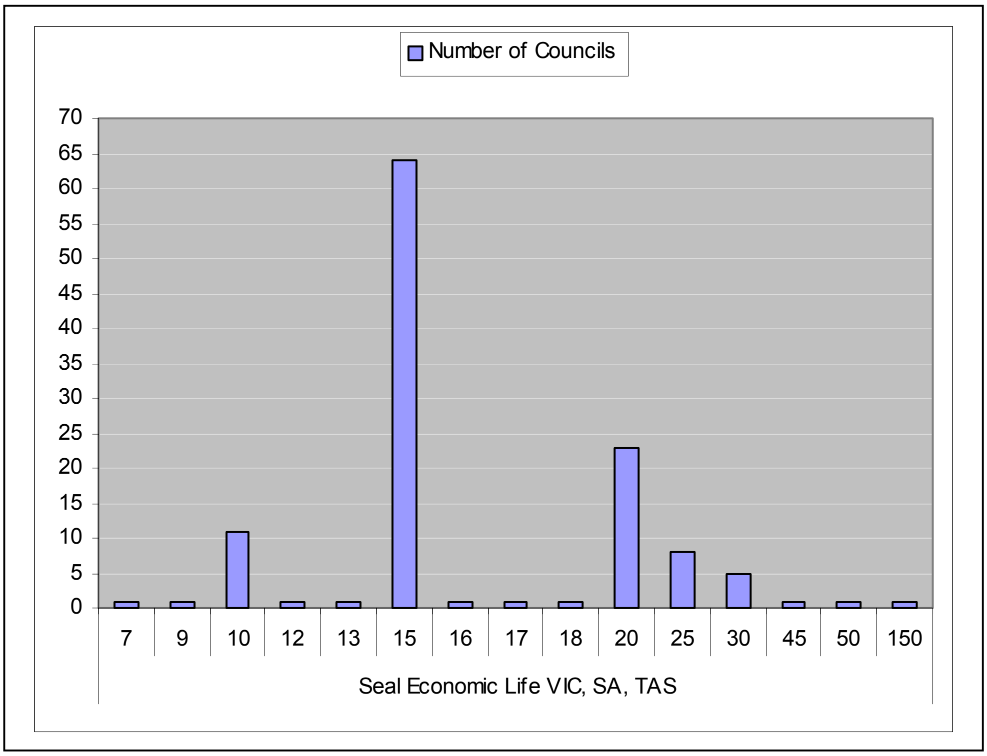
A road network should be segmented into lengths so that:

The physical attributes for each length are materially similar for each segment, taking into account variability inherent in road networks. Examples of physical attributes are:

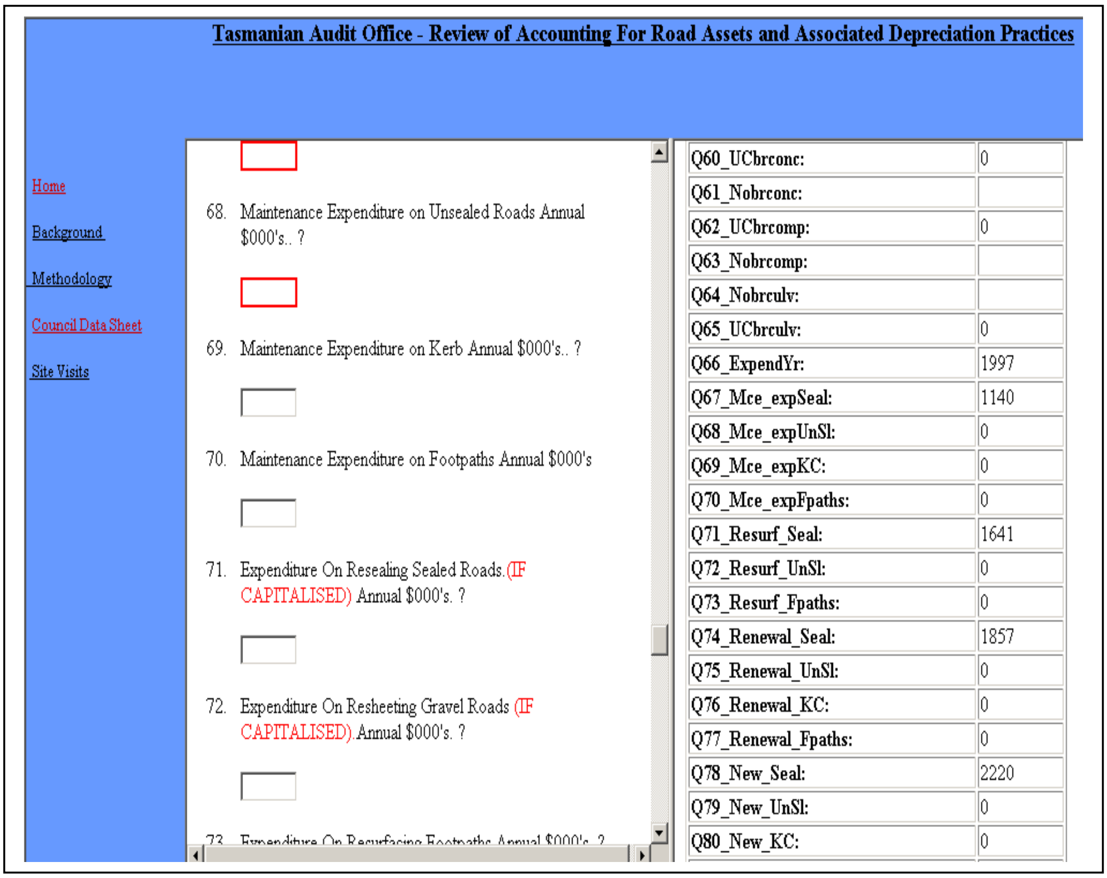
- Road Structure (surface type, pavement type) AND
- Economic Life AND
- Remaining Life (based on age and/or condition)

APPENDIX 2 CURRENT RANGE OF ECONOMIC LIVES (VIC, SA, TAS SAMPLE)





APPENDIX 3–PROJECT WEB SITE



Methodology (extract from web site)

A preliminary analysis of existing information has been completed. This consists of:

- Last years financial reports
- The results of the review into financial reporting completed in 1998.

The data from both these sources has been loaded into this web site. During the 1998 review, many councils indicated they were reviewing both their financial reporting practices and the quality of their data. This was reflected in both the variability and poor quantity and quality of information available at that time. Accordingly, the 1998 report provided some guidance to assist councils in the improvement process rather than adopt a prescriptive approach.

The analysis of last years (1999/2000) financial reports indicates that significant variability remains and more needs to be understood to determine under what circumstances this variability may mislead the readers of financial reports as to the true financial position of the entity.

The methodology of this project seeks to establish:

- Some guidelines giving a range of expected results taking into account local variables that can be reliably measured.
- A methodology for audit of key variables that can reasonably be expected to support financial reporting.

The level of detail in financial reports is insufficient to provide these outcomes and needs to be supplemented by a data collection instrument provided in this web site. The data sheet provides the existing information available for the council (protected by password) and a capture form to update and supplement existing information.

APPENDIX 4 – AUSTRALIAN CLASSIFICATION OF LOCAL GOVERNMENTS

Description	Category	Description	Population	No. of Councils
URBAN	**LGA with a population of >20,000**			
Urban Capital City	UCC	Capital City		7
Urban Metropolitan Developed Small	UDS	Part of an urban centre of >1,000,000 people or population density of > 600 per sq km	Up - 30,000	28
Urban Metropolitan Developed Medium	UDM		30,001 - 70,000	29
Urban Metropolitan Developed Large	UDL		70,001 - 120,000	20
Urban Metropolitan Developed Very Large	UDV		>120,000	18
Urban Fringe Small	UFS	A developing LGA onthe margin of a developed or regional urban centre	Up - 30,000	10
Urban Fringe Medium	UFM		30,001 - 70,000	16
Urban Fringe Large	UFL		70,001 - 120,000	12
Urban Fringe Very Large	UFV		>120,000	9
Urban Regional Town/City Small	URS	Part of an urban centre with population <1,000,000 and predominantly urban in nature	Up - 30,000	70
Urban Regional Town/City Medium	URM		30,001 - 70,000	34
Urban Regional Town/City Large	URL		70,001 - 120,000	8
Urban Regional Town/City Very Large	URV		>120,000	5
RURAL	**LGA with a population of <20,000**			
Rural Significant Growth	RSG	Population growth >3% pa	>5,000	34
Rural Agricultural Small	RAS	Agricultural - population density <30 persons per sq km	Up to 2,000	106
Rural Agricultural Medium	RAM		2,001 - 5,000	117
Rural Agricultural Large	RAL		5,001 - 10,000	60
Rural Agricultural Very Lge	RAV		10,0001 - 20,000	53
Rural Remote Extra Small	RTX	Remote - < 90% population is urban	Up to 400	57
Rural Remote Small	RTS		401 - 1,000	43
Rural Remote Medium	RTM		1,001 - 3,000	25
Rural Remote Large	RTL		3,001 - 20,000	10