



2002

PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2001-2002

PART B - VOLUME THREE Local Government Authorities

No. 2 of 2002 - November 2002

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TABLE OF CONTENTS

VOLUME THREE

Local Government Authorities	1
Part 1 City Councils	5
1.1 Burnie City Council	9
1.2 Clarence City council	16
1.3 Devonport City Council	21
1.4 Glenorchy City Council	24
1.5 Hobart City Council	29
1.6 Launceston City Council	35
Part 2 Larger Urban/Rural Councils	42
2.1 Central Coast Council	47
2.2 Circular Head Council	51
2.3 Huon Valley Council	57
2.4 Kingborough Council	62
2.5 Meander Valley Council	66
2.6 Waratah-Wynyard Council	71
2.7 West Tamar Council	76
Part 3 Medium Rural Councils	80
3.1 Brighton Council	85
3.2 Derwent Valley Council	90
3.3 Dorset Council	95
3.4 George Town Council	100
3.5 Latrobe Council	105
3.6 Northern Midlands Council	110
3.7 Sorell Council	114
3.8 West Coast Council	119
Part 4 Smaller Rural Councils	125
4.1 Break O’Day Council	129
4.2 Central Highlands Council	135
4.3 Flinders Council	140
4.4 Glamorgan-Spring Bay Council	145
4.5 Kentish Council	150
4.6 King Island Council	158
4.7 Southern Midlands Council	163
4.8 Tasman Council	168

Part 5	Local Government Business Units	173
5.1	Dulverton Regional Waste Management Authority	179
5.2	Cradle Coast Water	184
5.3	Esk Water Authority	190
5.4	Hobart Regional Water Authority	196
5.5	Kentish/Latrobe Joint Authority	202
5.6	May Shaw Nursing Centre Authority	208
5.7	West Coast Health and Community Services Pty Ltd	212
Appendix 1	Accounting Guidelines for Council Roads	217

LOCAL GOVERNMENT AUTHORITIES

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

On page 267 of Report No 2 for 2000-01, I reported on developments in accounting for road assets, and the issues identified during the audits of financial statements for the 2000-01 financial year.

It was found that a small number of Councils were still not adopting component accounting for road asset values or for the calculation of depreciation.

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 were then depreciated over extremely long lives, in some case up to 200 years (or even not depreciated at all).

In the case of asset valuations a number of Councils had availed themselves of the transition arrangements associated with the implementation of Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" that allowed Councils to deem the carrying values of their assets to be cost. Under this 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.

To this end I hosted a 2 day seminar and workshop in March 2002 with the objective of achieving consensus between accountants, engineers and auditors on some of the more contentious issues associated with accounting for road assets.

The more important issues addressed were:

- Asset components and segments
- Road condition assessment and its impact on useful life
- Useful lives and residual values of components, and
- Gravel road components and useful lives.

As a result of the seminar an advisory committee consisting of accounting and engineering representatives was assembled to assist with the preparation of revised accounting guidelines for council roads. The final guidelines are included in this Report at Appendix 1.

A number of Councils have undertaken road asset revaluations using the revised guidelines. A small number of Councils are still to review asset valuation and depreciation practices.

I will continue to monitor the general standard of road asset accounting in coming years, particularly the level of detail included in asset registers to support asset condition and remaining useful lives.

AUDIT OF LOCAL GOVERNMENT

Pursuant to 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 5 Councils (2001, 6) were audited by private sector auditors for the year ended 30 June 2002. These Councils were Brighton, Hobart City, Kingborough, Launceston City and Waratah-Wynyard.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The following is a summary as at 8 November 2002 of the audit status of the financial statements for the 29 Councils for the 2001-02 year.

In 2001-02, 6 Councils had not submitted signed financial statements by 1 October 2002.

Those Councils comprised:

Council	Date Received
Brighton Council *	11 October 2002
George Town Council *	8 October 2002
Glamorgan/Spring Bay Council	1 November 2002
Glenorchy City Council *	4 October 2002
Sorell Council	30 October 2002
Tasman Council	25 October 2002

* Draft accounts received by 1 October 2002

Results of audits: -

Audits completed and Unqualified Opinions issued	28
Audits completed and Qualified Opinions issued	1
Audits not completed	0

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 2001

On page 270 of Report No 2 for 2000-01, I indicated that with the exception of two Councils, audits had been completed and the audit reports issued.

The audits of those two Councils have since been finalised and unqualified audit reports issued as follows:

Council	Statements Received	Audit Report Issued
Glamorgan/Spring Bay Council	11 January 2002	15 January 2002
Tasman Council	13 March 2002	25 March 2002

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	21 507	31 714	23 256	37 397	63 366	57 995
Grants	4 508	2 395	2 615	5 617	3 837	8 871
Other operating revenue	622	4 582	1 761	2 111	3 577	3 461
Non-operating revenue	5 138	6 202	703	32 053	5 604	13 977
Total Revenue	31 775	44 893	28 335	77 178	76 384	84 304
Borrowing Costs	317	1 460	1 028	1 798	869	646
Depreciation	7 379	11 658	7 529	8 989	20 152	15 544
Other operating expenses	16 957	28 613	19 801	37 000	56 235	51 995
Non-operating expenses	833	0	274	596	4 512	4 878
Total Expenses	25 486	41 731	28 632	48 383	81 768	73 063
Result from Ordinary Activities	6 289	3 162	(297)	28 795	(5 384)	11 241

Comment

Apart from Devonport, all city councils recorded significant items of Non-operating revenue in the past year. Glenorchy, Launceston and Burnie each recorded revenues relating to the identification of new infrastructure and property assets, with Glenorchy's recognition of \$31.534m worth of assets being the highest. Non-operating revenue for Hobart includes \$4.658m in insurance recoveries relating to fire damage of the Hobart Aquatic Centre, while its Non-operating expenses recorded \$2.589m of fire recovery costs. Clarence has included a Non-operating revenue item of \$5.000m that represents a non-cash contribution from the Tasmanian Cricket Association for the new grandstand at Bellerive Oval.

Without these Non-operating revenue items, Burnie and Launceston would have still recorded a surplus for the year, whereas Glenorchy would have had a deficit of \$2.739m, and Clarence a deficit of \$1.838m.

The deficit recorded by Hobart would have increased from \$5.384m to \$7.453m if the transactions relating to the aquatic centre fire were eliminated.

The operating deficits at Clarence, 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	191	18 275	2 783	591	1 254	3 584
Receivables	2 075	3 148	1 891	2 190	4 285	5 871
Investments	8 100	2 000	0	5 558	10 309	19 449
Inventories	301	176	295	287	233	759
Other	93	767	1 822	508	32	178
Total Current Assets	10 760	24 366	6 791	9 134	16 113	29 841
Property, Plant And Equipment	232 099	304 164	269 595	306 709	567 402	653 444
Investments	708	25 954	14 745	38 160	36 520	57 274
Other	137	307	1 230	1 927	461	1 187
Total Non-Current Assets	232 944	330 425	285 570	346 796	604 383	711 905
Payables	1 784	3 022	1 230	3 291	4 920	1 357
Borrowings	958	16 988	1 583	2 065	1 456	2 122
Provisions	1 247	1 555	1 223	2 469	2 886	4 538
Other	21	0	1 557	109	688	3 883
Total Current Liabilities	4 010	21 565	5 593	7 934	9 950	11 900
Borrowings	5 977	13 353	10 608	24 606	10 382	7 969
Provisions	338	258	539	883	4 065	860
Other	0	0	0	0	45	952
Total Non-Current Liabilities	6 315	13 611	11 147	25 489	14 492	9 781
Net Assets	233 379	319 615	275 621	322 507	596 054	720 065
Reserves	23 915	71 906	275 621	43 497	258 713	114 013
Retained Surpluses	208 982	247 709	0	279 010	337 341	606 052
Outside Equity Interests	482	0	0	0	0	0
Total Equity	233 379	319 615	275 621	322 507	596 054	720 065

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.

Current borrowings at Clarence include significant funds borrowed overnight at year-end and repaid in the new financial year. This also has the effect of inflating the disclosed cash balance.

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	22 381	32 327	26 019	39 486	73 327	64 755
Payments to suppliers and employees	(17 520)	(29 071)	(20 803)	(36 348)	(59 735)	(54 314)
Interest received	608	539	395	379	564	1 144
Borrowing costs	(354)	(1 499)	(1 088)	(1 798)	(881)	(645)
Cash from operations	5 115	2 296	4 523	1 719	13 275	10 940
Proceeds from investments	0	1 000	496	(5 439)	0	853
Payments for investments	(2 735)	(1 000)	0	104	0	(992)
Payments for P, P & Equipment	(10 468)	(4 556)	(6 731)	0	(14 675)	(23 506)
Proceeds from sale of P, P & E	489	0	444	0	508	3 291
Proceeds from Outside Equity Interest	490	0	0	0	0	0
Cash used in investing activities	(12 224)	(4 556)	(5 791)	(5 335)	(14 167)	(20 354)
Proceeds from borrowings	3 523	16 294	750	2 042	1 242	2 092
Repayment of borrowings	(796)	(16 428)	(2 725)	(1 871)	(1 851)	(2 302)
Cash from financing activities	2 727	(134)	(1 975)	171	(609)	(210)
Cash flows from Government	4 508	6 082	2 615	6 840	3 666	8 909
Net increase in cash	126	3 688	(628)	3 395	2 165	(715)
Cash at the beginning of the period	65	14 587	3 411	2 754	9 398	23 748
Cash at end of the period	191	18 275	2 783	6 149	11 563	23 033

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 \$8.100m and Clarence had a further \$2.000m 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. As noted previously, 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)		1 984	(3 040)	(726)	(2 662)	(6 476)	2 142
Operating margin	>1.0	1.02	0.93	0.97	0.94	0.90	0.90
Financial Management							
Current ratio	>1	2.68	1.13	1.21	1.15	1.62	2.51
Cost of debt	7.5%	6.8%	8.4%	8.4%	6.7%	7.3%	6.4%
Debt collection	30 days	32	32	30	19	25	36
Creditor turnover	30 days	43	26	24	37	13	17
Other information							
Staff numbers		186	210	170	297	560	478
Average staff costs (\$'000s)		45	41	47	42	51	47

Comment

Burnie and Launceston are the only councils with positive operating margins, reflecting good results from operations. Devonport is only marginally behind the operating margin benchmark, due to its small operating deficit of \$0.726m. The other councils are yet to fully budget for the costs of operations, particularly depreciation, when determining rates.

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 in the order of 19 970.

On 1 February 2002, Council purchased a 51% interest in the Burnie Airport Corporation Unit Trust (BAC), which purchased and operates the Burnie Airport. At 30 June 2002, Council's interest was valued at \$0.510m. As Council owns a controlling interest, BAC financial information has been consolidated into Council's financial statements. The financial impact on the Statement of Financial Performance has not been material due to the limited time of the operation from February to June 2002.

In relation to the Statement of Financial Position, BAC's assets and liabilities have been included and an entry recording Outside Equity Interest has been made in accordance with required accounting standards.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Burnie City Council were received on 26 September 2002 and an unqualified audit report was issued on 18 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	18 751	17 637	19 845	20 228	21 507
Grants	2 134	3 143	2 660	2 584	4 508
Other operating revenue	1 504	1 383	763	776	622
Non-operating revenue	1 308	1 208	853	791	5 138
Total Revenue	23 697	23 371	24 121	24 379	31 775
Borrowing costs	498	395	336	307	317
Depreciation	6 863	7 904	7 677	7 498	7 379
Other operating expenses	16 292	15 104	16 740	17 869	16 957
Non-operating expenses	1 512	3 061	2 057	1 623	833
Total Expenses	25 165	26 464	26 810	27 297	25 486
Result from Ordinary Activities	(1 468)	(3 093)	(2 689)	(2 918)	6 289

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 over the five-year period. Rates income increased in 2001-02 by \$0.980m to \$16.631m.

Grant income increased from \$2.584m in 2000-01 to \$4.508m in 2001-02 as a result of additional funding being received for communication and information technology, \$0.695m, and nature conservation, \$0.774m.

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 of sale and carrying values respectively from the disposal of non-current assets together with developers' contributions to assets, either in cash or tangible assets. The significant increase in non-operating revenue for 2001-02 is due to Council recognising \$4.649m in additional assets. During the year Council implemented a new asset management system, which in conjunction with GIS technology highlighted discrepancies in roads, sewerage and water infrastructure asset information.

Over the four-year period to 2000-01, Council had returned an overall negative result from Ordinary Activities totalling \$10.168m, or an average annual deficit of \$2.542m. However, a surplus from Ordinary Activities was recorded in 2001-02, \$6.289m, due principally to the take-up of additional assets referred to earlier in this segment of the report. In relation to operating activities for 2001-02 Council recorded a surplus of \$1.984m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(83)	42	173	65	191
Receivables	1 263	1 126	2 336	1 802	2 075
Investments	12 950	9 250	7 414	5 365	8 100
Inventories	260	303	401	318	301
Other	43	60	62	29	93
Total Current Assets	14 433	10 781	10 386	7 579	10 760
Property, plant & equipment	207 231	221 480	227 156	225 331	232 099
Investments	139	330	473	701	708
Other	0	0	0	0	137
Total Non-Current Assets	207 370	221 810	227 629	226 032	232 944
Payables	2 043	1 115	1 805	1 240	1 784
Borrowings	809	711	757	796	958
Provisions	1 022	1 131	1 361	1 167	1 247
Other	56	59	14	105	21
Total Current Liabilities	3 930	3 016	3 937	3 308	4 010
Borrowings	5 556	5 019	4 202	3 412	5 977
Provisions	484	384	356	290	338
	50	0	0	0	0
Total Non-Current Liabilities	6 090	5 403	4 558	3 702	6 315
Net Assets	211 783	224 172	229 520	226 601	233 379
Reserves	17 441	27 188	31 350	29 280	23 915
Retained surpluses	194 342	196 984	198 170	197 321	208 982
Outside Equity Interests	0	0	0	0	482
Total Equity	211 783	224 172	229 520	226 601	233 379

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 2002 increased by \$0.150m to \$1.023m or 6.15% of total rate revenue raised for the year ended 30 June 2002.

Council's investment balance increased by \$2.735m in 2001-02 to \$8.100m due to unexpended grant funds received during the 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 its 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 AASB 1041 “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.

Borrowings have decreased from \$6.365m in 1997-98 to \$4.208m in 2000-01 due to Council seeking to reduce its debt. However, in 2001-02 the consolidated borrowings balance increased by \$2.727m to \$6.935m. The increase is attributable to \$2.023m being carried in BAC’s financial statements, which was used to fund the purchase of the Burnie Airport.

Council’s reserves increased from \$17.441m in 1997-98 to \$29.280m in 2000-01 due principally to the movements in the revaluation reserves referred to above and the 1999-00 adjustment to equity. Reserves decreased by \$5.365m in 2001-02 as a result of Council transferring the general reserve balance to accumulated surplus balance.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	19 588	18 010	18 544	21 478	22 381
Payments to suppliers and employees	(17 210)	(15 972)	(15 977)	(19 549)	(17 520)
Interest received	826	802	678	899	608
Borrowing costs	(523)	(438)	(358)	(314)	(354)
Cash from operations	2 681	2 402	2 887	2 514	5 115
Proceeds from investments	1 162	3 700	1 836	2 049	0
Payments for investments	0	0	0	0	(2 735)
Payments for P, P & Equipment	(6 369)	(9 694)	(7 044)	(7 199)	(10 468)
Proceeds from sale of P, P & E	1 308	1 208	563	695	489
Proceeds from Outside Equity Interest	0	0	0	0	490
Cash used in investing activities	(3 899)	(4 786)	(4 645)	(4 455)	(12 224)
Proceeds from borrowings	0	0	0	0	3 523
Repayment of borrowings	(902)	(634)	(772)	(750)	(796)
Cash from financing activities	(902)	(634)	(772)	(750)	2 727
Cash Flows from Government	2 134	3 143	2 660	2 584	4 508
Net increase in cash	14	125	130	(107)	126
Cash at the beginning of the period	(97)	(83)	42	172	65
Cash at the end of the period	(83)	42	172	65	191

Comment

The significant increase in Receipts from customers in 2000-01 and 2001-02 is primarily due to increased receipts from user fees and charges due to increased activity, increases in general rate receipts due to increased rate charges, \$0.470m and \$0.990m respectively; and the impact of GST receipts from customers and recoveries from the Federal Government, \$0.975m and \$1.274m respectively.

Similarly with cash payments, the 2000-01 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 2001-02 cash payments total decreased by \$2.029m due largely to the significant decrease in redundancy payments over those of the prior period.

Since 1 July 1997 Burnie Council has maintained its investment in property plant and equipment, with new assets either purchased or constructed totalling \$40.774m as opposed to the annual depreciation charge \$37.321m.

As noted previously, Council borrowed \$3.523m during 2001-02. Council borrowed \$1.500m to fund internal capital works and \$2.023m was consolidated as part of BAC's financial activities.

The above factors, coupled with the draw down of invested funds over the four-year period to 2000-01 enabled Council to record a neutral cash flow movement. In 2001-02 unexpended grant funds and borrowings have enabled Council to increase its investments by \$2.735m and maintain a static cash flow movement.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(1 264)	(1 240)	(1 485)	(2 086)	1 984
Operating margin	>1.0	0.95	0.95	0.94	0.92	1.08
Financial Management						
Current ratio	>1	3.67	3.57	2.64	2.29	2.68
Cost of debt	7.5%	7.8%	6.9%	6.8%	7.3%	6.8%
Debt collection	30 days	16	20	38	29	32
Creditor turnover	30 days	43	19	42	27	43
Other information						
Staff numbers FTEs		193	196	201	193	186
Average staff costs (\$'000s)		38	38	41	49	45

Comment

From 1997-98 to 2000-01, Council had failed to cover operating expenses returning an accumulated deficit \$6.075m over the period. Council recorded a surplus from operations of \$1.984m for 2001-02.

Cost of debt reflects the current market rates.

The debt collection ratio has consistently been below the benchmark except for 1999-00 and 2001-02. In 1999-00, the ratio was distorted by the timing for one large payment due for road-works undertaken jointly with the state Government. The 2001-02 ratio is marginally above the benchmark.

The creditor turnover ratio has fluctuated over the five-year period. However, it is Council's policy to settle payments within a 30 day credit period.

OVERALL COMMENT

Over the five-year period, Burnie City Council has recorded an accumulated deficit from operating activities totalling \$4.091m. During that same period the level of operating revenue increased by \$4.248m from that recorded in 1997-98. At the same time cash flows were maintained at a neutral level by the use of investment funds, with investment balances reducing from \$12.950m at 30 June 1998 to \$8.100m at 30 June 2002, an average use of \$0.970m per annum. Over that same period, repayment of borrowings totalled \$3.854m or an average annual reduction of \$0.771m.

Burnie City Council is now in a sound financial position, recording a surplus for the year, holding investments that exceed borrowings, and consistently maintaining a high level of re-investment in infrastructure assets.

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 2001-02 FINANCIAL STATEMENTS

Financial statements were received on 27 September 2002 and an unqualified audit report was issued on 25 October 2002

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	26 123	26 891	28 837	29 849	31 714
Grants	1 982	1 847	1 818	1 948	2 395
Other operating revenue	4 533	4 567	3 966	4 000	4 582
Non-operating revenue	29 950	293	657	1 183	6 202
Total Revenue	62 588	33 598	35 278	36 980	44 893
Borrowing costs	2 113	1 884	1 393	1 758	1 460
Depreciation	6 787	6 780	6 631	7 653	11 658
Other operating expenses	25 141	25 069	27 305	27 561	28 613
Non-operating expenses	1 932	2 824	933	115	0
Total Expenses	35 973	36 557	36 262	37 087	41 731
Result from Ordinary Activities	26 615	(2 959)	(984)	(107)	3 162

Comment

Non-operating revenue in 1997-98 included the recognition of Council's interest in the assets of Hobart Water, \$28.503m. The following year, Non-operating expenses included a subsequent write-down in council's interest in Hobart Water of \$2.549m. The significant increase in Non-operating revenue for 2001-02 is related to the contribution of \$5.000m for the new grandstand at the Bellerive Oval.

Depreciation expense in 2001-02 has increased significantly due to the revaluation of road assets as at 1 July 2001.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	13 458	14 817	15 790	14 587	18 275
Receivables	1 181	1 785	2 413	3 130	3 148
Investments	7 428	2 176	2 000	2 000	2 000
Inventories	171	161	131	153	176
Other	141	98	74	115	767
Total Current Assets	22 379	19 037	20 408	19 985	24 366
Property, plant & equipment	257 960	262 364	260 735	257 301	304 164
Investments	28 503	25 954	25 954	25 954	25 954
Other	724	514	433	382	307
Total Non-Current Assets	287 187	288 832	287 122	283 637	330 425
Payables	2 953	3 250	2 984	2 927	3 022
Borrowings	13 588	15 357	17 347	16 445	16 988
Provisions	1 345	1 330	1 293	1 294	1 555
Total Current Liabilities	17 886	19 937	21 624	20 666	21 565
Borrowings	17 216	16 427	15 387	15 021	13 353
Provisions	344	341	337	447	258
Total Non-Current Liabilities	17 560	16 768	15 724	15 468	13 611
Net Assets	274 120	271 164	270 182	267 488	319 615
Reserves	33 144	22 714	23 784	22 521	71 906
Retained surpluses	240 976	248 450	246 398	244 967	247 709
Total Equity	274 120	271 164	270 182	267 488	319 615

Comment

Although Council's cash levels and current borrowings appear high, the amount is inflated due to overnight loans being taken out near the end of each financial year. Taking these overnight loans out of cash, an average cash balance of \$0.562m existed over the five-year period. Similarly, the average current borrowings balance is also significantly less, at an average of \$0.927m per annum.

The increase in Property, plant and equipment during 2001-02 resulted principally from the upward net revaluation of the road network and other infrastructure assets of \$48.965m. This revaluation also accounts for the increase in reserves to \$71.906m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	26 790	26 873	29 164	31 280	32 327
Payments to suppliers and employees	(25 011)	(24 830)	(26 681)	(28 570)	(29 071)
Interest received	739	622	515	541	539
Borrowing costs	(2 113)	(2 277)	(1 517)	(1 812)	(1 499)
Cash from operations	405	388	1 481	1 439	2 296
Proceeds from investments	18 000	6 475	176	1 000	1 000
Payments for investments	(17 646)	(1 046)	0	(1 000)	(1 000)
Payments for P, P & Equipment	(7 539)	(11 452)	(5 935)	(6 023)	(4 556)
Proceeds from sale of P, P & E	1 316	145	343	8	0
Cash used in investing activities	(5 869)	(5 878)	(5 416)	(6 015)	(4 556)
Proceeds from borrowings	12 704	14 704	16 388	15 694	16 294
Repayment of borrowings	(10 728)	(13 331)	(15 438)	(16 962)	(16 428)
Cash from financing activities	1 976	1 373	950	(1 268)	(134)
Cash Flows from Government	5 099	4 735	4 739	5 117	6 082
Net increase in cash	1 611	618	1 754	(727)	3 688
Cash at the beginning of the period	11 331	12 942	13 560	15 314	14 587
Cash at end of the period	12 942	13 560	15 314	14 587	18 275

Comment

The net increase in cash during 2001-02 is due mainly to increased rates levied of \$2.041m, increased subsidies of \$0.518m for various Child Care programmes and increased funding of \$0.369m from the Roads to Recovery programme.

During 1997-98, Council commenced construction of some major infrastructure projects. These projects were completed in the 1998-99 year, accounting for the payments for Property, plant and equipment of \$18.991m over the 1997-98 and 1998-99 financial years. Apart from this peak, expenditure in the past three years on council's assets was less than the decline in council's assets represented by depreciation. Over this period, expenditure on assets totalled \$16.514m whereas depreciation for the same period amounted to \$25.942m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(1 403)	(428)	(708)	(1 175)	(3 040)
Operating margin	>1.0	0.96	0.99	0.98	0.97	0.93
Financial Management						
Current ratio	>1	1.25	0.95	0.94	0.97	1.13
Cost of debt	7.5%	11.7%	11.0%	8.2%	11.1%	8.4%
Debt collection	30 days	14	21	27	34	32
Creditor turnover	30 days	30	28	31	30	26
Other information						
Staff numbers FTEs		220	213	214	207	210
Average staff costs (\$'000s)		34	35	35	40	41

Comment

Although Council has incurred a loss from operations for each of the past five years, its results are close to the benchmark for operating margin. The losses incurred in 1997-98 and 2001-02 differ from the result from ordinary activities due to the major items of non-operating revenue recorded in these years. The 1997-98 year included the recognition of Council's share in the assets of Hobart Water, while the 2001-02 year included a \$5.000m contribution for the new grandstand at Bellerive oval.

Without these transactions, a net loss of \$6.754m from operations has been earned over the past five years, averaging a \$1.351m loss per annum. This result exists primarily from council not budgeting annually to cover operating expenses, including all depreciation. However, depreciation charges over this five-year period totalled \$39.509m, indicating that council does rate for most of the depreciation expense. Council is committed to move progressively towards full funding of depreciation expense.

OVERALL COMMENT

This year's audit was completed with satisfactory results, including our office's review of the road revaluation undertaken during the year.

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 in the order of 24 500 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2002. An unqualified audit report was issued on 23 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	21 548	21 799	22 394	23 109	23 256
Grants	1 862	2 577	1 890	2 787	2 615
Other operating revenue	1 480	1 454	1 380	1 618	1 761
Non-operating revenue	88	162	13 701	887	703
Total Revenue	24 978	25 992	39 365	28 401	28 335
Borrowing costs	1 474	1 249	1 170	1 173	1 028
Depreciation	6 100	6 121	6 210	6 377	7 529
Other operating expenses	16 923	17 067	17 132	18 861	19 801
Non-operating expenses	366	842	533	759	274
Total Expenses	24 863	25 279	25 045	27 170	28 632
Result from Ordinary Activities	115	713	14 320	1 231	(297)

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 the receipt of \$0.900m from the Federal Government for the redevelopment of the

Town Hall. Non-operating revenue in 1999-00, \$13.701m, includes \$12.834m relating to the recognition of the Council's interest in Cradle Coast Water.

The increase in depreciation expense from 2000-01 to 2001-02, \$1.152m, is mainly attributable to the capitalisation of a number of assets, including the Pardoe Treatment Plant and the Mersey Tunnel. Borrowing costs have decreased from \$1.474m in 1997-98 to \$1.028m in 2001-02 and is attributable to regular repayments of loan borrowings that, in turn, has resulted in a reduction in the balance of loans outstanding.

Council has recorded profits from ordinary activities in four of the five years under review. A loss from ordinary activities of \$0.297m was incurred in 2001-02 and is partly attributable to the increased depreciation charges recorded in that year, \$1.152m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	5 942	5 929	4 034	3 411	2 783
Receivables	1 804	1 889	1 855	2 187	1 891
Investments	1 000	0	0	500	0
Inventories	304	270	260	266	295
Other	1 987	4 177	1 675	1 778	1 822
Total Current Assets	11 037	12 265	7 824	8 142	6 791
Property, plant & equipment	233 873	239 816	246 349	265 641	269 595
Investments	1 674	1 858	14 857	14 565	14 745
Other	2 008	1 629	1 585	1 447	1 230
Total Non-Current Assets	237 555	243 303	262 791	281 653	285 570
Payables	1 022	1 045	1 126	1 122	1 230
Borrowings	3 673	2 842	1 998	2 383	1 583
Provisions	923	930	1 020	1 164	1 223
Other	1 835	4 015	1 507	1 658	1 557
Total Current Liabilities	7 453	8 832	5 651	6 327	5 593
Borrowings	12 804	12 950	12 745	11 783	10 608
Provisions	414	517	536	534	539
Total Non-Current Liabilities	13 218	13 467	13 281	12 317	11 147
Net Assets	227 921	233 269	251 683	271 151	275 621
Reserves	227 921	233 269	251 683	271 151	275 621
Total Equity	227 921	233 269	251 683	271 151	275 621

Comment

The balance of Property, plant and equipment has increased from \$233.873m in 1997-98 to \$269.595m in 2001-02 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, \$12.999m, primarily related to the recognition of Council's interest in the equity of Cradle Coast Water.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	22 338	22 747	23 356	24 332	26 019
Payments to suppliers and employees	(17 349)	(16 776)	(16 842)	(19 011)	(20 803)
Interest received	496	430	414	492	395
Borrowing costs	(1 549)	(1 326)	(1 185)	(1 201)	(1 088)
Cash from operations	3 936	5 075	5 743	4 612	4 523
Proceeds from investments	651	1 129	0	0	496
Payments for investments	0	0	(164)	(146)	0
Payments for P, P & Equipment	(6 236)	(10 164)	(10 004)	(7 637)	(6 731)
Proceeds from sale of P, P & E	1 684	2 055	1 689	338	444
Cash used in investing activities	(3 901)	(6 980)	(8 479)	(7 445)	(5 791)
Proceeds from borrowings	2 400	2 000	1 575	1 418	750
Repayment of borrowings	(3 132)	(2 951)	(2 023)	(1 778)	(2 725)
Cash from financing activities	(732)	(951)	(448)	(360)	(1 975)
Cash Flows from Government	1 862	2 577	1 890	2 787	2 615
Net increase in cash	1 165	(279)	(1 294)	(406)	(628)
Cash at the beginning of the period	4 225	5 390	5 111	3 817	3 411
	5 390	5 111	3 817	3 411	2 783

Comment

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

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		393	1 393	1 152	1 103	(726)
Operating margin	>1.0	1.02	1.06	1.05	1.04	0.97
Financial Management						
Current ratio	>1	1.48	1.39	1.38	1.29	1.21
Cost of debt	7.5%	8.9%	7.9%	7.9%	8.3%	8.4%
Debt collection	30 days	31	32	30	35	30
Creditor turnover	30 days	23	19	20	22	24
Other information						
Staff numbers FTEs		158	161	154	170	170
Average staff costs (\$'000s)		44	44	46	45	47

Comment

The financial performance ratios show that Council has recorded operating surpluses in the four years to 30 June 2001, with an operating deficit of \$0.726m incurred in 2001-02. The total surplus for the period under review amounted to \$3.315m.

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 8.4% for 2001-02.

The debt collection ratio has been equal to or higher than the benchmark of 30 days for the past five years. The ratio is affected by the balance of infringement debtors, \$0.305m at 30 June 2002, after deducting a provision for doubtful debts of \$0.210m. Council takes action to recover infringement debts through the court system.

The Creditor turnover figure have been below 30 days for the entire period under review.

The Average staff cost have been consistent for the past five years.

OVERALL COMMENT

In the five years under review Council recorded a total surplus from operations amounting to \$3.315m.

The 2001-02 audit was completed with no major issues outstanding.

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 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Glenorchy City Council were received on 4 October 2002 and an unqualified audit report was issued on 9 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	32 311	32 491	33 423	35 900	37 397
Grants	4 214	4 822	4 444	4 297	5 617
Other operating revenue	796	1 244	1 836	1 994	2 111
Non-operating revenue	54 808	2 633	1 108	36 272	32 053
Total Revenue	92 129	41 190	40 811	78 463	77 178
Borrowing costs	2 051	1 884	1 940	1 854	1 798
Depreciation	9 875	7 108	6 801	8 250	8 989
Other operating expenses	32 813	35 316	36 552	34 692	37 000
Non-operating expenses	481	9 278	1 302	681	596
Total Expenses	45 220	53 586	46 595	45 477	48 383
Result from Ordinary Activities	46 909	(12 396)	(5 784)	32 986	28 795

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 both 2000-01 and 2001-02 the item includes \$35.883m for roads and water assets and \$31.534m for sewerage infrastructure and land and buildings respectively.

The remainder of the items in each of the years generally reflects the value of subdivision infrastructure assets taken over by Council and the proceeds from asset disposals.

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. However, between 1999-00 and 2001-02 the depreciation expense increased by \$2.188m due principally to the recognition of infrastructure assets not previously recognised in the accounts and noted above.

In 1998-99 Non-operating expenses included a write-down of sewerage assets and buildings, \$6.991m and \$0.590m respectively; a loss of disposal of assets, \$1.344m; and a loss of \$0.353m from sale and leaseback of the vehicle fleet.

Between 1997-98 and 2001-02, operating expenses exceeded operating revenues by a total of \$24.026m representing an average annual operating deficit of \$4.805m, and results principally from Council not budgeting annually to recover all operating expenses including depreciation. The annual depreciation charge over this period totalled \$41.023m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	402	316	303	511	591
Receivables	1 467	1 932	2 693	2 348	2 190
Investments	1 113	2 174	2 076	2 243	5 558
Inventories	105	105	284	285	287
Other	412	589	392	586	508
Total Current Assets	3 499	5 116	5 748	5 973	9 134
Property, plant & equipment	229 179	231 145	226 489	267 218	306 709
Investments	39 621	39 590	39 556	39 231	38 160
Other	829	1 353	585	1 183	1 927
Total Non-Current Assets	269 629	272 088	266 630	307 632	346 796
Payables	1 533	1 811	2 705	3 101	3 291
Borrowings	1 223	1 377	1 543	1 850	2 065
Provisions	1 994	2 311	2 487	2 258	2 469
Other	375	177	323	257	109
Total Current Liabilities	5 125	5 676	7 058	7 466	7 934
Borrowings	24 966	25 086	25 043	24 692	24 606
Provisions	553	597	714	695	883
Total Non-Current Liabilities	25 519	25 683	25 757	25 387	25 489
Net Assets	242 484	245 845	239 563	280 752	322 507
Reserves	7 072	25 099	24 008	30 054	43 497
Retained surpluses	235 412	220 746	215 555	250 698	279 010
Total Equity	242 484	245 845	239 563	280 752	322 507

Comment

The increase in Investments noted in 2001-02 to \$5.558m resulted from significant amounts of grant funding received prior to year-end, which is due to be expended during 2002-03.

The increases in Property, plant and equipment in both the 2000-01 and 2001-02 years generally reflect the value of road and infrastructure assets not previously recognised and referred to earlier in this segment of the Report.

Council's borrowing has remained relatively constant over the 5-year period, although a slight increase was again noted in 2001-02.

Total equity has increased over the period by \$80.022m due principally to the recognition of additional assets, \$67.417m referred to earlier in this segment of the Report; and increases in the asset revaluation reserves on revaluing assets, \$36.423m, offset by the excess of expenses over revenues for the 5-year period, \$24.026m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	34 035	34 183	35 563	38 095	39 486
Payments to suppliers and employees	(33 510)	(36 324)	(36 695)	(35 477)	(36 348)
Interest received	313	328	331	367	379
Borrowing costs	(2 051)	(1 884)	(1 810)	(1 854)	(1 798)
Cash from operations	(1 213)	(3 697)	(2 611)	1 131	1 719
Payments for P, P & Equipment	(4 031)	(2 944)	(2 681)	(6 191)	(5 439)
Proceeds from sale of P, P & E	640	2 458	612	142	104
Cash used in investing activities	(3 391)	(486)	(2 069)	(6 049)	(5 335)
Proceeds from borrowings	1 518	1 531	1 534	1 594	2 042
Repayment of borrowings	(943)	(1 226)	(1 377)	(1 603)	(1 871)
Cash from financing activities	575	305	157	(9)	171
Cash Flows from Government	4 676	4 821	4 444	5 302	6 840
Net increase in cash	647	943	(79)	375	3 395
Cash at the beginning of the period	868	1 515	2 458	2 379	2 754
Cash at end of the period	1 515	2 458	2 379	2 754	6 149

Comment

The significant increase in Net cash noted at the end of 2001-02 is due to the large amounts of grants being received during the financial year that are yet to be expended.

The increase in payments for Property, plant and equipment in 2000-01 was the result of a change in accounting policy that resulted in the capitalisation of expenditure that had been expensed in prior years.

Borrowings have marginally increased over the period by a total of \$0.482m. The level of borrowings, \$26.671m, remains the highest of any local government authority.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(7 418)	(5 751)	(5 590)	(2 605)	(2 662)
Operating margin	>1.0	0.83	0.87	0.88	0.94	0.94
Financial Management						
Current ratio	>1	0.68	0.90	0.81	0.80	1.15
Cost of debt	7.5%	7.8%	7.1%	7.3%	7.0%	6.7%
Debt collection	30 days	16	21	29	21	19
Creditor turnover	30 days	3	2	13	38	37
Other information						
Staff numbers FTEs		329	284	250	257	297
Average staff costs (\$'000s)		37	47	49	49	42

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 \$24.026m or an annual average deficit of \$4.805m. Until this current year, over that same period current liabilities have also consistently exceeded current assets at year-end. The excess level of cash being held at year-end, as previously noted, significantly influences this year's result.

The low level of creditor turnover from 1997-98 to 1999-00 was due to a conscious effort by council to pay creditors at year-end. As this is no longer deemed as a priority, the levels of creditor turnover, although higher than the benchmark, are more consistent with normal day-to-day practice.

OVERALL COMMENT

While Council has increased the level of re-investment in infrastructure assets from a three-year average of \$3.219m to an average of \$5.815m over the last two years, the level of investment is still significantly less than the current level of asset deterioration represented by the depreciation charge of \$8.989m for the 2001-02 year.

The average annual deficit of \$4.805m noted above indicates that Council is not yet setting rates at a sufficiently high level to recover all operating expenses, although significant improvement has been noted in the last two years where the average deficit on operations has reduced to \$2.633m.

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 2001-02 FINANCIAL STATEMENTS

The financial statements of the Hobart City Council were received on 20 September 2002 and an unqualified audit report was issued on 25 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	55 780	56 338	59 658	60 934	63 366
Grants	2 905	2 892	2 785	3 091	3 837
Other operating revenue	2 717	2 932	2 976	3 870	3 577
Non-operating revenue	1 214	39 406	1 727	935	5 604
Total Revenue	62 616	101 568	67 146	68 830	76 384
Borrowing costs	1 123	1 038	1 118	909	869
Depreciation	16 786	21 198	21 821	19 135	20 152
Other operating expenses	48 629	49 817	51 723	55 461	56 235
Non-operating expenses	1 264	1 933	19 948	3 687	4 512
Total Expenses	67 802	73 986	94 610	79 192	81 768
Result from Ordinary Activities	(5 186)	27 582	(27 464)	(10 362)	(5 384)

Comment

The increase in Rates, fees and charges in 2001-02, \$2.432m, is predominantly due to an increase in rates in line with CPI adjustment, \$1.573m, together with an increase in revenue from the Tattersall's Hobart Aquatic Centre (THAC), \$0.300m.

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. In 2001-02 the item included \$4.658m in insurance recoveries relating to fire damage of the THAC during 2000-01. Total recoveries

amount to \$4.958m. The remainder of the 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 Aquatic Centre, \$1.521m. In 2001-02, the item included a further amount of \$2.589m fire recovery costs with respect to the Aquatic Centre fire, and a further revaluation decrement for Infrastructure Plant, \$0.782m. Generally, the remainder of the Non-operating expenses represent the undepreciated carrying amounts of assets disposed of.

Over the five year period, Council has returned an overall negative Result from Ordinary Activities (which includes the impact of revaluation decrements and fire insurance costs and recoveries referred to above) totalling \$20.814m, or an average annual deficit of \$4.163m.

Ignoring the effects of both Non-operating revenues and expenses, Council has recorded an operating deficiency over the 5-year period totalling \$37.881m (i.e operating expenses exceeded operating revenues), or an average annual deficiency of \$7.576m, an increase over the prior year corresponding 5-year average of \$0.496m. The average annual deficiency represents the amount by which operating expenses (including depreciation) have exceeded operating revenues over the previous five years. Over that same period, rate revenue has increased from \$43.481m in 1997-98 to \$49.226m in 2001-02.

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. During 2000-01, sealed roads were again revalued with a resultant reduction in depreciation charges of approximately \$2.020m. Subsequent revaluations of various classes of assets (which are being undertaken on a progressive basis) have not had an overall material impact on the total annual depreciation charge.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(88)	(832)	(1 176)	(511)	1 254
Receivables	3 987	4 140	3 406	3 993	4 285
Investments	5 854	8 743	10 681	9 909	10 309
Inventories	378	238	251	252	233
Other	7	15	5	14	32
Total Current Assets	10 138	12 304	13 167	13 657	16 113
Property, plant & equipment	379 990	567 581	555 730	566 819	567 402
Investments	0	38 800	38 800	36 520	36 520
Other	1 663	571	730	620	461
Total Non-Current Assets	381 653	606 952	595 260	603 959	604 383
Payables	4 261	3 646	3 545	4 775	4 920
Borrowings	188	1 841	1 974	1 852	1 456
Provisions	2 656	2 855	3 141	3 000	2 886
Other	328	249	270	415	688
Total Current Liabilities	7 433	8 591	8 930	10 042	9 950
Borrowings	11 323	11 682	10 789	10 595	10 382
Provisions	2 539	2 536	2 368	2 644	4 065
Other	50	47	45	45	45
Total Non-Current Liabilities	13 912	14 265	13 202	13 284	14 492
Net Assets	370 446	596 400	586 295	594 290	596 054
Reserves	12 863	213 694	232 551	252 146	258 713
Retained surpluses	357 583	382 706	353 744	342 144	337 341
Total Equity	370 446	596 400	586 295	594 290	596 054

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), \$149.456m, and pipes, drains and rivulets assets, \$46.549m.

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, \$14.964m, and land improvements, \$2.777m. Revaluation decrements expensed and taken to the Statement of Financial Performance totalled \$19.271m were referred to earlier in this segment of the Report.

Revaluations carried out during 2000-01 resulted in further increases in the asset revaluation reserve, \$18.016m, the principal movement of which related to Water assets (pipes, drains and rivulets), \$14.929m.

Revaluations carried out during 2001-02 also resulted in a reserve increment of \$7.148m and practically completes Council's progressive asset revaluation process.

All revaluation reserve movements have a corresponding impact on the Property, plant and equipment balances, the carrying values for which have increased from \$379.990m at 30 June 1998 to \$567.402m at 30 June 2002.

The increase in the 1998-99 Non-Current Assets item Investments represents Council's take-up of its interest in Hobart Water. This investment was subsequently revalued at 30 June 2001 to \$36.520m.

Despite recording operating deficiencies for each of the periods under review, Council has maintained its strong equity base with Total Equity increasing from \$370.446m at 30 June 1998 to \$596.054m at 30 June 2002, principally due to asset revaluations.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	57 616	58 587	62 406	66 032	73 327
Payments to suppliers and employees	(46 641)	(49 425)	(50 481)	(56 353)	(59 735)
Interest received	473	447	707	783	564
Borrowing costs	(1 181)	(1 040)	(1 168)	(919)	(881)
Cash from operations	10 267	8 569	11 464	9 543	13 275
Payments for P, P & Equipment	(19 129)	(11 754)	(12 923)	(13 252)	(14 675)
Proceeds from sale of P, P & E	1 559	558	588	897	508
Cash used in investing activities	(17 570)	(11 196)	(12 335)	(12 355)	(14 167)
Proceeds from borrowings	4 150	2 200	1 325	1 658	1 242
Repayment of borrowings	(3 222)	(188)	(2 085)	(1 974)	(1 851)
Cash from financing activities	928	2 012	(760)	(316)	(609)
Cash Flows from Government	4 522	2 760	3 225	3 021	3 666
Net increase in cash	(1 853)	2 145	1 594	(107)	2 165
Cash at the beginning of the period	7 619	5 766	7 911	9 505	9 398
Cash at end of the period	5 766	7 911	9 505	9 398	11 563

Comment

Despite recording negative Operating Results and Results from Ordinary Activities over the five-year period, Hobart City Council has returned positive cash flows from operations amounting to \$53.118m which, together with government grants, \$17.194m, a positive increase of cash holdings, \$3.944m, asset sales, \$4.110, and increased borrowings, \$1.255m, has enabled it to maintain its investment in property plant and equipment, with new assets either purchased or constructed totalling \$71.733m, against the annual depreciation charges \$99.092m. Of the cash balances remaining at 30 June 2002, \$11.563m, \$2.050m is subject to restrictions on use including the provision of parking facilities, \$0.233m, and Heritage funding, \$1.368m. Council also has a substantial level of investment in addition to its interest in Hobart Water.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(5 136)	(9 891)	(9 243)	(7 610)	(6 001)
Operating margin	>1.0	0.91	0.86	0.88	0.90	0.92
Financial Management						
Current ratio	>1	1.36	1.43	1.47	1.36	1.62
Cost of debt	7.5%	9.8%	7.7%	8.8%	7.3%	7.3%
Debt collection	30 days	32	31	24	26	24
Creditor turnover	30 days	19	8	6	23	13
Other information						
Staff numbers FTEs		527	515	552	541	560
Average staff costs (\$'000s)		46	47	45	48	51

Comment

Over the five-year period under review Council has consistently failed to cover operating expenses returning an accumulated deficit for the period of \$37.881m, or an annual average deficiency of \$7.576m.

The cost of debt currently reflects the current market rates.

Statistics for debt collection indicate that since 1997-98 Council has maintained a debt collection recovery rate of close to 30 days. However, the provision for doubtful debts rose from 36% of total receivables in 1997-98 to 50% in 1999-00 and 2000-01, before reducing to 44% in 2001-02, 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 2002, outstanding parking offences totalled \$3.484m (30 June 2001, \$4.561m) against which it carried a provision for doubtful debts of \$3.315m (\$4.206m). The principal reason for the reduction in both the outstanding

parking offences and the corresponding provision during 2001-02 was the writing-off of fines totalling \$1.598m provided for in prior periods as doubtful debts.

At 30 June 2002, the total provision for doubtful debts amounted to \$3.506m against total receivables \$8.023m.

At 30 June 2002, Council had the equivalent of 13 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 \$37.881m. At the same time cash deposits have been increased from \$7.619m at 1 July 1997 to \$11.563m at 30 June 2002.

Borrowings remain a small proportion of Council's funding source and marginally increased over that same period by \$1.255m.

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 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 26 September 2002. An unqualified audit report was issued on 23 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	54 352	53 999	55 408	57 686	57 995
Grants	6 778	11 651	8 779	7 884	8 871
Other operating revenue	1 661	1 263	837	3 394	3 461
Non-operating revenue	48 425	9 997	8 325	7 122	13 977
Total Revenue	111 216	76 910	73 349	76 086	84 304
Borrowing costs	920	816	614	599	646
Depreciation	14 535	14 834	14 882	15 194	15 544
Other operating expenses	44 268	43 984	43 215	49 409	51 995
Non-operating expenses	2 704	755	1 970	1 669	4 878
Total Expenses	62 427	60 389	60 681	66 871	73 063
Result from Ordinary Activities	48 789	16 521	12 668	9 215	11 241

Comment

Revenue from Rates, fees and charges has increased from \$54.352m in 1997-98 to \$57.995m in 2001-02. Of this amount, Rate revenue has risen from \$43.165m to 46.377m over the same period and equates to an approximate 7.4% increase over that time.

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 \$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.

Totals for Non-operating revenue in 1998-99 and 1999-00 reflect the recording of infrastructure assets not previously recognised under the transitional provisions of Australian Accounting Standard AAS 27 'Financial Reporting by Local Governments', and amount to \$9.308m and \$6.449m respectively. Non-operating revenue for 2000-01 includes an adjustment to the carrying value of Council's increased equity in Esk Water, \$4.433m, and \$1.909m relating to the recording of infrastructure assets. The total for 2001-02 likewise includes new assets amounting to \$10.548m. The remainder of the amounts in each of the years basically represents the proceeds sale on various assets.

While Borrowings have marginally increased over the period under review (from \$8.613m in 1997-98 to \$10.091m in 2001-02), Borrowing costs have actually decreased which is reflected in the fall in the Cost of Debt from 10.7% in 1997-98 to 6.4% at 30 June 2002.

Other operating expenses have increased by \$7.727m over the period under review representing an annual average increase of \$1.545m. Over the same period, total Operating income increased by \$7.536m.

Non-operating expenses in each of the years predominantly represents the carrying values of asset disposals.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 229	2 753	4 982	4 545	3 584
Receivables	6 291	4 153	6 278	6 594	5 871
Investments	17 704	25 260	19 658	19 203	19 449
Inventories	577	805	700	768	759
Other	816	295	258	790	178
Total Current Assets	26 617	33 266	31 876	31 900	29 841
Property, plant & equipment	551 981	561 168	574 845	582 452	653 444
Investments	51 323	51 324	51 323	55 757	57 274
Other	1 544	1 475	1 367	1 286	1 187
Total Non-Current Assets	604 848	613 967	627 535	639 495	711 905
Payables	1 646	3 197	2 023	2 946	1 357
Borrowings	1 984	1 956	2 012	2 301	2 122
Provisions	3 646	3 796	3 807	4 045	4 538
Other	5 368	3 084	3 773	2 840	3 883
Total Current Liabilities	12 644	12 033	11 615	12 132	11 900
Borrowings	6 629	6 405	6 392	8 092	7 969
Provisions	700	761	682	928	860
Other	300	320	340	646	952
Total Non-Current Liabilities	7 629	7 486	7 414	9 666	9 781
Net Assets	611 192	627 714	640 382	649 597	720 065
Reserves	34 244	41 523	44 329	46 669	114 013
Retained surpluses	576 948	586 191	596 053	602 928	606 052
Total Equity	611 192	627 714	640 382	649 597	720 065

Comment

The balance of the Cash item has remained reasonably constant over the five-year period and reflects cash on hand. The Council holds these funds to meet its day to day cash requirements. Similarly, the Current Asset item Investments has also remained reasonably constant, with the majority of the item invested in managed investments. The balance peaked in 1998-99 with the deposit of \$5.500m received in connection with the York Park Development and utilised during 1999-00.

The major components of the receivables balance include rate, excess water, parking infringement, and sundry 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.

Property, plant and equipment increased during 2001-02 by \$70.992m due principally to a revaluation of Council's infrastructure assets to fair value in accordance with Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets'. Council's infrastructure assets had previously been carried in the accounts at amounts based on a combination of 1994 and 1997 written down replacement costs. The exercise resulted in the creation of, and a transfer to, relevant revaluation reserves totalling \$63.661m.

Non-current Investments represent the council's interest in the Esk Water Authority, which as noted above, increased during 2000-01 by \$4.434m. A further increase was recorded during 2001-02 amounting to \$1.517m.

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.

The total of both the Current Liability and Non-Current Liability item Provisions has remained reasonably stable over the five-year period. The balances represent employee entitlements provisions and include accrued rostered 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 increased by \$0.306m during 2001-02 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

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	54 322	54 789	54 102	61 776	64 755
Payments to suppliers and employees	(43 677)	(43 819)	(45 031)	(52 271)	(54 314)
Interest received	1 071	1 324	1 558	1 694	1 144
Borrowing costs	(942)	(841)	(618)	(607)	(645)
Cash from operations	10 774	11 453	10 011	10 592	10 940
Proceeds from investments	4 487	2 315	2 204	1 626	853
Payments for investments	(6 216)	(3 312)	(2 366)	(932)	(992)
Payments for P, P & Equipment	(16 143)	(13 632)	(23 084)	(22 852)	(23 506)
Proceeds from sale of P, P & E	1 306	689	1 876	780	3 291
Cash used in investing activities	(16 566)	(13 940)	(21 370)	(21 378)	(20 354)
Proceeds from borrowings	2 034	2 522	2 082	4 061	2 092
Repayment of borrowings	(2 639)	(2 712)	(1 956)	(2 012)	(2 302)
Cash from financing activities	(605)	(190)	126	2 049	(210)
Cash Flows from Government	6 541	11 758	7 860	7 845	8 909
Net increase in cash	144	9 081	(3 373)	(892)	(715)
Cash at the beginning of the period	18 789	18 932	28 013	24 640	23 748
Cash at end of the period	18 933	28 013	24 640	23 748	23 033

Comment

The net cash from operations has remained fairly stable over the past five years. Borrowing costs have gradually decreased over the period under review (although a slight rise was recorded in 2001-02) even though total borrowings marginally increased over the same period.

While payments to and from investments in net terms reflect a \$2.333m increase over the five years, Interest received decreased from a high of \$1.694m in 2000-01 to \$1.144m in 2001-02 due principally to the impact on interest rates of funds invested in managed investment funds in the previous twelve months.

Payments for property, plant and equipment have increased significantly since 1999-00 due principally to expenditure of capital based grants used to upgrade the museum and York Park facilities in addition to normal infrastructure upgrades.

FINANCIAL ANALYSIS

	Bench Mark	1997-98 \$'000s	1998-99 \$'000s	1999-00 \$'000s	2000-01 \$'000s	2001-02 \$'000s
Financial Performance						
Result from operations (\$'000s)		3 068	7 279	6 313	3 762	2 142
Operating margin	>1.0	1.05	1.12	1.11	1.06	1.03
Financial Management						
Current ratio	>1	2.11	2.76	2.74	2.63	2.51
Cost of debt	7.5%	10.7%	9.8%	7.3%	6.9%	6.4%
Debt collection	30 days	33	28	34	37	36
Creditor turnover	30 days	25	49	35	38	17
Other information						
Staff numbers FTEs		480	480	486	478	478
Average staff costs (\$'000s)		42	42	45	45	47

Comment

Council has consistently returned a positive result from operations (ie: Operating revenues less Operating expenses) totalling \$22.564m for the period under review, which represents an annual average result of \$4.513m. The total surplus includes \$18.564m received as capital grants, the expenditure for which is in the main capitalised and thus not recorded as Operating expenditure.

Cost of Council's debt has reduced markedly over the five years and reflects current market rates. As referred to previously in this part of the report, total debt has only marginally increased over the same period.

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 balances 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.

OVERALL COMMENT

In the five years to 30 June 2002, Council has recorded a net operating surplus of \$22.564m (excludes non-operating items) or an annual average surplus of \$4.513m. The Result from Ordinary Activities for the same period, including Non-operating items, which were referred to earlier in this section of the Report, totalled \$98.434m and represents an average annual result of \$19.687m.

During 2001-02 Council revalued its road and other infrastructure assets that, together with capital additions during the year, resulted in the carrying values for Property, plant and equipment increasing by \$70.992m. This exercise also resulted in an increase in relevant revaluation reserves amounting to \$63.661m.

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 \$7.250m.

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	14 214	7 971	7 767	17 350	9 033	8 525	10 836
Grants	2 429	2 589	4 346	3 525	4 471	2 883	2 012
Other operating revenue	2 240	3 586	2 066	2 091	640	580	756
Non-operating revenue	488	279	(31)	2 694	243	431	466
Total Revenue	19 371	14 425	14 148	25 660	14 387	12 419	14 070
Borrowing Costs	288	186	298	145	0	279	215
Depreciation	4 824	2 056	2 619	5 757	3 353	2 410	3 201
Other operating expenses	13 060	8 475	9 212	16 744	8 906	8 863	9 555
Non-operating expenses	109	468	0	693	407	805	136
Total Expenses	18 281	11 185	12 129	23 339	12 666	12 357	13 107
Result from Ordinary Activities	1 090	3 240	2 019	2 321	1 721	62	963

Comment

Revenue from Rates, fees and charges ranged from \$7.767m (Huon Valley Council) to \$17.350m (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 66% of total operating revenue for the seven councils for 2001-02.

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 and Meander Valley both recorded the highest percentage with 31%.

Only Kingborough Council recorded a significant Non-operating revenue balance, which includes sub-division infrastructure assets taken over by Council, \$1.388m.

On average, borrowing costs represent 1.7% of total Operating expenditure for those councils that have outstanding borrowings. In the previous financial year, Meander Valley council had repaid their outstanding loans. Depreciation expense accounted for 23% of total operating expenditure. The depreciation percentages were fairly consistent across the seven councils, apart from Circular Head, whose depreciation expense accounted for 18% of total expenses.

Each council was able to report a surplus from Ordinary Activities, with Circular Head recording the largest, \$3.240m.

FINANCIAL POSITION

	Central Coast \$'000s	Circular Head \$'000s	Huon Valley \$'000s	King- borough \$'000s	Meander Valley \$'000s	Waratah- Wynyard \$'000s	West Tamar \$'000s
Cash	(129)	370	5 919	(381)	607	221	5 777
Receivables	1 219	732	759	909	931	597	909
Investments	8 296	2 151	0	7 223	5 554	3 000	0
Inventories	74	131	5	89	33	223	126
Other	224	423	110	54	100	65	209
Total Current Assets	9 684	3 807	6 793	7 894	7 225	4 106	7 021
Property, Plant And Equipment	170 143	59 255	75 906	221 228	108 204	70 814	92 324
Investments	9 521	3 711	0	11 460	11 462	4 564	13 822
Other	703	373	0	20	28	43	44
Total Non-Current Assets	180 367	63 339	75 906	232 708	119 694	75 421	106 190
Payables	727	599	938	1 171	1 053	640	688
Borrowings	1 089	455	558	290	0	715	809
Provisions	1 046	431	428	1 051	538	922	655
Other	158	86	0	828	0	148	52
Total Current Liabilities	3 020	1 571	1 924	3 340	1 591	2 425	2 204
Borrowings	2 282	161	1 843	865	0	3 815	2 827
Provisions	413	47	195	229	84	120	175
Total Non-Current Liabilities	2 695	208	2 038	1 094	84	3 935	3 002
Net Assets	184 336	65 367	78 737	236 168	125 244	73 167	108 005
Capital	0	0	0	157 044	0	0	0
Reserves	33 844	4 442	5 795	77 158	23 516	9 382	58 909
Retained Surpluses	150 492	59 925	72 942	1 966	101 728	63 785	49 096
Total Equity	184 336	64 367	78 737	236 168	125 244	73 167	108 005

Comment

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 and infrastructure network.

Kingborough Council has separately recorded a Capital item entitled Ratepayer's Equity which represents non-trading equity adjustments, such as the initial recognition of infrastructure assets, the investment in Hobart Water and other assets taken over by council. Other councils have generally included such items within the Retained Surplus or Reserve line items.

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	17 007	12 328	9 490	19 366	10 119	9 589	12 179
Payments to suppliers and employees	(13 622)	(9 752)	(8 897)	(16 395)	(8 966)	(9 368)	(10 111)
Interest received	501	156	230	410	311	209	370
Borrowing costs	(291)	(199)	(307)	(151)	0	(281)	(215)
Cash from operations	3 595	2 533	516	3 230	1 464	149	2 223
Payments for investments	(657)	0	0	0	(1 554)	(500)	(746)
Payments for P, P & Equipment	(4 416)	(3 948)	(2 872)	(6 953)	(4 433)	(3 354)	(4 204)
Proceeds from sale of P, P & E	176	279	229	608	132	431	271
Cash used in investing activities	(4 897)	(3 669)	(2 643)	(6 345)	(5 855)	(3 423)	(4 679)
Proceeds from borrowings	0	0	0	0	0	500	400
Repayment of borrowings	(778)	(430)	(743)	(303)	0	(739)	(754)
Cash from financing activities	(778)	(430)	(743)	(303)	0	(239)	(354)
Cash flows from Government	2 429	2 589	4 346	3 525	4 470	2 883	2 012
Net increase in cash	349	1 023	1 476	107	79	(630)	(798)
Cash at the beginning of the period	(478)	1 498	4 444	6 735	528	851	2 008
Cash at end of the period	(129)	2 521	5 920	6 842	607	221	1 210

Comment

Two of the seven councils had a net decrease in cash for the year. Both of these councils transferred surplus funds to investment accounts, which contributed to the reduction in the balance of cash held.

Although Central Coast has a negative cash balance, it also holds a current investment worth \$8.296m which would adequately cover its short term cash needs.

FINANCIAL ANALYSIS

	Bench Mark	Central Coast	Circular Head	Huon Valley	King- borough	Meander Valley	Waratah- Wynyard	West Tamar
Financial Performance								
Result from operations (\$'000s)		711	3 429	2 050	320	1 885	436	633
Operating margin	>1.0	1.04	1.32	1.17	1.01	1.15	1.04	1.05
Financial Management								
Current ratio	>1	3.21	2.42	3.76	2.36	4.54	1.69	3.19
Cost of debt	7.5%	8.5%	11.5%	12.4%	12.6%	-	6.2%	5.9%
Debt collection	30 days	31	34	29	19	24	26	31
Creditor turnover	30 days	22	22	31	25	33	30	20
Other information								
Staff numbers		129	47	98	162	59	71	80
Average staff costs (\$'000s)		44	48	42	40	43	47	46

Comment

All of the councils had a positive result from operations and hence a positive operating margin. Circular Head recorded the highest operating margin at 1.32.

All of the seven councils had positive working capital, with the average current ratio being 3.0.

The average cost of debt for the large councils was 9.5%. In calculating this average, Meander Valley Council was excluded as it had no borrowings at 30 June 2002.

Both average debt collection and average creditor turnover were below the benchmarks of 30, at 28 days 26 days respectively.

The staff costs were consistent between the seven councils, with an overall average of \$0.044m.

OVERALL COMMENT

Overall, the seven councils recorded a surplus from ordinary and operating activities. This indicates that all councils fully budget for the costs of operations, particularly depreciation, when determining rates.

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 northwest coast. The population of the area is approximately 21,000.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 2 August 2002, with subsequent amended statements being received on 7 August 2002. An unqualified audit report was issued on 28 August 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	12 726	13 000	13 301	13 450	14 214
Grants	2 094	2 248	2 250	2 251	2 429
Other operating revenue	1 158	1 113	1 331	1 626	2 240
Non-operating revenue	23	0	9 033	0	488
Total Revenue	16 001	16 361	25 915	17 327	19 371
Borrowing costs	632	516	402	328	288
Depreciation	4 943	4 998	4 496	4 491	4 824
Other operating expenses	11 501	11 685	12 028	12 565	13 060
Non-operating expenses	0	214	125	72	109
Total Expenses	17 076	17 413	17 051	17 456	18 281
Result from Ordinary Activities	(1 075)	(1 052)	8 864	(129)	1 090

Comment

Revenue from Rates, fees and charges has steadily increased during the period under review. Non-operating revenue in 1999-00, \$9.355m, includes \$9.032m relating to the recognition of the Council's interest in Cradle Coast Water. The Non-operating revenue in 2001-02 of \$0.488m relates to Council's share of the increase in the equity of Cradle Coast Water since the recognition of the investment.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased from \$0.632m in 1997-98 to \$0.288m in 2001-02. The decrease is attributable to regular repayments of loan borrowings, which has resulted in a reduction in the balance of loans outstanding.

A surplus from ordinary activities of \$8.864m was recorded in 1999-00 and was due mainly to the recognition of Council's interest in the net assets of Cradle Coast Water. A surplus from Ordinary Activities of \$1.090m was recorded in 2001-02 and is principally attributable to non-operating revenue of \$0.488m representing the increase in Council's interest in Cradle Coast Water.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(114)	(518)	623	(478)	(129)
Receivables	1 082	1 025	1 165	1 330	1 219
Investments	8 161	8 530	6 950	7 638	8 296
Inventories	83	78	61	75	74
Other	134	138	135	332	224
Total Current Assets	9 346	9 253	8 934	8 897	9 684
Property, plant & equipment	146 716	145 590	150 944	158 902	170 143
Investments	0	0	9 032	9 032	9 521
Other	997	749	887	803	703
Total Non-Current Assets	147 713	146 339	160 863	168 737	180 367
Payables	177	235	314	502	727
Borrowings	922	906	830	777	1 089
Provisions	754	883	933	1 037	1 046
Other	278	287	364	156	158
Total Current Liabilities	2 131	2 311	2 441	2 472	3 020
Borrowings	5 642	4 581	3 750	3 371	2 282
Provisions	433	405	376	362	413
Total Non-Current Liabilities	6 075	4 986	4 126	3 733	2 695
Net Assets	148 853	148 295	163 230	171 429	184 336
Reserves	8 796	8 682	14 095	21 502	33 844
Retained surpluses	140 057	139 613	149 135	149 927	150 492
Total Equity	148 853	148 295	163 230	171 429	184 336

Comment

The balance of Property, plant and equipment increased by \$11.241m in 2001-02 due mainly to asset revaluation increments of \$11.817m being recognised during the year. The revaluation increment relates to land, buildings, drainage, recreation and environmental assets that were revalued on 1 July 2001. 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 Cradle Coast Water.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	13 354	13 916	14 004	15 053	17 007
Payments to suppliers and employees	(11 338)	(11 505)	(11 852)	(13 496)	(13 622)
Interest received	555	509	558	580	501
Borrowing costs	(656)	(543)	(413)	(348)	(291)
Cash from operations	1 915	2 377	2 297	1 789	3 595
Proceeds from investments	576	0	1 581	0	0
Payments for investments	0	(369)	0	(689)	(657)
Payments for P, P & Equipment	(3 997)	(3 677)	(4 217)	(4 148)	(4 416)
Proceeds from sale of P, P & E	305	94	138	127	176
Cash used in investing activities	(3 116)	(3 952)	(2 498)	(4 710)	(4 897)
Proceeds from borrowings	0	0	0	400	0
Repayment of borrowings	(1 020)	(1 076)	(907)	(831)	(778)
Cash from financing activities	(1 020)	(1 076)	(907)	(431)	(778)
Cash Flows from Government	2 093	2 247	2 249	2 251	2 429
Net increase in cash	(128)	(404)	1 141	(1 101)	349
Cash at the beginning of the period	14	(114)	(518)	623	(478)
Cash at end of the period	(114)	(518)	623	(478)	(129)

Comment

The net cash from operations has increased from \$1.789m in 2000-01 to \$3.595m in 2001-02. The increase is attributable to increased receipts from contributions, fees and charges and rates and charges. The increase in receipts from customers and payments to suppliers in 2000-01 is due to the impact of the GST introduction.

Payments for property, plant and equipment amounted to \$4.416m in 2001-02, the majority of which related to capital works on roads and streets.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(1 098)	(838)	(44)	(57)	711
Operating margin	>1.0	0.94	0.95	1.00	1.00	1.04
Financial Management						
Current ratio	>1	4.39	4.00	3.66	3.60	3.21
Cost of debt	7.5%	9.6%	9.4%	8.8%	7.9%	8.5%
Debt collection	30 days	31	29	32	36	31
Creditor turnover	30 days	6	9	10	17	22
Other information						
Staff numbers FTEs		128	127	126	127	129
Average staff costs (\$'000s)		41	43	42	45	44

Comment

The financial performance ratios show that Council has recorded operating losses in four of the five years under review. An operating surplus of \$0.711m was recorded in 2001-02.

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 reduced from 9.6% in 1997-98 to 8.5% in 2001-02. 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 five years under review.

OVERALL COMMENT

In the five years under review, Council recorded a total loss from operations (excluding non-operating items) of \$1.326m.

For the year ended 30 June 2002, an unqualified audit report was issued.

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 8 108 people and covers approximately 4 917 square kilometres including the townships of Smithton and Stanley.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2002. An unqualified audit report was issued on 29 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	6 892	7 046	7 375	7 647	7 971
Grants	1 667	1 641	2 037	2 346	2 589
Other operating revenue	380	499	473	556	3 586
Non-operating revenue	131	1 434	3 711	178	279
Total Revenue	9 070	10 620	13 596	10 727	14 425
Borrowing costs	397	341	280	236	186
Depreciation	1 963	1 927	1 998	2 030	2 056
Other operating expenses	6 172	6 999	7 732	7 555	8 475
Non-operating expenses	110	0	75	401	468
Total Expenses	8 642	9 267	10 085	10 222	11 185
Result from Ordinary Activities	428	1 353	3 511	505	3 240

Comment

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

Other operating revenue in 2001-02 has increased by \$3.030m as a result of contributions received from Hydro Tasmania, \$2.000m, and the State Government, \$0.750m, for the sealing of Woolnorth Road. The upgrading of the road was required to allow for the safe construction of Hydro Tasmania's Woolnorth Windfarm.

Non-operating revenue and expenditure relates to the profit and loss associated with the disposal of assets. For the three-year period 1997-98 to 1999-00 the balances represent the net profit or loss. The balances for 2000-01 and 2001-02 record the total revenue from assets sales and the written down value of the assets sold.

However, in 1998-99 the Non-operating revenue of \$1.434m includes \$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 represents the recognition of the Council's interest in Cradle Coast Water.

Grants revenue during 2000-01 included a new item of \$0.400m under the Roads to Recovery program with a further \$0.420m received during 2001-02.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased from \$0.397m in 1997-98 to \$0.186m in 2001-02. The decrease is attributable to regular repayments of loan borrowings and has resulted in a reduction in the balance of loans outstanding.

During 2001-02 Other operating expenses increased by \$0.920m. A major factor in the increase related to earthworks undertaken as part of the Woolnorth Road upgrade being expensed. Council has adopted a policy of expensing all earthworks relating to road construction.

Council has recorded positive results from ordinary activities in the past five years. Significant surpluses were recorded in 1999-00, \$3.511m, when the investment in Cradle Coast Water was recognised, and in 2001-02, \$3.240m, with the recognition of a \$2.750m contribution for the upgrade in the Woolnorth Road.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 596	812	(17)	170	370
Receivables	576	735	795	711	732
Investments	0	1 100	900	1 328	2 151
Inventories	15	24	34	65	131
Other	214	270	417	208	423
Total Current Assets	2 401	2 941	2 129	2 482	3 807
Property, plant & equipment	54 702	55 631	57 612	57 826	59 255
Investments	0	0	3 711	3 711	3 711
Other	914	753	619	581	373
Total Non-Current Assets	55 616	56 384	61 942	62 118	63 339
Payables	323	589	457	862	599
Borrowings	423	410	409	428	455
Provisions	297	329	356	396	431
Other	199	191	123	107	86
Total Current Liabilities	1 242	1 519	1 345	1 793	1 571
Borrowings	2 857	2 429	2 046	1 618	1 161
Provisions	69	62	58	62	47
Other	44	0	0	0	0
Total Non-Current Liabilities	2 970	2 491	2 104	1 680	1 208
Net Assets	53 805	55 315	60 622	61 127	64 367
Reserves	2 490	2 647	4 442	4 442	4 442
Retained surpluses	51 315	52 668	56 180	56 685	59 925
Total Equity	53 805	55 315	60 622	61 127	64 367

Comment

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.

Investments consist of short-term bank bills capable of ready conversion to cash. The 2001-02 investment balance increased by \$0.823m and is commented on in the Cash Position section.

Over the first four years of the period under review Council revalued all classes of assets at specified intervals. Revaluation increments were credited to an asset revaluation reserve. The revaluations have resulted in increase in 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 Australian Accounting Standard AASB 1041 "Revaluation of Non Current Assets"

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

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

Payables for 2000-01 increased by \$0.405m over that of the prior year and included several large capital creditors for work performed on the Smithton Recreation Centre.

Borrowings have decreased from \$3.280m in 1997-98 to \$1.616m in 2001-02 due to Council seeking to reduce its debt.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 292	7 886	7 783	8 744	12 328
Payments to suppliers and employees	(6 040)	(6 757)	(8 083)	(7 507)	(9 752)
Interest received	110	158	124	158	156
Borrowing costs	(404)	(353)	(292)	(248)	(199)
Cash from operations	958	934	(468)	1 147	2 533
Payments for P, P & Equipment	(2 052)	(2 517)	(2 541)	(2 650)	(3 948)
Proceeds from sale of P, P & E	676	697	328	178	279
Cash used in investing activities	(1 376)	(1 820)	(2 213)	(2 472)	(3 669)
Proceeds from borrowings	0	0	15	0	0
Repayment of borrowings	(456)	(440)	(399)	(406)	(430)
Cash from financing activities	(456)	(440)	(384)	(406)	(430)
Cash Flows from Government	1 667	1 641	2 037	2 346	2 589
Net increase in cash	793	315	(1 028)	615	1 023
Cash at the beginning of the period	803	1 596	1 911	883	1 498
Cash at end of the period	1 596	1 911	883	1 498	2 521

Comment

Receipts from customers remained fairly stable for the first three years under review. An increase of \$0.961m was recorded for 2000-01 and comprised \$0.439m from general rate receipts and \$0.522m from other receipts including reimbursements, user

charges and GST recovered from the Australian Taxation Office. The balance increased by \$3.584m in 2001-02 due to the contributions for the Woolnorth Road sealing, \$2.750m, and a general increase in rates and user charges.

Payments to suppliers and employees increased by \$1.326m during 1999-00 due to increases in materials and contracts, \$0.692m, employee costs, \$0.244m, and other expenses, \$0.390m, over the previous year. There was a further increase in 2001-02, \$2.245m, due to an increase of \$0.902m in material and contract expenses, an increase of \$0.719m in the outflows relating to other expenses, and the impact of a \$0.234m reduction in the payables balance.

Payments for property, plant and equipment amount to \$13.708m for the five-year period under review. The major items included in this amount are transport infrastructure additions of \$7.881m and plant and equipment additions.

Cash flows from Government have increased over the last three financial years. Various Natural Heritage Trust funding grants were received during the 1999-00 year and 2000-01. The 2000-01, \$0.400m, and 2001-02, \$0.420m, financial periods include Roads to Recovery funding.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		407	(81)	(125)	728	3 429
Operating margin	>1.0	1.05	0.99	0.99	1.07	1.32
Financial Management						
Current ratio	>1	1.93	1.94	1.58	1.38	2.42
Cost of debt	7.5%	12.1%	12.0%	11.4%	11.5%	11.5%
Debt collection	30 days	29	36	39	34	34
Creditor turnover	30 days	19	29	21	40	22
Other information						
Staff numbers FTEs		44	44	48	47	47
Average staff costs (\$'000s)		44	45	46	48	48

Comment

The financial performance ratios show that Council has recorded positive results from operating activities in the 1997-98, 2000-01 and 2001-02 years and small losses in the remaining two years. The total result from operating activities for the period under review amounts to \$4.358m. The operating margin has remained largely consistent with benchmark for all five 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 average has ranged between 12.1% in 1997-98 to 11.5% for 2001-02. This reflects long-term borrowings at a fixed interest rate. Minimal new borrowings have been taken out in the last five years.

The debt collection ratio has been slightly above the benchmark of 30 days for the last four years. Council has policies in place to pursue all outstanding debts on a timely basis.

The creditor turnover figure has been below the benchmark in four of the years under review. The ratio for 2000-01, 40 days, resulted from the payables including a significant amount for the Smithton Recreation Centre, which related to capital expenditure.

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 \$9.037m.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

During testing of depreciation charges it was noted that Council does not depreciate unsealed road assets whilst our review indicates a useful life in the range of 40-100 years. This accounting treatment is not in accordance with Australian Accounting Standards Board's Urgent Issues Group determination UIG 30 "Depreciation of Long Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Matters".

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.

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 13 500 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The signed financial statements of Huon Valley Council were received on 17 September 2002, with a further signed copy being received on 25 September 2002 after some amendments were made. An unqualified audit report was issued on 6 November 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	6 816	7 010	7 112	7 269	7 767
Grants	3 756	2 967	3 650	3 857	4 346
Other operating revenue	1 375	1 363	1 495	1 570	2 066
Non-operating revenue	11	(7)	109	(14)	(31)
Total Revenue	11 958	11 333	12 366	12 682	14 148
Borrowing costs	522	476	473	403	298
Depreciation	2 337	2 365	2 405	2 595	2 619
Other operating expenses	7 788	8 347	8 241	8 221	9 212
Non-operating expenses	0	0	0	27 771	0
Total Expenses	10 647	11 188	11 119	38 990	12 129
Result from Ordinary Activities	1 311	145	1 247	(26 308)	2 019

Comment

Rates, fees and charges revenue for 2001-02 increased by \$0.498m due to a 3% increase in rates and a general increase in a selection of charges. This included a rise in activity for building and planning fees, septic tank charges and community services income.

Grant revenue increased due to additional grant funding for Roads to Recovery, \$0.234m, and funding obtained for the Geeveston Township Road Works, \$0.300m.

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.

Other operating expenses have increased due to an increase in employee costs, \$0.318m, and a rise in Materials and contracts expenditure, \$0.652m. This increase relates to associated costs for the maintenance of infrastructure assets, including the Council's road network.

Other Non-operating expenses for the 2000-01 year include a major asset write-down of the councils' road asset network, \$27.771m. This was a result of the road revaluation report that was commissioned by the Audit Office.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	486	492	3 263	4 444	5 919
Receivables	837	994	1 007	883	759
Investments	2 107	1 813	0	0	0
Inventories	31	5	17	7	5
Other	50	64	0	0	110
Total Current Assets	3 511	3 368	4 287	5 334	6 793
Property, plant & equipment	103 815	103 368	103 642	75 405	75 906
Total Non-Current Assets	103 815	103 368	103 642	75 405	75 906
Payables	438	411	872	580	938
Borrowings	561	555	579	584	558
Provisions	398	434	471	414	428
Total Current Liabilities	1 397	1 400	1 922	1 578	1 924
Borrowings	4 698	3 954	3 381	2 796	1 843
Provisions	103	112	108	153	195
Total Non-Current Liabilities	4 801	4 066	3 489	2 949	2 038
Net Assets	101 128	101 270	102 518	76 212	78 737
Reserves	2 140	2 357	2 953	4 365	5 795
Retained surpluses	98 987	98 914	99 565	71 846	72 942
Total Equity	101 127	101 271	102 518	76 211	78 737

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 that year.

In the 2001-02 financial year, the cash balance increased as a result of capital expenditure not being carried out before year-end on council's infrastructure assets, with \$1.200m being placed in a short-term investment.

The decrease in the Property, plant and equipment value in 2000-01 was due to the road network 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 \$27.771m and also impacted upon Retained surpluses in that year.

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

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 073	8 061	8 424	8 709	9 490
Payments to suppliers and employees	(7 649)	(8 295)	(7 683)	(10 034)	(8 897)
Interest received	143	155	171	255	230
Borrowing costs	(557)	(499)	(484)	(415)	(307)
Cash from operations	10	(578)	428	(1 485)	516
Payments for P, P & Equipment	(3 808)	(2 035)	(3 172)	(985)	(2 872)
Proceeds from sale of P, P & E	166	109	603	373	229
Cash used in investing activities	(3 642)	(1 926)	(2 569)	(612)	(2 643)
Proceeds from borrowings	400	0	0	0	0
Repayment of borrowings	(606)	(750)	(550)	(579)	(743)
Cash from financing activities	(206)	(750)	(550)	(579)	(743)
Cash Flows from Government	3 892	2 967	3 650	3 857	4 346
Net increase in cash	54	(287)	959	1 181	1 476
Cash at the beginning of the period	2 541	2 593	2 305	3 263	4 444
Cash at end of the period	2 595	2 306	3 264	4 444	5 920

Comment

The increase in the Receipts from customers for 2001-02 is a result of an increase in rates charged and received, an increase in other charges levied by council and a stringent enforcement of debt collection.

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 in this segment of the Report.

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 result for the 2001-02 year was more in line with the normal capital expenditure of council.

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

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		1 300	152	1 138	1 477	2 050
Operating margin	>1.0	1.12	1.01	1.10	1.13	1.17
Financial Management						
Current ratio	>1	2.51	2.41	2.23	3.38	3.76
Cost of debt	7.5%	9.9%	10.6%	11.9%	11.9%	12.4%
Debt collection	30 days	36	43	44	36	29
Creditor turnover	30 days	21	18	39	29	31
Other information						
Staff numbers FTEs		78	80	80	92	98
Average staff costs (\$'000s)		43	44	44	41	42

Comment

Council has obtained a high result from operations in four of the five years under review and consequently has had an operating margin consistently over the benchmark of one.

The cost of debt ratio is high, as council is locked into 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.

2.4 KINGBOROUGH COUNCIL

INTRODUCTION

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

The population serviced by the Kingborough Council is of the order of 30 000.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The Kingborough Council financial statements were received on 20 September 2002 and an unqualified financial report was issued on 29 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	14 842	15 211	16 029	16 728	17 350
Grants	2 447	2 432	3 132	3 405	3 525
Other operating revenue	1 632	1 864	1 830	2 231	2 091
Non-operating revenue	2 142	14 560	1 633	1 936	2 694
Total Revenue	21 063	34 067	22 624	24 300	25 660
Borrowing costs	346	278	224	180	145
Depreciation	5 714	5 695	6 132	5 449	5 757
Other operating expenses	13 161	14 084	14 912	15 772	16 744
Non-operating expenses	87	116	412	1 153	693
Total Expenses	19 308	20 173	21 680	22 554	23 339
Result from Ordinary Activities	1 755	13 894	944	1 746	2 321

Comment

Total operating revenue has increased from \$18.921m in 1997-98 to \$22.966m in 2001-02. Over the same period, rates income has increased from \$13.566m to \$15.740m as a result of both modest rate increases and development within the municipality.

Non-operating revenue in each of the years includes the value of sub-division infrastructure assets taken over by Council and in 1997-98 amounted to \$2.016m; 1998-99, \$2.914m; 1999-00, \$1.135m; 2000-01, \$1.311m and 2001-02, \$1.388m. 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

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(134)	(835)	94	287	(381)
Receivables	276	600	882	1 162	909
Investments	7 824	7 922	6 754	6 448	7 223
Inventories	141	141	161	106	89
Other	33	101	74	38	54
Total Current Assets	8 140	7 929	7 965	8 041	7 894
Property, plant & equipment	156 310	157 429	155 952	215 502	221 228
Investments	0	11 460	11 460	11 460	11 460
Other	208	120	40	28	20
Total Non-Current Assets	156 518	169 009	167 452	226 990	232 708
Payables	398	0	1 449	1 136	1 171
Borrowings	522	405	384	312	290
Provisions	778	846	790	954	1 051
Other	960	1 356	533	760	828
Total Current Liabilities	2 658	2 607	3 156	3 162	3 340
Borrowings	2 255	1 851	1 467	1 155	865
Provisions	197	179	153	117	229
Other	125	62	0	0	0
Total Non-Current Liabilities	2 577	2 092	1 620	1 272	1 094
Net Assets	159 423	172 239	170 641	230 597	236 168
Capital	137 187	151 315	152 867	154 464	157 044
Reserves	20 776	19 720	14 971	73 607	77 158
Retained surpluses	1 460	1 204	2 803	2 526	1 966
Total Equity	159 423	172 239	170 641	230 597	236 168

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 \$58.210m, which is reflected in the asset revaluation reserve. Significant increases were road pavements \$45.685m and land and buildings \$13.914m offset by a decrease of \$1.985m in water services.

In line with its policy of annually revaluing infrastructure assets taking into consideration movements in construction costs using an independently published Tender Price Index, revaluations undertaken during 2001-02 resulted in further increments to the revaluation reserve totalling \$3.250m, with a corresponding increase in Property, plant and equipment. Principal increments related to road pavements, \$1.608m, and stormwater drainage assets, \$0.720m. These annual indexed revaluations are undertaken between periods of full revaluations.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	16 095	16 389	17 292	18 343	19 366
Payments to suppliers and employees	(12 582)	(14 082)	(14 370)	(15 649)	(16 395)
Interest received	517	496	384	496	410
Borrowing costs	(365)	(289)	(234)	(190)	(151)
Cash from operations	3 665	2 514	3 072	3 000	3 230
Payments for P, P & Equipment	(4 903)	(5 625)	(6 474)	(6 647)	(6 953)
Proceeds from sale of P, P & E	607	564	418	502	608
Cash used in investing activities	(4 296)	(5 061)	(6 056)	(6 145)	(6 345)
Repayment of borrowings	(654)	(497)	(387)	(372)	(303)
Cash from financing activities	(654)	(497)	(387)	(372)	(303)
Cash Flows from Government	2 452	2 441	3 131	3 405	3 525
Net increase in cash	1 167	(603)	(240)	(112)	107
Cash at the beginning of the period	6 523	7 690	7 087	6 847	6 735
Cash at end of the period	7 690	7 087	6 847	6 735	6 842

Comment

Over the five-year period Kingborough Council has invested almost \$30.602m in property, plant and equipment including infrastructure. The source of this funding was cash from operations of \$15.481m and government grants of \$14.954m. Over the same period Council has reduced debt by \$2.213m. Council borrowings now stand at \$1.155m.

It is significant that Kingborough Council has been able to re-invest the funds generated from funding depreciation (\$28.747m over five years), while at the same time maintaining strong cash reserves at an average year end balance of \$7.040m over the same period.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(300)	(550)	(277)	963	320
Operating margin	>1.0	0.98	0.97	0.99	1.04	1.01
Financial Management						
Current ratio	>1	3.06	3.04	2.52	2.54	2.36
Cost of debt	7.5%	12.5%	12.3%	12.1%	12.3%	12.6%
Debt collection	30 days	7	14	20	25	19
Creditor turnover	30 days	13	1	32	28	25
Other information						
Staff numbers FTEs		131	137	141	151	162
Average staff costs (\$'000s)		40	39	40	42	40

Comment

The Result from operations over the five-year period (i.e. operating revenue less operating expenses) shows a small surplus of \$0.156m over the period of review compared with the result from ordinary activities, including non-operating revenues and expenses, totalling \$20.660m.

Cost of debt is indicative of interest rates prevailing at the time the funds were borrowed.

The sustained growth in the municipality in recent years has given rise to the necessity for an increased staffing level.

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.

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 Parramatta 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 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 18 September 2002, with amended statements received on 27 September 2002. An unqualified audit report was issued on 22 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	7 743	7 952	8 286	8 824	9 033
Grants	2 135	2 215	3 525	3 430	4 471
Other operating revenue	534	473	491	814	640
Non-operating revenue	11 409	136	843	1 232	243
Total Revenue	21 821	10 776	13 145	14 300	14 387
Borrowing costs	132	91	68	70	0
Depreciation	3 668	3 127	3 150	3 221	3 353
Other operating expenses	7 246	7 279	7 607	8 418	8 906
Non-operating expenses	353	76	0	0	407
Total Expenses	11 399	10 573	10 825	11 709	12 666
Result from Ordinary Activities	10 422	203	2 320	2 591	1 721

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, \$1.310m, is due primarily to Natural Heritage Trust (NHT) funding for water, sewerage and environmental protection. The increase in grant revenue from 2000-01 to 2001-02, \$1.041m, is mainly attributable to the receipt of \$0.444m under the Tasmanian

Community Development Fund and Regional Forest Agreement for the Great Western Tiers Visitor Information Centre, and increased funding under the Federal Roads to Recovery Programme.

Non-operating revenue in 1997-98, \$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. During 2000-01 an adjustment to the carrying value of council's share of Esk Water was made, and represents Council's increased share of the Authority resulting from increased water consumption.

Depreciation expense has remained fairly stable over the past five years. No borrowing costs were incurred in 2001-02 as Council repaid the balance of borrowings outstanding during 2000-01.

Council has recorded profits from ordinary activities in the past five years. The profit of \$10.422m in 1997-98 is due principally to the recognition of Council's interest in Esk Water.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 359	3 817	5 516	528	607
Receivables	785	654	753	990	931
Investments	15	0	0	4 000	5 554
Inventories	35	34	38	43	33
Other	50	0	83	61	100
Total Current Assets	3 244	4 505	6 390	5 622	7 225
Property, plant & equipment	83 939	104 947	105 358	107 359	108 204
Investments	10 864	10 864	10 864	11 462	11 462
Other	0	0	84	56	28
Total Non-Current Assets	94 803	115 811	116 306	118 877	119 694
Payables	356	351	656	499	1 053
Borrowings	261	144	135	0	0
Provisions	561	444	516	552	538
Total Current Liabilities	1 178	939	1 307	1 051	1 591
Borrowings	818	674	539	0	0
Provisions	126	92	56	63	84
Total Non-Current Liabilities	944	766	595	63	84
Net Assets	95 925	118 611	120 794	123 385	125 244
Reserves	1 033	23 515	23 378	23 378	23 516
Retained surpluses	94 892	95 096	97 416	100 007	101 728
Total Equity	95 925	118 611	120 794	123 385	125 244

Comment

During 2000-01 Council transferred surplus funds into a cash management account now recorded as an investment.

The increase in the balance of Property, plant and equipment in 1998-99, \$21.008m, is due primarily 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, \$10.864m. It is noted that 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.

The increase in Payables from 2000-01 to 2001-02, \$0.554m, is due mainly to outstanding invoices for capital works, such as the Great Western Tiers Visitor Information Centre.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 923	8 327	8 355	9 710	10 119
Payments to suppliers and employees	(7 100)	(7 436)	(7 288)	(9 247)	(8 966)
Interest received	235	230	268	456	311
Borrowing costs	(149)	(90)	(50)	(89)	0
Cash from operations	909	1 031	1 285	830	1 464
Proceeds from investments	0	15	0	0	0
Payments for investments	(15)	0	0	(4 000)	(1 554)
Payments for P, P & Equipment	(1 705)	(1 882)	(3 357)	(4 806)	(4 433)
Proceeds from sale of P, P & E	205	339	391	232	132
Cash used in investing activities	(1 515)	(1 528)	(2 966)	(8 574)	(5 855)
Repayment of borrowings	(429)	(260)	(145)	(674)	0
Cash from financing activities	(429)	(260)	(145)	(674)	0
Cash Flows from Government	2 135	2 215	3 525	3 430	4 470
Net increase in cash	1 100	1 458	1 699	(4 988)	79
Cash at the beginning of the period	1 259	2 359	3 817	5 516	528
	2 359	3 817	5 516	528	607

Comment

Interest receipts 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.

Council repaid outstanding loan balances during 2000-01. Therefore, there were no borrowing costs paid or loan repayments made during 2001-02.

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 Hadsphen/Carrick waste water treatment plant and the Deloraine water treatment project.

FINANCIAL ANALYSIS

	Bench	1997-98	1998-99	1999-00	2000-01	2001-02
	Mark					
Financial Performance						
Result from operations (\$'000s)		(634)	143	1 477	1 359	1 885
Operating margin	>1.0	0.94	1.01	1.14	1.12	1.15
Financial Management						
Current ratio	>1	2.75	4.80	4.89	5.35	4.54
Cost of debt	7.5%	12.2%	11.1%	10.1%	-	-
Debt collection	30 days	25	19	21	23	24
Creditor turnover	30 days	11	14	22	14	33
Other information						
Staff numbers FTEs		66	55	58	58	59
Average staff costs (\$'000s)		42	48	41	44	43

Comment

The financial performance ratios show that Council has recorded operating surpluses in the last four years. The total result from operations for the period under review is \$4.230m.

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

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

The debt collection ratio has been consistently below the benchmark of 30 days. The creditor turnover figure was more than 30 days in 2001-02 (33 days) due to a number of large invoices outstanding at 30 June 2002 for capital works, such as the Great Western Tiers Visitor Information Centre.

The average staff costs are relatively stable for the five years under review, except for 1998-99 when the calculated average cost is \$0.048m. The calculation is affected by redundancy costs paid during that year, \$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 \$4.230m.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

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 2001-02 FINANCIAL STATEMENTS

The financial statements of the Waratah-Wynyard council were received on 18 September 2002 and an unqualified audit report was issued on 30 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	8 013	8 151	8 206	8 467	8 525
Grants	1 932	1 971	2 003	2 458	2 883
Other operating revenue	345	441	467	620	580
Non-operating revenue	2 340	941	5 344	234	431
Total Revenue	12 630	11 504	16 020	11 779	12 419
Borrowing costs	466	352	331	324	279
Depreciation	2 238	2 279	2 311	3 088	2 410
Other operating expenses	7 971	7 562	8 113	8 515	8 863
Non-operating expenses	807	706	1 014	433	805
Total Expenses	11 482	10 899	11 769	12 360	12 357
Result from Ordinary Activities	1 148	605	4 251	(581)	62

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. The impact of the reassessment was to increase the annual depreciation expense by \$0.599m. This change principally accounted for the negative Result from Ordinary Activities for the year. During 2001-02, and following a state-wide review of road accounting practices by the Tasmanian Audit Office in conjunction with all Councils, Waratah-Wynyard Council further reviewed its road accounting values and policies, including accounting for components of roads, to better reflect the useful lives of the various components. While the review had a negligible impact on the net carrying values (ie: written down value) of the road assets, it did reduce depreciation expense from that of the prior year by \$0.760 due to a combination of a reduction in gross value and an increase in useful lives of the various components from a range of 7 to 65 years to a range of 10 to 150 years which impacted on the accumulated depreciation.

Throughout the period under review, and assisted by the recognition of new assets referred to above, Council has returned a positive Result from Ordinary Activities of \$5.845m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	782	966	867	851	221
Receivables	433	428	329	558	597
Investments	1 500	2 000	2 047	2 500	3 000
Inventories	169	278	296	254	223
Other	239	91	114	97	65
Total Current Assets	3 123	3 763	3 653	4 260	4 106
Property, plant & equipment	70 735	70 415	71 878	70 675	70 814
Investments	0	0	4 564	4 564	4 564
Other	30	263	220	84	43
Total Non-Current Assets	70 765	70 678	76 662	75 323	75 421
Payables	284	306	492	551	640
Borrowings	706	689	725	736	715
Provisions	611	656	762	874	922
Other	136	158	163	117	148
Total Current Liabilities	1 737	1 809	2 142	2 278	2 425
Borrowings	4 791	4 598	4 272	4 033	3 815
Provisions	160	98	134	127	120
Other	0	97	81	41	0
Total Non-Current Liabilities	4 951	4 793	4 487	4 201	3 935
Net Assets	67 200	67 839	73 686	73 104	73 167
Reserves	8 012	7 787	9 382	9 382	9 382
Retained surpluses	59 188	60 052	64 304	63 722	63 785
Total Equity	67 200	67 839	73 686	73 104	73 167

Comment

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 AASB 1041 '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.

During 2001-02, having refined its identification and measurement policies with relation to roads and their related components, Council returned to measuring this asset class on a valuation basis in accordance with the revised accounting standard

which became applicable during the year. The impact of the standard's application, coupled with the valuation and asset lives criteria adopted had a negligible impact on the carrying value of the road assets.

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

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 059	8 448	8 485	9 092	9 589
Payments to suppliers and employees	(7 931)	(7 609)	(7 734)	(8 849)	(9 368)
Interest received	180	175	232	268	209
Borrowing costs	(404)	(400)	(338)	(327)	(281)
Cash from operations	(96)	614	645	184	149
Payments for investments	0	(500)	(46)	(453)	(500)
Payments for P, P & Equipment	(2 349)	(2 299)	(2 810)	(2 211)	(3 354)
Proceeds from sale of P, P & E	707	608	399	234	431
Cash used in investing activities	(1 642)	(2 191)	(2 457)	(2 430)	(3 423)
Proceeds from borrowings	361	500	400	500	500
Repayment of borrowings	(674)	(710)	(690)	(728)	(739)
Cash from financing activities	(313)	(210)	(290)	(228)	(239)
Cash Flows from Government	1 933	1 971	2 003	2 458	2 883
Net increase in cash	(118)	184	(99)	(16)	(630)
Cash at the beginning of the period	900	782	966	867	851
Cash at end of the period	782	966	867	851	221

Comment

While Council maintained a positive cash flow from operations, major factors in the 2000-01 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. The subsequent increase during 2001-02 is not due to any individually significant item.

Council has maintained its investment in property, plant and equipment throughout the period reinvesting a total of \$13.023m in non-current assets compared with the depreciation expense for the same period totalling \$12.326m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(385)	370	(79)	(382)	436
Operating margin	>1.0	0.96	1.04	0.99	0.97	1.04
Financial Management						
Current ratio	>1	1.80	2.08	1.71	1.87	1.69
Cost of debt	7.5%	8.5%	6.7%	6.6%	6.8%	6.2%
Debt collection	30 days	20	19	15	24	26
Creditor turnover	30 days	27	30	27	32	30
Other information						
Staff numbers FTEs		77	74	74	71	71
Average staff costs (\$'000s)		41	40	44	46	47

Comment

Although Council has maintained a positive cash flow from activities (the decrease in 2001-02 due principally to increased expenditure on assets), its result from operations, i.e. operating revenue less operating expenditure, has virtually broken even 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 \$0.271m to \$1.042m 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.

OVERALL COMMENT

Council has increased its total equity over the 5-year period by \$13.424m to \$73.167m 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, \$6.372m.

Over the same period it has increased its cash investments by \$1.500m, reduced debt by \$1.280m while registering an overall increase in rates fees and charges of 4.9%.

2.7 WEST TAMAR COUNCIL

INTRODUCTION

West Tamar Council was created in 1993 and was formerly the Municipality of Beaconsfield, 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 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 5 September 2002, with amended statements received on 17 September 2002. An unqualified audit report was issued on 7 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	9 009	9 266	10 050	10 630	10 836
Grants	2 281	1 870	1 631	3 011	2 012
Other operating revenue	450	796	710	743	756
Non-operating revenue	41 748	2 529	366	1 459	466
Total Revenue	53 488	14 461	12 757	15 843	14 070
Borrowing costs	270	240	232	224	215
Depreciation	3 037	3 119	3 188	3 255	3 201
Other operating expenses	9 138	8 121	8 825	9 047	9 555
Non-operating expenses	169	176	436	539	136
Total Expenses	12 614	11 656	12 681	13 065	13 107
Result from Ordinary Activities	40 874	2 805	76	2 778	963

Comment

Revenue from Rates, fees and charges has gradually increased from \$9.009m in 1997-98 to \$10.836m in 2001-02. The increase in grant revenue in 2000-01 (total \$3.011m) is mainly attributable to the receipt of funding of \$1.083m under the Roads to Recovery Programme.

Non-operating revenue in 1997-98, \$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 Rivers and Water Supply Commission.

Council has recorded surpluses from ordinary activities in all five years under review, totalling \$47.496m that includes net non-operating revenue of \$45.112m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 261	2 096	4 202	5 829	5 777
Receivables	1 190	1 340	1 347	1 184	909
Inventories	120	130	108	110	126
Other	14	1 471	59	306	209
Total Current Assets	2 585	5 037	5 716	7 429	7 021
Property, plant & equipment	90 874	91 371	91 055	91 241	92 324
Investments	12 889	12 889	12 889	13 822	13 822
Other	0	66	61	53	44
Total Non-Current Assets	103 763	104 326	104 005	105 116	106 190
Payables	456	453	511	698	688
Borrowings	423	583	741	759	809
Provisions	459	403	543	572	655
Other	92	84	76	70	52
Total Current Liabilities	1 430	1 523	1 871	2 099	2 204
Borrowings	3 417	3 459	3 406	3 235	2 827
Provisions	119	194	181	169	175
Total Non-Current Liabilities	3 536	3 653	3 587	3 404	3 002
Net Assets	101 382	104 187	104 263	107 042	108 005
Reserves	58 909	58 909	58 909	58 909	58 909
Retained surpluses	42 473	45 278	45 354	48 133	49 096
Total Equity	101 382	104 187	104 263	107 042	108 005

Comment

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 \$12.889m. 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

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	9 028	9 641	11 872	11 768	12 179
Payments to suppliers and employees	(9 455)	(8 121)	(8 616)	(9 653)	(10 111)
Interest received	169	169	289	346	370
Borrowing costs	(270)	(240)	(232)	(224)	(215)
Cash from operations	(528)	1 449	3 313	2 237	2 223
Proceeds from investments	1 369	0	134	1 873	0
Payments for investments	0	(1 007)	(2 105)	(1 627)	(746)
Payments for P, P & Equipment	(3 073)	(2 397)	(2 920)	(3 602)	(4 204)
Proceeds from sale of P, P & E	20	127	409	238	271
Cash used in investing activities	(1 684)	(3 277)	(4 482)	(3 118)	(4 679)
Proceeds from borrowings	400	300	300	500	400
Repayment of borrowings	(357)	(513)	(628)	(757)	(754)
Cash from financing activities	43	(213)	(328)	(257)	(354)
Cash Flows from Government	2 281	1 870	1 631	3 011	2 012
Net increase in cash	112	(171)	134	1 873	(798)
Cash at the beginning of the period	60	172	1	135	2 008
	172	1	135	2 008	1 210

Comment

The net increase in cash achieved in 2000-01 of \$1.873m was primarily due to increased government funding. Cash flows from government amounted to \$3.011m, of which \$1.083m related to Roads to Recovery funding.

FINANCIAL ANALYSIS

	Bench	1997-98	1998-99	1999-00	2000-01	2001-02
	Mark					
Financial Performance						
Result from operations (\$'000s)		(705)	452	146	1 858	633
Operating margin	>1.0	0.94	1.04	1.01	1.15	1.05
Financial Management						
Current ratio	>1	1.81	3.31	3.06	3.54	3.19
Cost of debt	7.5%	7.0%	5.9%	5.6%	5.6%	5.9%
Debt collection	30 days	48	53	49	41	31
Creditor turnover	30 days	15	20	16	27	20
Other information						
Staff numbers FTEs		74	75	76	79	80
Average staff costs (\$'000s)	⁷⁸	44	41	44	43	46

Comment

The financial performance ratios show that Council has recorded operating surpluses in the last four years. The total result from operations for the period under review is \$2.384m.

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 has been below the benchmark of 30 days for the entire period under review.

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 \$2.384m.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

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 \$4.250m and less than \$7.250m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Brighton	Derwent Valley	Dorset	George Town	Latrobe	Northern Midlands	Sorell	West Coast
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	7 157	5 877	4 547	5 683	5 752	6 312	6 736	5 291
Grants	2 061	2 038	3 189	1 618	1 028	4 202	2 308	3 933
Other operating revenue	336	416	261	210	402	1 209	398	252
Non-operating revenue	670	190	192	0	134	0	410	137
Total Revenue	10 224	8 521	8 189	7 511	7 316	11 723	9 852	9 613
Borrowing Costs	460	234	30	467	91	0	269	175
Depreciation	1 775	1 703	2 758	1 419	1 585	3 205	2 062	1 439
Other operating expenses	7 779	6 113	5 113	5 317	5 262	7 702	6 989	7 066
Non-operating expenses	31	0	183	10	365	551	291	154
Total Expenses	10 045	8 050	8 084	7 213	7 303	11 458	9 611	8 834
Result from Ordinary Activities	179	471	105	298	13	265	241	779

Comment

Revenue from Rates, fees and charges ranged from \$4.547m (Dorset Council) to \$7.157m (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 2001-02.

Government grants and subsidies represent 29% of total operating revenue recorded by the eight councils. Three of the councils derive over 35% of their operating revenue from government sources, with West Coast Council recording the highest proportion with 41%.

On average, borrowing costs represented 2.5% of total operating expenditure for 2001-02. Northern Midlands had the lowest proportion (0%), which reflects the fact that the Council repaid its outstanding borrowings during 1999-00. George Town Council recorded the highest proportion with 6.5%. 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 23% of total operating expenditure. While the percentages for large councils were fairly consistent, the percentages for medium councils ranged from 16.6% (West Coast Council) to 34.9% (Dorset Council).

All eight councils recorded surpluses from Ordinary Activities, with the largest surplus being recorded by West Coast Council, \$0.779m. This surplus is attributable to the receipt of \$0.900m in relation to the upgrade of the Strahan Sewerage Scheme.

FINANCIAL POSITION

	Brighton	Derwent Valley	Dorset	George Town	Latrobe	Northern Midlands	Sorell	West Coast
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	693	66	9	1 034	841	264	16	983
Receivables	957	470	561	1 107	223	647	739	1 365
Investments	0	1 000	4 200	0	1 046	12 127	3 052	1 304
Inventories	177	66	107	0	5	32	0	16
Other	95	84	99	57	72	32	150	37
Total Current Assets	1 922	1 686	4 976	2 198	2 187	13 102	3 957	3 705
Property, Plant And Equipment	68 596	37 571	70 468	32 979	45 557	137 392	45 035	45 617
Investments	6 873	5 308	0	8 485	3 278	0	2 978	0
Other	104	75	62	781	0	64	433	0
Total Non-Current Assets	75 573	42 954	70 530	42 245	48 835	137 456	48 446	45 617
Payables	71	209	256	1 003	405	585	465	569
Borrowings	446	410	129	1 086	175	0	518	390
Provisions	376	702	461	303	302	520	672	471
Other	631	310	247	14	87	147	442	22
Total Current Liabilities	1 524	1 631	1 093	2 406	969	1 252	2 097	1 452
Borrowings	5 728	2 824	709	4 163	1 342	0	2 556	2 813
Provisions	89	52	60	44	34	92	67	72
Other	0	0	0	65	475	0	0	0
Total Non-Current Liabilities	5 817	2 876	769	4 272	1 851	92	2 623	2 885
Net Assets	70 154	40 133	73 644	37 765	48 202	149 214	47 683	44 985
Reserves	16 353	20 395	618	1 683	8 880	40 174	8 885	3 701
Retained Surpluses	53 801	19 738	73 026	36 082	39 322	109 040	38 798	41 284
Total Equity	70 154	40 133	73 644	37 765	48 202	149 214	47 683	44 985

Comment

Seven of the eight councils had positive working capital, with George Town Council recording a current ratio of 0.91. The proportion of debt to equity was less than 10% for all councils, except for George Town Council whose borrowings represented 14% of total equity. As noted previously, Council has an offsetting receivable in relation to its largest loan.

The balance of net assets ranged from \$37.765m (George Town Council) to \$149.214m (Northern Midlands Council). The larger asset balance recorded by Northern Midlands reflects the fact that Council is responsible for the longest length of roads in the State.

CASH POSITION

	Brighton \$'000s	Derwent Valley \$'000s	Dorset \$'000s	George Town \$'000s	Latrobe \$'000s	Northern Midlands \$'000s	Sorell \$'000s	West Coast \$'000s
Receipts from customers	8 035	6 210	5 160	6 766	6 455	7 813	7 277	5 563
Payments to suppliers and employees	(8 065)	(6 192)	(5 674)	(5 179)	(5 818)	(7 215)	(7 093)	(7 675)
Interest received	83	125	176	56	120	627	151	94
Borrowing costs	(584)	(240)	(16)	(467)	(91)	0	(269)	(162)
Cash from operations	(531)	(97)	(354)	1 176	666	1 225	66	(2 180)
Proceeds from investments	0	0	0	0	580	0	0	0
Payments for investments	0	(150)	(700)	0	(554)	(1 614)	0	(740)
Payments for P, P & Equipment	(789)	(1 991)	(3 150)	(1 656)	(2 130)	(4 090)	(3 152)	(2 281)
Proceeds from sale of P, P & E	44	734	158	99	134	194	410	119
Cash used in investing activities	(745)	(1 407)	(3 692)	(1 557)	(1 970)	(5 510)	(2 742)	(2 902)
Proceeds from borrowings	0	0	570	0	200	0	538	1 000
Repayment of borrowings	(414)	(385)	(53)	(1 018)	(156)	0	(908)	(422)
Cash from financing activities	(414)	(385)	517	(1 018)	44	0	(370)	578
Cash flows from Government	2 061	2 038	3 189	1 632	1 028	4 222	2 547	3 933
Net increase in cash	371	149	(340)	233	(232)	(63)	(499)	(571)
Cash at the beginning of the period	322	(83)	327	801	1 073	327	3 567	1 554
Cash at end of the period	693	66	(13)	1 034	841	264	3 068	983

Comment

Five of the eight councils had net decreases in cash balances. Four 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)		(460)	281	96	308	244	816	122	796
Operating margin	>1.0	0.95	1.03	1.01	1.04	1.04	1.07	1.01	1.09
Financial Management									
Current ratio	>1	1.26	1.03	4.55	0.91	2.26	10.46	1.89	2.55
Cost of debt	7.5%	7.5%	7.2%	6.2%	8.9%	6.0%	-	6.6%	5.5%
Debt collection	30 days	49	29	45	36	14	34	40	94
Creditor turnover	30 days	5	22	17	57	18	23	50	23
Other information									
Staff numbers		41	63	49	38	46	64	70	78
Average staff costs (\$'000s)		49	42	46	43	36	40	40	44

Comment

On average, the councils had a positive operating margin and seven of the eight councils had a positive working capital at 30 June 2002.

The average cost of debt for the medium councils was 6.8%. In calculating this average, Northern Midlands Council was excluded, as it had no borrowings at 30 June 2002.

The average debt collection period was 43 days, while the average creditor turnover was 27 days. The debt collection period is affected by the high ratio recorded by West Coast Council (94 days). Council is experiencing difficulties in recovering rate debtors, but is taking action to recover outstanding debts.

The average staff cost for medium councils was \$43 000.

OVERALL COMMENT

Overall, the eight councils recorded a surplus from Ordinary Activities with seven councils recording a positive result from operating activities. Seven of the eight councils also had positive working capital.

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 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 11 October 2002, with amended statements received on 30 October 2002. An unqualified audit report was issued on 31 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	6 249	6 527	6 802	7 074	7 157
Grants	1 997	1 874	2 495	1 900	2 061
Other operating revenue	144	282	275	322	336
Non-operating revenue	494	7 929	462	1 914	670
Total Revenue	8 884	16 612	10 034	11 210	10 224
Borrowing costs	522	493	493	491	460
Depreciation	2 212	2 225	2 301	2 006	1 775
Other operating expenses	7 147	6 834	7 515	7 756	7 779
Non-operating expenses	30	145	1 625	113	31
Total Expenses	9 911	9 697	11 934	10 366	10 045
Result from Ordinary Activities	(1 027)	6 915	(1 900)	844	179

Comment

Non-operating revenue generally reflects the disposal proceeds of non-current assets in any given year together with contributions of infrastructure assets by developers. However, in 1998-99 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 asset disposals. 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.

During 2001-02 Council revised its accounting policy to recognise that road pavements (including earthworks) have a residual value estimated to be forty-five percent of the carrying value. Council's Notes to its financial statements identifies that this change in accounting policy had an impact of reducing the annual depreciation charge on roads by \$0.244m in 2001-02. The lower depreciation charge will be maintained into the future.

Over the period, Council recorded a positive increment to its equity base totalling \$5.011m. However, ignoring the impact of Non-operating income and expenditure, Council has recorded an operating deficit for the 5 years of \$4.514m, or an annual average operating deficit of \$0.903m. 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 \$0.874m, principally as a result of a reassessment of useful lives, with a further reduction in 2001-02 to \$0.630m due to Council's change in accounting policy with regard to useful lives.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	391	679	437	322	693
Receivables	792	1 068	1 100	1 082	957
Inventories	0	0	0	190	177
Other	378	218	349	162	95
Total Current Assets	1 561	1 965	1 886	1 756	1 922
Property, plant & equipment	54 765	54 364	58 303	68 963	68 596
Investments	0	6 873	6 873	6 873	6 873
Other	91	136	126	115	104
Total Non-Current Assets	54 856	61 373	65 302	75 951	75 573
Payables	352	157	96	42	71
Borrowings	289	327	386	414	446
Provisions	376	389	340	402	376
Other	767	1 018	753	633	631
Total Current Liabilities	1 784	1 891	1 575	1 491	1 524
Borrowings	6 356	6 278	6 588	6 175	5 728
Provisions	36	23	44	67	89
Other	10	0	0	0	0
Total Non-Current Liabilities	6 402	6 301	6 632	6 242	5 817
Net Assets	48 231	55 146	58 981	69 974	70 154
Reserves	585	485	6 204	16 353	16 353
Retained surpluses	47 646	54 661	52 777	53 621	53 801
Total Equity	48 231	55 146	58 981	69 974	70 154

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.

A further revaluation of road assets was undertaken as at 30 June 2001 that, together with capital works for the year, resulted in a further increase in carrying values of Property, plant and equipment amounting to \$10.660m. A corresponding increment to the asset revaluation reserve totalled \$10.149m.

Total Receivables remain high in comparison to the level of rates, fees and charges levied by Council with rate receivables averaging \$0.574m, or 11.04%, of total rates raised over the 5-year period. At 30 June 2002, rate receivables account for 60.7% of total amounts outstanding.

Total equity has increased over the period by \$21.923m due principally to the recognition in 1998-99 of Council's interest in Hobart Water, \$6.783m, and the impact of asset revaluations referred to above.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 992	6 474	6 696	7 337	8 035
Payments to suppliers and employees	(6 616)	(6 563)	(7 792)	(7 582)	(8 065)
Interest received	88	70	79	68	83
Borrowing costs	(576)	(579)	(581)	(604)	(584)
Cash from operations	(1 112)	(598)	(1 598)	(781)	(531)
Payments for P, P & Equipment	(638)	(1 185)	(1 787)	(836)	(789)
Proceeds from sale of P, P & E	39	238	130	138	44
Cash used in investing activities	(599)	(947)	(1 657)	(698)	(745)
Proceeds from borrowings	0	250	850	0	0
Repayment of borrowings	(413)	(290)	(332)	(536)	(414)
Cash from financing activities	(413)	(40)	518	(536)	(414)
Cash Flows from Government	1 996	1 874	2 495	1 900	2 061
Net increase in cash	(128)	289	(242)	(115)	371
Cash at the beginning of the period	518	390	679	437	322
Cash at end of the period	390	679	437	322	693

Comment

Council has maintained cash balances at an average of \$0.504m over the 5-year period, however during the same period it has not reinvested funds generated by depreciation of Council infrastructure, with \$5.235m invested against \$10.519m depreciation. Over the same period, borrowings were reduced by \$0.885m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(1 491)	(869)	(737)	(957)	(460)
Operating margin	>1.0	0.85	0.91	0.93	0.91	0.95
Financial Management						
Current ratio	>1	0.88	1.04	1.20	1.18	1.26
Cost of debt	7.5%	7.9%	7.5%	7.1%	7.5%	7.5%
Debt collection	30 days	46	60	59	56	49
Creditor turnover	30 days	40	17	6	3	5
Other information						
Staff numbers FTEs		40	41	42	40	41
Average staff costs (\$'000s)		59	51	45	50	49

Comment

Over the last 5 years Council's operating result has shown an accumulated deficit of \$4.514m, which indicates that it has consistently failed to cover operating costs.

I commented earlier in this segment of the Report that 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 \$0.874m, principally as a result of a reassessment of useful lives, with a further reduction in 2001-02 to \$0.630m due to Council's change in accounting policy with regard to useful lives. Had the same depreciation policy been employed for the whole period under review, the annual average deficit from operations would have been in the order of \$0.488m.

Cost of debt reflects market rates.

During that period, total outstanding receivables have remained consistently high and now stand at 49 days representing a marginal reduction over that of the prior year. The major component of receivables is outstanding rates, which accounts for 60.7% of the total amount outstanding.

OVERALL COMMENT

Over the last five years Council has recorded total operating deficits of \$4.514m. Had the depreciation policy referred to above been employed for the whole period under review the total operating deficit would have been in the order of \$2.442m.

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 2001-02 FINANCIAL STATEMENTS

The financial statements of the Derwent Valley Council, signed by the General Manager, were received on 13 September, revised statements were received on 30 October 2002 and an unqualified audit report was issued on 31 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 628	5 751	5 749	5 851	5 877
Grants	1 363	1 344	1 416	2 027	2 038
Other operating revenue	153	241	201	473	416
Non-operating revenue	4 854	177	326	215	190
Total Revenue	11 998	7 513	7 692	8 566	8 521
Borrowing costs	350	287	286	263	234
Depreciation	1 975	1 969	2 069	1 646	1 703
Other operating expenses	5 198	5 424	5 800	6 011	6 113
Non-operating expenses	302	753	271	221	0
Total Expenses	7 825	8 433	8 426	8 141	8 050
Result from Ordinary Activities	4 173	(920)	(734)	425	471

Comment

Revenue from grants had been quite consistent from 1996-97 to 1999-00, however in 2000-01 additional grants were received for the Roads to Recovery Program, \$0.122m, long day child-care, \$0.360m, and \$0.057m for the National Heritage Trust projects. The higher level of grant funding was maintained in 2001-02.

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 amount includes Council's share of the assets in the Hobart Regional Water Authority, \$4.523m.

During 2000-01 there was a significant decrease of \$0.423m in depreciation expense that related 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 the Tasmanian Audit 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

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	196	579	8	(83)	66
Receivables	572	500	532	529	470
Investments	298	400	600	850	1 000
Inventories	108	104	98	84	66
Other	54	52	139	68	84
Total Current Assets	1 228	1 635	1 377	1 448	1 686
Property, plant & equipment	23 914	22 898	22 069	37 716	37 571
Investments	4 523	4 688	5 122	5 412	5 308
Other	170	145	122	100	75
Total Non-Current Assets	28 607	27 731	27 313	43 228	42 954
Payables	279	291	220	244	209
Borrowings	801	338	360	385	410
Provisions	557	675	648	701	702
Other	297	290	466	392	310
Total Current Liabilities	1 934	1 594	1 694	1 722	1 631
Borrowings	3 713	3 979	3 619	3 234	2 824
Provisions	50	62	32	39	52
Other	123	92	61	31	0
Total Non-Current Liabilities	3 886	4 133	3 712	3 304	2 876
Net Assets	24 015	23 639	23 284	39 650	40 133
Reserves	1 521	2 425	3 249	19 480	20 395
Retained surpluses	22 494	21 214	20 035	20 170	19 738
Total Equity	24 015	23 639	23 284	39 650	40 133

Comment

The balance of cash from 1999-00 reflected 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 1999-00 due to increased prepayments, \$0.110m. These prepayments related to insurance premiums in other financial years the payment of which occurred after the end of the financial year.

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

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

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 695	5 925	5 750	6 268	6 210
Payments to suppliers and employees	(4 918)	(5 258)	(5 834)	(6 043)	(6 192)
Interest received	107	104	104	124	125
Borrowing costs	(363)	(314)	(260)	(268)	(240)
Cash from operations	521	457	(240)	81	(97)
Payments for investments	(198)	(102)	(200)	(250)	(150)
Payments for P, P & Equipment	(1 516)	(1 299)	(1 503)	(1 802)	(1 991)
Proceeds from sale of P, P & E	317	177	295	213	734
Cash used in investing activities	(1 397)	(1 224)	(1 408)	(1 839)	(1 407)
Proceeds from borrowings	330	538	0	0	0
Repayment of borrowings	(718)	(736)	(338)	(360)	(385)
Cash from financing activities	(388)	(198)	(338)	(360)	(385)
Cash Flows from Government	1 363	1 347	1 416	2 027	2 038
Net increase in cash	99	382	(570)	(91)	149
Cash at the beginning of the period	97	196	578	8	(83)
Cash at end of the period	196	578	8	(83)	66

Comment

The increase of \$0.500m in the proceeds from the sale of Property, plant and equipment for 2001-02 includes the proceeds of \$0.350m for general plant and equipment sales, with the remainder reflecting the sale of assets in Lachlan River Investments, which was dissolved in June 2002.

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

The steady increase in Payments to suppliers and employees result from wage increases for full time employees, demand for private works and increased maintenance works.

From 1999-00 capital works were funded from internal funds thereby enabling Council to discontinue its borrowings program. 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-year 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, and staff redundancies during that year.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(379)	(344)	(789)	431	281
Operating margin	>1.0	0.95	0.96	0.90	1.05	1.03
Financial Management						
Current ratio	>1	0.63	1.03	0.81	0.84	1.03
Cost of debt	7.5%	7.8%	6.6%	7.2%	7.3%	7.2%
Debt collection	30 days	37	32	34	33	29
Creditor turnover	30 days	34	36	27	27	22
Other information						
Staff numbers FTEs		53	56	53	54	63
Average staff costs (\$'000s)		42	44	52	49	42

Comment

The reversal of the trend for losses from 2000-01 can be attributed to the increases in grant funding and reduced depreciation expense.

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 2001-02 year was completed with no major issues outstanding.

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 kilometers, including the townships of Scottsdale, Branxholm, Bridport and Derby. The Council services a population of approximately 7 450 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2002 and an unqualified audit report was issued on 22 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	3 814	3 835	4 073	4 400	4 547
Grants	1 915	2 014	2 209	2 663	3 189
Other operating revenue	205	221	248	269	261
Non-operating revenue	102	351	408	253	192
Total Revenue	6 036	6 421	6 938	7 585	8 189
Borrowing costs	48	36	17	14	30
Depreciation	2 067	2 107	2 590	2 684	2 758
Other operating expenses	3 875	4 163	4 271	4 416	5 113
Non-operating expenses	123	428	506	297	183
Total Expenses	6 113	6 734	7 384	7 411	8 084
Result from Ordinary Activities	(77)	(313)	(446)	174	105

Comment

Revenue from Rates, fees and charges has increased from \$3.814m in 1997-98 to \$4.547m in 2001-02 representing a total increase of \$0.733m or an average annual increase of approximately 4.5%. Council introduced two-part water pricing during 2001-02 for the Scottsdale and Bridport townships.

Grant funding has been steadily increasing over the last five years. Revenue for 2001-02 includes program funding for Roads to Recovery, \$0.507m, Clean Water Quality, \$0.252m, and Regional Health Services, \$0.191m.

Other operating expenses have increased in 2001-02 by 16% over the previous year. The majority of the increase relates to Community Development and Services, which includes expenses associated with recreational and community facilities, community projects and childcare, youth, aged and disability support services.

Non-operating revenue and expense items generally reflect gains and losses on the disposal of property, plant and equipment. In 1999-00 the expense item included a revaluation decrement of \$0.213m on land and buildings.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	298	11	315	327	9
Receivables	361	378	553	545	561
Investments	3 700	3 600	2 900	3 500	4 200
Inventories	107	119	161	124	107
Other	59	55	46	86	99
Total Current Assets	4 525	4 163	3 975	4 582	4 976
Property, plant & equipment	70 825	70 936	70 360	70 215	70 468
Other	204	175	141	106	62
Total Non-Current Assets	71 029	71 111	70 501	70 321	70 530
Payables	135	158	228	318	256
Borrowings	151	344	186	53	129
Provisions	339	406	384	404	461
Other	254	218	192	224	247
Total Current Liabilities	879	1 126	990	999	1 093
Borrowings	351	187	1	247	709
Provisions	51	38	46	80	60
Other	149	112	74	38	0
Total Non-Current Liabilities	551	337	121	365	769
Net Assets	74 124	73 811	73 365	73 539	73 644
Reserves	618	618	618	618	618
Retained surpluses	73 506	73 193	72 747	72 921	73 026
Total Equity	74 124	73 811	73 365	73 539	73 644

Comment

With the exception of 1998-99 and 2001-02, where bank overdrafts were incurred at 30 June and included in the Current Liability item Borrowings, Council's cash position has been maintained at a level around \$0.300m. The overdrafts are both the result of timing differences relating to outstanding cheques at year end.

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.

Both current and non-current borrowings have increased during 2001-02 as Council took out new loans of \$0.570m during the year. The new loans bring Council's borrowing levels at 30 June 2002 to the highest for the five-year period under review but are still low in comparison to other councils.

The Reserves item represents an asset revaluation reserve, created during 1997-98 following a valuation undertaken by Council officers as at 1 July 1997.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 761	3 824	4 004	4 924	5 160
Payments to suppliers and employees	(3 840)	(4 122)	(4 242)	(4 724)	(5 674)
Interest received	209	194	190	216	176
Borrowing costs	(41)	(36)	(17)	(16)	(16)
Cash from operations	89	(140)	(65)	400	(354)
Proceeds from investments	0	100	700	0	0
Payments for investments	(250)	0	0	(600)	(700)
Payments for P, P & Equipment	(1 480)	(2 608)	(2 483)	(2 798)	(3 150)
Proceeds from sale of P, P & E	102	319	286	233	158
Cash used in investing activities	(1 628)	(2 189)	(1 497)	(3 165)	(3 692)
Proceeds from borrowings	0	0	0	300	570
Repayment of borrowings	(139)	(151)	(164)	(186)	(53)
Cash from financing activities	(139)	(151)	(164)	114	517
Cash Flows from Government	1 915	2 014	2 209	2 663	3 189
Net increase in cash	237	(466)	483	12	(340)
Cash at the beginning of the period	61	298	(168)	315	327
	298	(168)	315	327	(13)

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 for the first four years under review. The timing of the new loans for 2001-02 has resulted in no noticeable increase in borrowing expenses for this year.

An additional net \$0.700m of surplus funds was invested during the 2001-02 year and is partially a reflection of the additional borrowings being held in investment accounts until the funds are expended.

Payments for property, plant and equipment have increased for the last four years under review due to increased capital expenditure in recent years on road and bridge assets and the purchase of major road plant and computer equipment. Bridge expenditure during 2001-02 totalled \$1.347m. Other major capital projects, some still on-going, included building improvements at the Scottsdale recreation ground; water treatment plant and sewerage works upgrades; implementation of the Waste Management Strategy for the municipality; and the Bridport effluent re-use scheme.

FINANCIAL ANALYSIS

	Bench	1997-98	1998-99	1999-00	2000-01	2001-02
	Mark					
Financial Performance						
Result from operations (\$'000s)		(56)	(236)	(348)	218	96
Operating margin	>1.0	0.99	0.96	0.95	1.03	1.01
Financial Management						
Current ratio	>1	5.15	3.70	4.02	4.59	4.55
Cost of debt	7.5%	9.6%	6.8%	9.1%	5.9%	6.2%
Debt collection	30 days	35	36	50	45	45
Creditor turnover	30 days	13	11	17	25	17
Other information						
Staff numbers FTEs		43	45	47	49	49
Average staff costs (\$'000s)		38	37	40	42	46

Comment

The financial performance ratios show that the Council has returned positive results from operations for the last two financial years and negative returns in other years. Council's operating margin has consistently remained around benchmark.

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

Decreased interest rates over the last few years have assisted Council to keep the cost of debt lower than the benchmark as they have no older debt outstanding, only loans taken out during the last two financial years.

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 overdue debtor, \$0.080m.

The creditor turnover ratio is consistently within benchmark. The increased result of 25 days for 2000-01 was due to an overall increase in the amount of payables at 30 June 2001, \$0.090m, that included \$0.095m for construction works.

OVERALL COMMENT

In the five years to 30 June 2002, Council has continued to maintain an operating margin fairly consistent with benchmark. For the last two years Council has recorded a net profit from ordinary activities. Revenues continue to increase allowing for corresponding increases in both operating and capital expenditure.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

On page 406 of my Report No 2 for 2000-01, it was noted that Council did 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 the Australian Accounting Standards Board's Urgent Issues Group Consensus View UIG 30 'Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Methods'.

I noted in the 2001 report that the above issue was to be addressed with a detailed road valuation to be undertaken in the 2001-02 financial year. This revaluation did not occur during the current year and will be undertaken during the 2002-03 year.

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 people and includes the townships of George Town, Low Head, Pipers River and Hillwood.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 8 October 2002, with amended statements received on 29 October 2002. An unqualified audit report was issued on 31 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 357	5 304	5 244	5 605	5 683
Grants	1 075	1 058	1 063	1 434	1 618
Other operating revenue	157	149	165	167	210
Non-operating revenue	9 348	315	62	0	0
Total Revenue	15 937	6 826	6 534	7 206	7 511
Borrowing costs	773	679	608	546	467
Depreciation	1 134	1 092	1 093	1 226	1 419
Other operating expenses	4 307	4 417	4 400	4 520	5 317
Non-operating expenses	0	15	85	16	10
Total Expenses	6 214	6 203	6 186	6 308	7 213
Result from Ordinary Activities	9 723	623	348	898	298

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, \$0.371m, is mainly attributable to the receipt of funding for Low Head Interpretation Works, \$0.224m, the Norfolk Interpretation Centre, \$0.015m, and increased Financial Assistance Grants, \$0.040m.

Non-operating revenue in 1997-98, \$9.348m, includes \$8.485m relating to the recognition of Council's interest in the Esk Water Authority.

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

Council has recorded surpluses from ordinary activities in the past five years.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	366	37	31	801	1 034
Receivables	1 510	1 234	1 022	1 110	1 107
Investments	0	700	470	0	0
Inventories	24	0	0	0	0
Other	78	4	23	217	57
Total Current Assets	1 978	1 975	1 546	2 128	2 198
Property, plant & equipment	31 890	32 333	32 492	32 738	32 979
Investments	8 485	8 485	8 485	8 485	8 485
Other	2 639	2 233	1 786	1 336	781
Total Non-Current Assets	43 014	43 051	42 763	42 559	42 245
Payables	673	577	407	615	1 003
Borrowings	733	1 046	963	1 009	1 086
Provisions	193	184	203	262	303
Other	33	2	2	17	14
Total Current Liabilities	1 632	1 809	1 575	1 903	2 406
Borrowings	7 670	6 895	6 072	5 211	4 163
Provisions	57	66	58	29	44
Other	35	35	35	77	65
Total Non-Current Liabilities	7 762	6 996	6 165	5 317	4 272
Net Assets	35 598	36 221	36 569	37 467	37 765
Reserves	522	738	967	1 279	1 683
Retained surpluses	35 076	35 483	35 602	36 188	36 082
Total Equity	35 598	36 221	36 569	37 467	37 765

Comment

In 1998-99 and 1999-00, the balance of current investments consisted of funds held in a money market call account. From 2000-01, all funds have been classified as Cash Assets and not shown as a separate balance.

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

The increase in Payables from 2000-01 to 2001-02, \$0.388m, is due mainly to an invoice outstanding at 30 June 2002 for bridge works together with an increase in the amount payable to the organisation that manages Council's outside workforce.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 023	6 096	6 002	6 307	6 766
Payments to suppliers and employees	(4 113)	(4 482)	(4 563)	(4 639)	(5 179)
Interest received	18	40	50	60	56
Borrowing costs	(787)	(721)	(606)	(570)	(467)
Cash from operations	1 141	933	883	1 158	1 176
Payments for P, P & Equipment	(1 071)	(1 267)	(1 380)	(1 320)	(1 656)
Proceeds from sale of P, P & E	155	89	171	40	99
Cash used in investing activities	(916)	(1 178)	(1 209)	(1 280)	(1 557)
Repayment of borrowings	(663)	(738)	(810)	(936)	(1 018)
Cash from financing activities	(663)	(738)	(810)	(936)	(1 018)
Cash Flows from Government	1 029	1 104	1 063	1 445	1 632
Net increase in cash	591	121	(73)	387	233
Cash at the beginning of the period	(225)	366	487	414	801
Cash at end of the period	366	487	414	801	1 034

Comment

The net Cash from operations has remained fairly stable over the period under review. 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 \$4.165m and has resulted in reduced borrowing costs paid each year.

Payments for property, plant and equipment amounted to \$6.694m for the five-year period with major items in 2001-02 including road pavements, \$0.871m, and plant and equipment purchases, \$0.240m.

FINANCIAL ANALYSIS

	Bench	1997-98	1998-99	1999-00	2000-01	2001-02
	Mark					
Financial Performance						
Result from operations (\$'000s)		375	323	371	914	308
Operating margin	>1.0	1.06	1.05	1.06	1.15	1.04
Financial Management						
Current ratio	>1	1.21	1.09	0.98	1.12	0.91
Cost of debt	7.5%	9.2%	8.6%	8.6%	8.8%	8.9%
Debt collection	30 days	74	57	40	40	36
Creditor turnover	30 days	20	18	10	27	57
Other information						
Staff numbers FTEs		35	35	32	35	38
Average staff costs (\$'000s)		44	45	49	45	43

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 \$2.291m. Council's operating margin has remained slightly above the benchmark with the highest level of 1.15 in 2000-01.

Council's current ratio has been close to the 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 with no new borrowings taken out during that time.

The debt collection period has been consistently above the benchmark of 30 days, although it has steadily improved from 74 days in 1997-98 to 36 days in 2001-02.

The creditor turnover figure has been less than 30 days for all years except 2001-02. As noted under the Financial Position section, there were a number of significant invoices outstanding at 30 June 2002 that resulted in a turnover figure of 57 days.

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

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from ordinary activities of \$11.890m. This includes the revenue from the recognition of the investment in Esk Water Authority of \$8.485m.

The 2001-02 audit was completed with no major issues outstanding.

On page 371 of my Report No 2 for 2000-01 it was noted that Council does not separately identify and depreciate road asset components. This approach is not consistent with Australian Accounting Standards Board's Urgent Issues Group Consensus View UIG 30 "Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Methods". I note that no review of road assets was undertaken by Council during 2001-02.

3.5 LATROBE COUNCIL

INTRODUCTION

Latrobe Council was created in 1993 and was formerly the Municipality of Latrobe, 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 8 200 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 18 September 2002 and unqualified audit report was issued on 7 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 117	5 217	5 359	5 672	5 752
Grants	688	1 492	1 362	1 886	1 028
Other operating revenue	346	274	380	406	402
Non-operating revenue	0	2	3 197	72	134
Total Revenue	6 151	6 985	10 298	8 036	7 316
Borrowing costs	121	89	81	87	91
Depreciation	1 300	1 113	1 196	1 284	1 585
Other operating expenses	4 320	4 236	4 831	5 036	5 262
Non-operating expenses	601	0	128	937	365
Total Expenses	6 342	5 438	6 236	7 344	7 303
Result from Ordinary Activities	(191)	1 547	4 062	692	13

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, \$0.524m, is mainly attributable to funding of \$0.700m 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 Cradle Coast Water.

The increase in depreciation expense in 2001-02, \$0.301m, is due principally to the effect of an upwards revaluation of road assets effective from 30 June 2001.

Borrowing costs decreased in 1998-99 due to Council undertaking a consolidation of its loan portfolio in the previous financial year. Non-operating expenses in 1997-98 includes a capital loss on loan consolidation of \$0.135m.

Council has recorded profits in the four years to 30 June 2002, with a loss of \$0.191m being incurred in 1997-98. The profit recorded in 1999-00 is due mainly to the \$3.160m revenue item relating to the recognition of Council's interest in Cradle Coast Water.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	536	1 274	1 095	1 073	841
Receivables	517	406	254	235	223
Investments	0	250	250	517	1 046
Inventories	52	52	0	0	5
Other	71	57	89	262	72
Total Current Assets	1 176	2 039	1 688	2 087	2 187
Property, plant & equipment	35 678	36 305	37 487	44 585	45 557
Investments	1 368	1 368	4 415	4 532	3 278
Other	197	170	143	0	0
Total Non-Current Assets	37 243	37 843	42 045	49 117	48 835
Payables	475	560	481	643	405
Borrowings	121	129	139	156	175
Provisions	261	262	176	191	302
Other	789	90	46	141	87
Total Current Liabilities	1 646	1 041	842	1 131	969
Borrowings	1 344	1 212	1 273	1 316	1 342
Provisions	34	51	31	33	34
Other	80	716	663	535	475
Total Non-Current Liabilities	1 458	1 979	1 967	1 884	1 851
Net Assets	35 315	36 862	40 924	48 189	48 202
Reserves	2 306	2 306	2 306	8 880	8 880
Retained surpluses	33 009	34 556	38 618	39 309	39 322
Total Equity	35 315	36 862	40 924	48 189	48 202

Comment

The balance of Cash and current Investments has increased from \$0.536m as at 30 June 1998 to \$1.887m as at 30 June 2002 and is partly attributable to funding from government grants, particularly in 1998-99 when \$0.780m in Natural Heritage Trust funding was received.

The increase in Property, plant and equipment in 2000-01, \$7.098m, is due principally to the impact of infrastructure asset revaluations, the majority of which related to Council's road network, \$4.536m. The total revaluation exercise also resulted in an increase in the asset revaluation reserves totalling \$6.574m.

The increase in non-current Investments in 1999-00, \$3.047m, principally relates to the recognition of Council's interest in the equity of Cradle Coast Water. The decrease in the item in 2001-02, \$1.254m, is due to the wind-up of the Kentish-Latrobe Joint Authority. The Authority officially ceased in April 2002, however the employees and assets were transferred back to the member councils in October 2001. As a result of the wind-up, Council incurred a loss on the investment of \$0.137m which has been included as a non-operating expense.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 303	5 473	5 606	6 195	6 455
Payments to suppliers and employees	(4 073)	(4 124)	(4 887)	(5 359)	(5 818)
Interest received	50	72	90	145	120
Borrowing costs	(150)	(89)	(81)	(87)	(91)
Cash from operations	1 130	1 332	728	894	666
Proceeds from investments	70	124	83	88	580
Payments for investments	(629)	(250)	(100)	(303)	(554)
Payments for P, P & Equipment	(1 182)	(1 836)	(2 362)	(2 720)	(2 130)
Proceeds from sale of P, P & E	78	0	37	72	134
Cash used in investing activities	(1 663)	(1 962)	(2 342)	(2 863)	(1 970)
Proceeds from borrowings	0	0	200	200	200
Repayment of borrowings	(180)	(124)	(129)	(139)	(156)
Cash from financing activities	(180)	(124)	71	61	44
Cash Flows from Government	688	1 492	1 364	1 886	1 028
Net increase in cash	(25)	738	(179)	(22)	(232)
Cash at the beginning of the period	561	536	1 274	1 095	1 073
	536	1 274	1 095	1 073	841

Comment

The net increase in cash in 1998-99, \$0.738m, is due mainly to National Heritage Trust funding for the Latrobe Treatment Plant of \$0.700m and resulted in increased payments for Property, plant and equipment in subsequent years.

The proceeds from investments in 2001-02 of \$0.580m includes \$0.560m relating to the wind-up of the Kentish-Latrobe Joint Authority.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		410	1 545	993	1 557	244
Operating margin	>1.0	1.07	1.28	1.16	1.24	1.04
Financial Management						
Current ratio	>1	0.71	1.96	2.00	1.85	2.26
Cost of debt	7.5%	8.3%	6.6%	5.7%	5.9%	6.0%
Debt collection	30 days	37	28	17	15	14
Creditor turnover	30 days	34	32	19	29	18
Other information						
Staff numbers FTEs		2	2	9	19	46
Average staff costs (\$'000s)		381	28	57	49	36

Comment

The financial performance ratios show that Council has recorded operating surpluses in all five years under review. The surplus in 2000-01, \$1.557m, is partly attributable to increased government funding for capital works.

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

The cost of debt reduced by 1.7% from 1997-98 to 1998-99 following a loan consolidation exercise undertaken by Council in that year.

The debt collection ratio has been below the benchmark of 30 days for the past five years. The creditor turnover figure has been greater than 30 days in 1997-98 and 1998-99 due to a number of large invoices for capital works outstanding at 30 June.

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 \$4.749m.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

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 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2002, with amended statements received on 18 October 2002. An unqualified audit report was issued on 29 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 634	5 673	5 959	6 183	6 312
Grants	2 793	2 849	3 874	5 344	4 202
Other operating revenue	1 111	1 178	1 066	1 061	1 209
Non-operating revenue	358	1 826	78	0	0
Total Revenue	9 896	11 526	10 977	12 588	11 723
Borrowing costs	96	59	33	0	0
Depreciation	3 569	3 708	3 753	3 731	3 205
Other operating expenses	5 038	5 006	5 548	6 685	7 702
Non-operating expenses	806	808	224	472	551
Total Expenses	9 509	9 581	9 558	10 888	11 458
Result from Ordinary Activities	387	1 945	1 419	1 700	265

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, \$1.470m, is mainly due to the receipt of \$1.077m under the Clean Quality Water Program.

Non-operating revenue in 1998-99, \$1.826m, includes \$1.500m relating to the recognition of a debtor under a trade waste agreement.

The decrease in depreciation expense from 2000-01 to 2001-02, \$0.526m, is due mainly to a reassessment of useful lives for road assets, which was undertaken as part of a revaluation of road assets effective 1 July 2001.

No borrowing costs have been recorded for the past two years due to the repayment of borrowings in 1999-00. The increase in other operating expenses from 1999-00 to 2001-02, \$2.154m, is partly attributable to expenditure on government-funded projects such as Woolmers Estate and the Midlands Bushweb project.

Council has recorded profits from ordinary activities in all five years under review. The total Result from Ordinary Activities for the five years is a surplus of \$5.716m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	120	437	1 276	327	264
Receivables	326	724	718	888	647
Investments	5 729	5 507	6 508	10 513	12 127
Inventories	26	32	17	28	32
Other	29	29	40	32	32
Total Current Assets	6 230	6 729	8 559	11 788	13 102
Property, plant & equipment	99 059	99 286	99 109	98 251	137 392
Other	58	966	778	446	64
Total Non-Current Assets	99 117	100 252	99 887	98 697	137 456
Payables	266	210	701	307	585
Borrowings	291	440	0	0	0
Provisions	448	450	456	481	520
Other	129	157	142	119	147
Total Current Liabilities	1 134	1 257	1 299	907	1 252
Borrowings	440	0	0	0	0
Provisions	39	44	48	83	92
Total Non-Current Liabilities	479	44	48	83	92
Net Assets	103 734	105 680	107 099	109 495	149 214
Reserves	788	25	25	721	40 174
Retained surpluses	102 946	105 655	107 074	108 774	109 040
Total Equity	103 734	105 680	107 099	109 495	149 214

Comment

The balance of investments increased from 1999-00 to 2000-01 by \$4.005m due principally to government funding received during the year, but unspent at 30 June 2001, and transfers from cash assets. A large amount of the investment balance is held for specific projects, including water treatment and road and bridge improvements.

The increase in Property, plant and equipment from 2000-01 to 2001-02, \$39.141m, is due mainly to the revaluation of road assets effective 1 July 2001. The revaluation also resulted in a similar increase in the Asset Revaluation Reserve, \$39.453m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 270	6 385	6 775	7 041	7 813
Payments to suppliers and employees	(4 892)	(4 883)	(4 931)	(6 952)	(7 215)
Interest received	441	479	474	722	627
Borrowing costs	(111)	(69)	(48)	0	0
Cash from operations	1 708	1 912	2 270	811	1 225
Proceeds from investments	0	222	0	0	0
Payments for investments	(186)	0	(1 001)	(4 005)	(1 614)
Payments for P, P & Equipment	(4 451)	(4 718)	(4 100)	(3 405)	(4 090)
Proceeds from sale of P, P & E	381	344	236	290	194
Cash used in investing activities	(4 256)	(4 152)	(4 865)	(7 120)	(5 510)
Repayment of borrowings	(379)	(292)	(440)	0	0
Cash from financing activities	(379)	(292)	(440)	0	0
Cash Flows from Government	2 793	2 849	3 874	5 360	4 222
Net increase in cash	(134)	317	839	(949)	(63)
Cash at the beginning of the period	254	120	437	1 276	327
	120	437	1 276	327	264

Comment

The Cash Flow Statement also reflects the increased government funding in 2000-01 and the increase in investment balances of \$4.005m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		835	927	1 565	2 172	816
Operating margin	>1.0	1.10	1.11	1.17	1.21	1.07
Financial Management						
Current ratio	>1	5.49	5.35	6.59	13.00	10.46
Cost of debt	7.5%	10.4%	10.1%	-	-	-
Debt collection	30 days	20	26	19	32	34
Creditor turnover	30 days	13	10	34	15	23
Other information						
Staff numbers FTEs		56	52	53	65	64
Average staff costs (\$'000s)		37	41	41	38	40

Comment

The financial performance ratios show that Council has recorded operating surpluses in the last five years. The total result from operations for the period under review is \$6.315m.

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 due mainly to the higher investment balance combined with the reduction in creditor balances.

A cost of debt has not been calculated since 1998-99 as Council repaid its borrowings during the 1999-00 year.

The debt collection ratio was above the benchmark of 30 days in 2000-01 and 2001-02 due to the impact of water by measure charges being raised in June.

The creditor turnover figure has been below the benchmark of 30 days for all years except 1999-00 (34 days). 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 amounting to \$6.315m.

The 2001-02 audit was completed with no major issues outstanding.

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 11 000 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Sorell Council, signed by the General Manager, were received on 30 October 2002 and an unqualified Audit Report was issued on 31 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	6 544	6 715	6 760	7 046	6 736
Grants	1 857	2 494	1 758	1 948	2 308
Other operating revenue	319	322	316	313	398
Non-operating revenue	547	3 823	188	324	410
Total Revenue	9 267	13 354	9 022	9 631	9 852
Borrowing costs	292	258	204	231	269
Depreciation	1 862	1 825	1 875	2 032	2 062
Other operating expenses	5 989	5 956	6 304	7 053	6 989
Non-operating expenses	274	102	78	291	291
Total Expenses	8 417	8 141	8 461	9 607	9 611
Result from Ordinary Activities	850	5 213	561	24	241

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. The increase in grants for 2001-02 includes a new grant for the Lewisham Sewerage Capital Grant, \$0.125m, in addition to a general increase across numerous other grant categories.

Non-operating revenue generally reflects the proceeds from the disposal of non-current assets and non-cash contributions, such as subdivision roads. In 1997-98 the item included the taking over of subdivision roads, \$0.249m, and in 1998-99 reflects Council's partial interest in the net assets of Hobart Water, \$2.978m, which it jointly owns with a number of other southern-based councils.

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 generally reflect the carrying value of plant and equipment disposals.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	303	202	28	336	16
Receivables	626	789	1 101	973	739
Investments	3 000	3 000	2 823	3 230	3 052
Inventories	5	6	6	6	0
Other	33	59	77	63	150
Total Current Assets	3 967	4 056	4 035	4 608	3 957
Property, plant & equipment	36 212	38 548	39 314	45 159	45 035
Investments	0	2 978	2 978	2 978	2 978
Other	467	421	371	328	433
Total Non-Current Assets	36 679	41 947	42 663	48 465	48 446
Payables	187	115	22	1 267	465
Borrowings	546	582	509	512	518
Provisions	389	346	449	444	672
Other	143	193	509	174	442
Total Current Liabilities	1 265	1 236	1 489	2 397	2 097
Borrowings	3 361	3 091	3 067	2 970	2 556
Provisions	162	159	100	97	67
Other	0	108	72	36	0
Total Non-Current Liabilities	3 523	3 358	3 239	3 103	2 623
Net Assets	35 858	41 409	41 970	47 573	47 683
Reserves	3 565	4 025	3 831	8 957	8 885
Retained surpluses	32 293	37 384	38 139	38 616	38 798
Total Equity	35 858	41 409	41 970	47 573	47 683

Comment

The average amount for receivables across the five-year period is \$0.845m. The higher amount in 1999-00 was due to the pending reimbursement of costs amounting to \$0.280m from two participating councils for preliminary work done on the Copping Waste Management Project. The receivables balance as at 30 June 2002 is at its lowest point since 1997-98 due to improved collections of both rates and sundry debtors.

The increase in Property, plant and equipment in 2000-01, \$5.676m, is due principally to Council revaluing its land and buildings. The revaluation increment was credited to an asset revaluation reserve that, together with movements in the other specific purpose reserves, resulted in an increase in total reserves of \$5.236m.

The increase in non-current investments in 1998-99 year reflects the take-up of Council's interest in Hobart Water referred to earlier in this segment of the Report.

The level of payables increased at the end of 2000-01 due to accruals for expenditure on the Copping Waste Management Project.

The increase in the Current Liability item Provisions, \$0.228m, is due principally to increases in the value of accrued annual leave and long service leave payable, \$0.094m and \$0.112m respectively.

The increase in the item Other current liabilities in 1999-00, \$0.316m, is principally attributable to the existence of a bank overdraft in that year. In 2001-02 the item included revenue in advance, \$0.240m, and unexpended specific-purpose grants, \$0.106m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 714	6 689	6 461	8 022	7 277
Payments to suppliers and employees	(6 003)	(6 263)	(6 468)	(6 469)	(7 093)
Interest received	302	326	334	298	151
Borrowing costs	(302)	(256)	(203)	(210)	(269)
Cash from operations	711	496	124	1 641	66
Payments for P, P & Equipment	(1 702)	(2 962)	(2 754)	(2 698)	(3 152)
Proceeds from sale of P, P & E	298	133	188	324	410
Cash used in investing activities	(1 404)	(2 829)	(2 566)	(2 374)	(2 742)
Proceeds from borrowings	300	308	513	511	538
Repayment of borrowings	(479)	(570)	(597)	(594)	(908)
Cash from financing activities	(179)	(262)	(84)	(83)	(370)
Cash Flows from Government	1 857	2 494	1 758	1 949	2 547
Net increase in cash	985	(101)	(768)	1 133	(499)
Cash at the beginning of the period	2 318	3 303	3 202	2 434	3 567
Cash at end of the period	3 303	3 202	2 434	3 567	3 068

Comment

The significant increase in cash holdings in 2000-01 resulted mainly from an increase in user charges amounting to \$1.519m, relating to funding for works at the Copping tip site received from the two constituent councils. In the 2001-02 year, the lack of funds in this area is partially offset by an increase in grant funding of \$0.598m.

Council has maintained cash balances at an average of \$3.115m 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.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		577	1 492	451	(9)	122
Operating margin	>1.0	1.07	1.19	1.05	1.00	1.01
Financial Management						
Current ratio	>1	3.14	3.28	2.71	1.92	1.89
Cost of debt	7.5%	7.5%	7.0%	5.7%	6.6%	6.6%
Debt collection	30 days	35	43	59	50	40
Creditor turnover	30 days	22	14	2	121	50
Other information						
Staff numbers FTEs		60	58	64	61	70
Average staff costs (\$'000s)		38	38	36	41	40

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 due mainly to increased grant income referred to earlier in this segment of the Report.

The debt collection ratio has consistently exceeded the benchmark of 30 days. However, the decreasing trend from the 2000-01 year continued for 2001-02, as the ratio was at its lowest level since 1997-98. During 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.

There was a sharp increase in creditor turnover in the 2000-01 year, which was caused by the late forwarding of significant invoices referred to earlier in this segment of the Report, while the ratio at 30 June 2002 has decreased, it is still at a high level given the scale of Council's operations.

OVERALL COMMENT

The audit of the accounts for the 2001-02 year was completed with satisfactory results.

It is understood that Council will finalise its detailed road valuation during the current financial year, and the new valuations will be incorporated into next year's financial results.

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 statement information includes the transactions of the West Coast Health and Community Service Pty Ltd (WCH&CS), which is a fully owned subsidiary of Council.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2002, with amended financial statements submitted on 12 November 2002. An unqualified audit report was issued on 15 November 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	4 564	4 581	4 378	4 658	5 291
Grants	2 460	2 455	2 605	3 136	3 933
Other operating revenue	45	476	392	408	252
Non-operating revenue	234	361	686	133	137
Total Revenue	7 303	7 873	8 061	8 335	9 613
Borrowing costs	155	144	116	152	175
Depreciation	1 386	1 382	1 448	1 476	1 439
Other operating expenses	6 257	6 851	6 220	6 639	7 066
Non-operating expenses	223	604	502	45	154
Total Expenses	8 021	8 981	8 286	8 312	8 834
Result from Ordinary Activities	(718)	(1 108)	(225)	23	779

Comment

Revenue from Rates, fees and charges has increased by \$0.727m over the five-year period under review. This represents an average annual increase of approximately 3.75%.

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, \$0.290m, and \$0.182m for Rosebery sewerage. In 2001-02, grants increased by \$0.797m and relates to funding from the Clean Quality Water and Riverwork Programs, \$0.900m, for a Strahan Wastewater treatment upgrade.

Other operating revenues for 1998-99 include \$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 gross proceeds sale and carrying values of assets respectively. The revenue balance for 1998-99 includes consideration, \$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 item also 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, \$0.605m 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, \$0.255m.

In the first three 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, \$0.277, the loss reflected Councils failure to adequately fund the impact of depreciation on its operations. However, considerable improvement was noted in 2000-01, with council recording a surplus from ordinary activities. The operating result in 2001-02 increased by \$0.756m as a result of \$0.900m received to assist in funding the upgrade of Strahan sewerage scheme. The expenditure, which is of a capital nature is not reflected in the operating result.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	206	127	964	1 554	983
Receivables	688	707	809	1 044	1 365
Investments	203	88	224	564	1 304
Inventories	0	0	25	16	16
Other	77	311	51	39	37
Total Current Assets	1 174	1 233	2 073	3 217	3 705
Property, plant & equipment	46 623	45 217	44 977	44 929	45 617
Investments	89	57	28	0	0
Other	0	0	0	0	0
Total Non-Current Assets	46 712	45 274	45 005	44 929	45 617
Payables	274	271	266	493	369
Borrowings	262	241	369	480	390
Provisions	428	409	401	400	471
Other	193	265	175	282	222
Total Current Liabilities	1 157	1 186	1 211	1 655	1 452
Borrowings	1 437	1 215	1 567	2 204	2 813
Provisions	89	65	88	81	72
Other	144	96	29	0	0
Total Non-Current Liabilities	1 670	1 376	1 684	2 285	2 885
Net Assets	45 059	43 945	44 183	44 206	44 985
Reserves	3 238	3 238	3 701	3 701	3 701
Retained surpluses	41 821	40 707	40 482	40 505	41 284
Total Equity	45 059	43 945	44 183	44 206	44 985

Comment

The balance of receivables has increased by \$0.321m in 2001-02, due to increased rate debtors. Council is experiencing problems with the collection of rate debtors, but is undertaking appropriate action, in an attempt to reduce the balance outstanding.

Other current assets in 1998-99 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 include 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 date of the final payroll to 30 June and the loan interest accrual. The balances for 2000-01 and 2001-02 also include Council's GST liability.

Council's loan borrowings have increased significantly over the 1999-00 and 2000-01 financial periods. In 1999-00, council entered into a finance lease agreement to purchase a truck, \$0.137m and borrowed \$0.558m to fund Strahan water treatment plant construction.

Borrowings of \$1.058m in 2000-01 funded water upgrades in Queenstown and Rosebery and an upgrade in the Rosebery sewerage treatment infrastructure. Borrowings in 2001-02, \$1.000m will be used to complete the Strahan wastewater treatment upgrade.

Other non-current liabilities in 1997-98 include a lease liability, \$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 1999-00.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 516	4 774	4 756	5 068	5 563
Payments to suppliers and employees	(6 030)	(6 869)	(6 205)	(6 621)	(7 675)
Interest received	23	23	62	76	94
Borrowing costs	(153)	(144)	(130)	(140)	(162)
Cash from operations	(1 644)	(2 216)	(1 517)	(1 617)	(2 180)
Proceeds from investments	0	115	0	0	0
Payments for investments	(203)	0	0	(340)	(740)
Payments for P, P & Equipment	(596)	(552)	(1 240)	(1 469)	(2 281)
Proceeds from sale of P, P & E	68	328	664	49	119
Cash used in investing activities	(731)	(109)	(576)	(1 760)	(2 902)
Proceeds from borrowings	385	0	695	1 058	1 000
Repayment of borrowings	(234)	(271)	(291)	(351)	(422)
Cash from financing activities	151	(271)	404	707	578
Cash Flows from Government	2 483	2 517	2 526	3 260	3 933
Net increase in cash	259	(79)	837	590	(571)
Cash at the beginning of the period	(53)	206	127	964	1 554
	206	127	964	1 554	983

Comment

Receipts from customers have reflected the general increase in revenue. The increase in Payments to suppliers and employees in 2001-02, \$1.054m, is principally due to increases in payroll costs \$0.193m, material costs \$0.162m, an additional impact of the GST gross up, \$0.140m, and the payment of net creditors movement in the financial year, \$0.216m

Payments for Property, plant and equipment in the period 1999-00 to 2001-02 increased considerably from the first two years under review. In 1999-00, the balance includes work-in-progress on the Strahan water treatment plant, \$0.436m, building works on the new Queenstown Recreation Ground grandstand, \$0.248m, capital works on roads totalling \$0.186m, and purchases of plant and equipment, \$0.291m.

The outflows in 2000-01 represent costs to complete the Strahan water treatment plant \$0.747m, roads work \$0.257m, and water and sewerage work in progress expenditure totalling \$0.294m. The 2001-02 balance includes \$0.723m relating to works in progress for the Strahan wastewater treatment upgrade and the upgrade of the Rosebery sewerage treatment plant \$0.777m.

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

Significant new borrowings have been received over the past three years under review. Descriptions of the new borrowings are detailed in the Financial Position section referred to earlier in this segment of the Report.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(729)	(865)	(409)	(65)	796
Operating margin	>1.0	0.91	0.90	0.95	0.99	1.09
Financial Management						
Current ratio	>1	1.01	1.04	1.71	1.94	2.55
Cost of debt	7.5%	9.1%	9.9%	6.0%	5.7%	5.5%
Debt collection	30 days	55	56	67	82	94
Creditor turnover	30 days	27	23	21	35	23
Other information						
Staff numbers FTEs		83	76	75	75	78
Average staff costs (\$'000s)		38	41	39	39	44

Comment

Council has been below the Operating benchmark for the initial four years under review due to recording a deficit in each of those periods. The losses can not be attributed to any particular events, but reflect Council's failure to fully fund the depreciation expense in relation to its infrastructure assets. Although the results of the 2000-01 financial period indicate appropriate action is being taken to remedy this situation. In 2001-02, Council had an operating surplus, although this was assisted by capital grant funding recorded as revenue. The corresponding expenditure, which is of a capital nature, is not reflected in the operating result.

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 gradual increase is due to increased rate debtors at the end of each financial period. As noted previously, Council is attempting to address problems in the recovery of longer-term rate debtors.

The creditor turnover figure has been lower than 30 days for four of the five years under review. The 2000-01 ratio of 35 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.

OVERALL COMMENT

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

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 \$4.250m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Break O’Day \$’000s	Central Highlands \$’000s	Flinders \$’000s	Glamorgan- Spring Bay \$’000s	Kentish \$’000s	King Island \$’000s	Southern Midlands \$’000s	Tasman \$’000s
Rates, fees and charges	3 969	1 988	755	4 229	2 386	2 332	3 012	1 676
Grants	2 378	2 071	1 177	3 006	1 974	1 924	3 798	2 647
Other operating revenue	328	298	513	749	162	362	131	297
Non-operating revenue	0	273	47	76	1	8	481	145
Total Revenue	6 675	4 630	2 492	8 060	4 523	4 626	7 422	4 765
Borrowing Costs	101	0	0	158	60	6	105	39
Depreciation	1 852	2 369	1 433	1 446	1 277	1 169	2 485	571
Other operating expenses	4 855	3 341	1 777	6 990	3 235	3 440	4 995	3 421
Non-operating expenses	46	362	0	100	36	41	775	7 173
Total Expenses	6 854	6 072	3 210	8 694	4 608	4 656	8 360	11 204
Result from Ordinary Activities	(179)	(1 442)	(718)	(634)	(85)	(30)	(938)	(6 439)

Comment

Revenue from Rates, fees and charges ranged from \$0.755m (Flinders Council) to \$4.229m (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 4 200 people for Glamorgan-Spring Bay and 6 000 people for Break O'Day). On average, revenue from Rates, fees and charges represents 47% of total operating revenue for the eight Councils for 2001-02.

Government grants and subsidies represent 44% of total operating revenue recorded by the eight councils. All of the councils derived over 35% of their operating revenue for 2001-02 from government sources, with Tasman Council recording the highest percentage with 56%. Break O'Day Council recorded the lowest proportion, with 36% of revenue being derived from government sources.

On average, borrowing costs represent 0.87% of total operating expenditure, whilst depreciation accounts for 24% of total operating expenditure. Both Flinders Council and Central Highlands Council had no borrowing costs during 2001-02.

None of the councils returned a positive Result from Ordinary Activities.

FINANCIAL POSITION

	Break O'Day \$'000s	Central Highlands \$'000s	Flinders \$'000s	Glamorgan- Spring Bay \$'000s	Kentish \$'000s	King Island \$'000s	Southern Midlands \$'000s	Tasman \$'000s
Cash	1 669	2 056	151	126	2 033	318	441	235
Receivables	541	353	101	346	229	425	500	390
Investments	2	0	3 663	2 776	0	2 490	1 674	501
Inventories	91	39	190	0	0	367	193	0
Other	275	79	71	0	39	35	51	5
Total Current Assets	2 578	2 527	4 176	3 248	2 301	3 635	2 859	1 131
Property, Plant And Equipment	50 687	32 099	38 258	42 716	27 987	19 440	67 654	10 589
Investments	0	0	0	0	900	0	0	0
Other	126	37	21	42	81	0	0	21
Total Non-Current Assets	50 813	32 136	38 279	42 758	28 968	19 440	67 654	10 610
Payables	395	203	206	519	181	109	308	657
Borrowings	214	14	0	277	88	39	174	74
Provisions	317	513	109	388	49	369	241	261
Other	0	23	39	20	11	253	126	55
Total Current Liabilities	926	753	354	1 204	329	770	849	1 047
Borrowings	1 355	58	0	2 951	501	45	1 222	722
Provisions	37	38	72	127	31	31	28	42
Other	126	0	0	296	0	0	0	10
Total Non-Current Liabilities	1 518	96	72	3 374	532	76	1 250	774
Net Assets	50 947	33 814	42 029	41 428	30 408	22 229	68 414	9 920
Reserves	50 007	2 301	4 679	12 980	31 900	1 803	32 247	1
Retained Surpluses	940	31 513	37 350	28 448	(1 492)	20 426	36 167	9 919
Total Equity	50 947	33 814	42 029	41 428	30 408	22 229	68 414	9 920

Comment

All of the eight councils had positive working capital, with the average current ratio being 3.6. The level of borrowings was low for all councils, with the proportion of debt to equity at 30 June 2002 being less than 5% for all Councils except Glamorgan-Spring-Bay and Tasman Councils whose debt represents 8% of total equity.

The balance of net assets ranged from \$9.920m (Tasman Council) to \$68.414m (Southern Midlands Council). The higher asset balance recorded by Southern Midlands Council is attributable to that Council being responsible for one of the longest road lengths within the State.

CASH POSITION

	Break O'Day \$'000s	Central Highlands \$'000s	Flinders \$'000s	Glamorgan- Spring Bay \$'000s	Kentish \$'000s	King Island \$'000s	Southern Midlands \$'000s	Tasman \$'000s
Receipts from customers	4 820	2 593	1 256	5 480	2 791	2 808	3 749	2 096
Payments to suppliers and employees	(5 122)	(3 453)	(1 847)	(7 312)	(3 404)	(5 436)	(5 525)	(3 449)
Interest received	85	146	143	139	78	124	110	31
Borrowing costs	(117)	0	0	(158)	(55)	(6)	(107)	(39)
Cash from operations	(334)	(714)	(448)	(1 851)	(590)	(2 510)	(1 773)	(1 361)
Proceeds from investments	0	4	0	0	389	1 256	861	0
Payments for investments	0	0	(705)	0	0	0	0	0
Payments for P, P & Equipment	(1 382)	(1 307)	(69)	(2 202)	(960)	(1 337)	(3 022)	(2 021)
Proceeds from sale of P, P & E	222	273	50	76	37	239	481	145
Cash used in investing activities	(1 160)	(1 030)	(724)	(2 126)	(534)	158	(1 680)	(1 876)
Proceeds from borrowings	0	0	0	1 699	0	0	0	250
Repayment of borrowings	(303)	0	0	(228)	(81)	(28)	(185)	(52)
Cash from financing activities	(303)	0	0	1 471	(81)	(28)	(185)	198
Cash flows from Government	2 460	1 890	1 178	3 005	1 974	1 944	3 628	2 647
Net increase in cash	663	146	6	499	769	(436)	(10)	(392)
Cash at the beginning of the period	1 006	1 910	145	2 403	1 264	754	451	1 128
Cash at end of the period	1 669	2 056	151	2 902	2 033	318	441	736

Comment

Five of the eight councils had net increases in cash balances. Two of the eight councils borrowed new funds during the financial year.

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)		(133)	(1 353)	(765)	(610)	(50)	3	(644)	589
Operating margin	>1.0	0.98	0.76	0.76	0.93	0.99	1.00	0.92	1.15
Financial Management									
Current ratio	>1	2.78	3.36	11.80	2.70	6.99	4.72	3.37	1.08
Cost of debt	7.5%	6.4%	-	-	7.1%	10.2%	7.1%	7.5%	6.5%
Debt collection	30 days	50	62	49	30	35	67	61	85
Creditor turnover	30 days	19	23	73	24	20	11	18	73
Other information									
Staff numbers		46	34	18	64	16	28	40	36
Average staff costs (\$'000s)		42	41	41	49	43	46	39	53

Comment

Overall, the Councils recorded a deficit result from operations of \$2.963m. All councils had a positive current ratio at 30 June 2002, indicating that they are able to meet all short-term liabilities.

The average cost of debt for the small Councils was 6.8%. In calculating this average, Flinders and Central Highlands Councils were excluded, as they had no cost of debt for 2001-02.

The average debt collection period was 55 days. This is primarily a reflection of the high level of outstanding rate debtors held by most councils. The average creditor turnover was 33 days, which was affected by larger balances at 30 June 2002, particularly for capital items, for Flinders and Tasman Councils resulting in a turnover of 73 days each.

The average staff costs ranged from \$0.039m (Southern Midlands Council) to \$0.053m (Tasman Council) for the eight councils, with an overall average of \$0.044m.

OVERALL COMMENT

Overall, six of the eight councils recorded a deficit from operating activities and all eight councils recorded a negative Result from Ordinary Activities. All councils had positive working capital and low debt to equity ratios at 30 June 2002.

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 3 800 square kilometres and comprises 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 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 31 July 2002, with amended statements received on 23 August 2002. An unqualified audit report was issued on 12 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	3 456	3 596	3 736	3 797	3 969
Grants	1 685	1 785	1 603	2 058	2 378
Other operating revenue	283	257	231	237	328
Non-operating revenue	44	0	0	10	0
Total Revenue	5 468	5 638	5 570	6 102	6 675
Borrowing costs	228	226	185	117	101
Depreciation	1 545	1 615	1 664	1 631	1 852
Other operating expenses	3 877	3 978	4 139	4 299	4 855
Non-operating expenses	0	9	24	0	46
Total Expenses	5 650	5 828	6 012	6 047	6 854
Result from Ordinary Activities	(182)	(190)	(442)	55	(179)

Comment

The increase in grant revenue from 2000-01 to 2001-02 of \$0.320m is mainly attributable to increased funding, \$0.119m, under the Roads to Recovery Programme and \$0.140m under Federal Assistance grants. Non-operating revenue in 1997-98 and 2000-01 relates to gains on the sale of property, plant and equipment.

Other operating expenses rose by \$0.556m in 2001-02 and include an increase of \$0.328m in materials and contracts expenditure. This increase occurred as council decided to write-off a number of work-in-progress jobs to expenditure, rather than capitalise them to non-current assets.

The increase in depreciation expense of \$0.221m in 2001-02 is due primarily to the revaluation of road assets, including a reassessment of useful lives. Borrowing costs have decreased over the 5-year period, with no new borrowings being taken up since 1997-98. Non-operating expenses in 1998-99, 1999-00 and 2001-02 relate to losses incurred on the sale of property, plant and equipment.

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

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	375	113	379	1 006	1 669
Receivables	433	505	611	602	541
Investments	552	1 102	352	2	2
Inventories	106	91	168	99	91
Other	464	457	389	756	275
Total Current Assets	1 930	2 268	1 899	2 465	2 578
Property, plant & equipment	51 869	51 015	50 561	49 822	50 687
Investments	51	7	4	0	0
Other	0	0	0	0	126
Total Non-Current Assets	51 920	51 022	50 565	49 822	50 813
Payables	188	149	183	326	395
Borrowings	324	373	288	233	214
Provisions	362	365	405	338	317
Total Current Liabilities	874	887	876	897	926
Borrowings	2 486	2 148	1 840	1 586	1 355
Provisions	83	79	14	15	37
Other	41	0	0	0	126
Total Non-Current Liabilities	2 610	2 227	1 854	1 601	1 518
Net Assets	50 366	50 176	49 734	49 789	50 947
Reserves	48 754	49 246	49 164	49 129	50 007
Retained surpluses	1 612	930	570	660	940
Total Equity	50 366	50 176	49 734	49 789	50 947

Comment

The balance of cash assets increased from \$1.006m at 30 June 2001 to \$1.669m at 30 June 2002. The majority of the increase is attributable to increased funding from government grants.

The balance of other current assets decreased by \$0.481m between 2000-01 and 2001-02. The decrease is primarily due to revenue accrued under the Roads to Recovery Programme, \$0.082m, amounts owing from the State Government for pensioner rate remissions as at 30 June 2001, \$0.178m, and a revaluation decrement to Land Held for Resale during 2001-02, \$0.145m.

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

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 722	3 676	3 781	3 996	4 820
Payments to suppliers and employees	(3 944)	(3 997)	(4 232)	(4 483)	(5 122)
Interest received	53	70	74	67	85
Borrowing costs	(266)	(222)	(177)	(148)	(117)
Cash from operations	(435)	(473)	(554)	(568)	(334)
Proceeds from investments	0	0	0	350	0
Payments for P, P & Equipment	(2 351)	(1 497)	(1 385)	(1 155)	(1 382)
Proceeds from sale of P, P & E	986	221	966	294	222
Cash used in investing activities	(1 365)	(1 276)	(419)	(511)	(1 160)
Proceeds from borrowings	400	0	0	0	0
Repayment of borrowings	(322)	(298)	(364)	(270)	(303)
Cash from financing activities	78	(298)	(364)	(270)	(303)
Cash Flows from Government	1 685	1 785	1 603	1 976	2 460
Net increase in cash	(37)	(262)	266	627	663
Cash at the beginning of the period	412	375	113	379	1 006
	375	113	379	1 006	1 669

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 \$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	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(226)	(181)	(418)	45	(133)
Operating margin	>1.0	0.96	0.97	0.93	1.01	0.98
Financial Management						
Current ratio	>1	2.21	2.56	2.17	2.75	2.78
Cost of debt	7.5%	8.1%	9.0%	8.7%	6.4%	6.4%
Debt collection	30 days	46	51	60	58	50
Creditor turnover	30 days	5	5	5	16	19
Other information						
Staff numbers FTEs		47	45	48	47	46
Average staff costs (\$'000s)		27	37	34	38	42

Comment

The financial performance ratios show that Council has incurred operating losses in four of the five years under review. As previously noted, a profit was recorded in 2000-01, \$0.055m, of which \$0.001m related to gains on the sale of property, plant and equipment.

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

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, due to the large number of rates, water and sundry debtors outstanding across the years under review. A high ratio of this nature is consistent across many of the small rural councils where a ratepayer's ability to pay can be limited.

Average staff costs have steadily increased over the period under review.

OVERALL COMMENT

In the five years to 30 June 2002, Council recorded total operating deficits (excluding non-operating items) of \$0.913m, with an operating profit of \$0.045m being recorded in 2000-01, primarily due to increased revenue from government grants.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

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 approximately 2 550 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Central Highlands Council, signed by the General Manager, were received on 30 September 2002 and an unqualified audit report was issued on 29 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	1 963	1 769	1 844	1 949	1 988
Grants	1 498	1 638	1 476	1 790	2 071
Other operating revenue	438	319	276	249	298
Non-operating revenue	399	1 461	488	273	273
Total Revenue	4 298	5 187	4 084	4 261	4 630
Borrowing costs	2	1	1	1	0
Depreciation	2 218	2 342	2 363	2 376	2 369
Other operating expenses	2 929	2 933	3 078	3 358	3 341
Non-operating expenses	1 092	405	298	289	362
Total Expenses	6 241	5 681	5 740	6 024	6 072
Result from Ordinary Activities	(1 943)	(494)	(1 656)	(1 763)	(1 442)

Comment

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

Grant revenue increased during 2001-02 due to a rise in Roads to Recovery Funding from \$0.183m in 2000-01 to \$0.388m.

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 of in any given year. In 1998-99 Non-operating revenue includes \$0.889m representing the value of the infrastructure assets of the Wayatinah village that were transferred to Council by the Hydro-Electric Corporation.

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

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 678	1 537	967	1 910	2 056
Receivables	181	175	317	290	353
Investments	400	400	923	0	0
Inventories	49	40	49	52	39
Other	27	26	48	94	79
Total Current Assets	2 335	2 178	2 304	2 346	2 527
Property, plant & equipment	37 337	37 020	35 270	33 451	32 099
Other	166	139	93	43	37
Total Non-Current Assets	37 503	37 159	35 363	33 494	32 136
Payables	52	70	85	52	203
Borrowings	0	0	0	0	14
Provisions	430	432	470	471	513
Other	73	78	52	29	23
Total Current Liabilities	555	580	607	552	753
Borrowings	15	14	11	0	58
Provisions	19	28	30	32	38
Other	80	40	0	0	0
Total Non-Current Liabilities	114	82	41	32	96
Net Assets	39 169	38 675	37 019	35 256	33 814
Reserves	2 344	2 268	2 265	2 457	2 301
Retained surpluses	36 825	36 407	34 754	32 799	31 513
Total Equity	39 169	38 675	37 019	35 256	33 814

Comment

The movements in cash and investment balances from 1999-00 to 2000-01 are due to the reclassification of financial information as a result of the application of the new

Australian Accounting Standard AAS 36 “Statement of Financial Position”. Investments as at 30 June 2000 of \$0.971m were reclassified as cash assets in accordance with the definitions contained in that Standard.

The increase in receivables from \$0.181m in 1997-98 to \$0.353m in 2001-02 is due largely to the increase in rate debtors that have found difficulty in meeting their obligations due to prolonged drought seasons.

Payables at 30 June 2002 have increased by \$0.151m over the prior year. Part of the increase can be attributed to capital expenditure creditors of approximately \$0.069m being included at 30 June 2002, with the remainder of the increase due to the timing of ongoing expense payments.

The amounts noted under other current and non-current liabilities for the first three years under review were involved with the progressive balance of amortisation of the valuation fee incurred, which was amortised at the amount of \$0.040m per annum. The fee was fully amortised during the 2000-01 year.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 414	2 159	2 055	2 512	2 593
Payments to suppliers and employees	(2 775)	(2 925)	(3 100)	(3 739)	(3 453)
Interest received	81	128	117	128	146
Borrowing costs	(1)	(1)	(1)	(1)	0
Cash from operations	719	(639)	(929)	(1 100)	(714)
Proceeds from investments	0	0	0	2	4
Payments for investments	(51)	(19)	0	0	0
Payments for P, P & Equipment	(1 020)	(1 135)	(613)	(542)	(1 307)
Proceeds from sale of P, P & E	34	19	21	73	273
Cash used in investing activities	(1 037)	(1 135)	(592)	(467)	(1 030)
Repayment of borrowings	(5)	(5)	(2)	(13)	0
Cash from financing activities	(5)	(5)	(2)	(13)	0
Cash Flows from Government	1 498	1 638	1 476	1 600	1 890
Net increase in cash	1 175	(141)	(47)	20	146
Cash at the beginning of the period	903	2 078	1 937	1 890	1 910
	2 078	1 937	1 890	1 910	2 056

Comment

The significant increase in Receipts from customers in 1997-98 resulted from the receipt of \$1.227m for taking over the responsibility of 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 and 1998-99 were 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. Higher payments were again made during the 2001-02 year, \$1.307m, related to various capital projects. These included upgrades at Wayatinah Village for sewerage works, \$0.069m, and road and footpath works, \$0.172m; other road and footpath works, \$0.140m; bridge reconstructions, \$0.183m; and heavy plant and equipment purchases, \$0.258m.

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	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(1 250)	(1 550)	(1 846)	(1 747)	(1 353)
Operating margin	>1.0	0.76	0.71	0.66	0.70	0.76
Financial Management						
Current ratio	>1	4.21	3.76	3.80	4.25	3.36
Cost of debt	7.5%	13.3%	7.1%	9.1%	0.0%	0.0%
Debt collection	30 days	34	36	63	54	62
Creditor turnover	30 days	7	9	13	7	23
Other information						
Staff numbers FTEs		31	33	35	34	34
Average staff costs (\$'000s)		38	38	36	38	41

Comment

The trend for results from operations is related mainly to the depreciation charge not being covered in the rating process. This has also resulted in low operating margins which are well below the benchmark. The operating margin has increased in recent years, due mainly to increases in grant funding received. 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 as at 30 June 2001 were fully repaid. A minor amount of borrowings has been taken out during 2001-02, but this will have a minimal effect on Council's operations.

The increase in the ratio for debt collection for 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 2001-02 year was completed with no major issues outstanding.

In my Report No 2 for 2000-01 (page 406), it was noted that 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 the Australian Accounting Standards Board's Urgent Issues Group Consensus View UIG 30 'Depreciation of Long-Lived Physical Assets'.

I noted in the 2001 report that the above issue was to be addressed with a detailed road valuation to be undertaken in the 2001-02 financial year. This revaluation did not occur during the current year but is scheduled to be undertaken during the 2002-03 year.

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 2001-02 FINANCIAL STATEMENTS

Initial signed financial statements were received on 23 September 2002, with amended statements received on 26 September 2002. A qualified audit report was issued on 7 October 2002. The qualification relates to the prior year comparatives, where depreciation was understated due to council using an excessive useful life for unsealed roads. The qualification does not affect the current year as council has since changed its accounting policy to depreciate such roads over 57 years rather than 133 years.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	664	685	711	703	755
Grants	788	858	1 220	957	1 177
Other operating revenue	380	440	390	429	513
Non-operating revenue	65	0	31	0	47
Total Revenue	1 897	1 983	2 352	2 089	2 492
Borrowing costs	3	2	0	0	0
Depreciation	950	921	883	1 039	1 433
Other operating expenses	1 383	1 352	1 497	1 547	1 777
Non-operating expenses	130	0	0	13	0
Total Expenses	2 466	2 275	2 380	2 599	3 210
Result from Ordinary Activities	(569)	(292)	(28)	(510)	(718)

Comment

The increase in grant revenue in 1999-00 is due mainly to \$0.300m in government funding for the sealing of the airport runway. Non-operating revenue in 2001-02, \$0.047m, relates to the gain on sale of property, plant and equipment.

Council has incurred no borrowing costs in the past three financial years, as loans were repaid during 1998-99. Depreciation expense increased by \$0.594m 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 2001-02, \$0.394m, is due mainly to the change in useful lives for unsealed roads. Council adopted an average useful life of 57 years for its unsealed roads from 1 July 2001.

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 \$2.117m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	187	26	44	145	151
Receivables	61	91	226	147	101
Investments	1 997	2 623	2 823	2 958	3 663
Inventories	412	389	286	232	190
Other	30	36	37	52	71
Total Current Assets	2 687	3 165	3 416	3 534	4 176
Property, plant & equipment	39 610	38 819	38 713	39 485	38 258
Other	16	43	39	30	21
Total Non-Current Assets	39 626	38 862	38 752	39 515	38 279
Payables	74	102	56	84	206
Borrowings	47	79	281	0	0
Provisions	66	94	99	97	109
Other	86	46	45	59	39
Total Current Liabilities	273	321	481	240	354
Borrowings	20	0	0	0	0
Provisions	66	45	53	62	72
Total Non-Current Liabilities	86	45	53	62	72
Net Assets	41 954	41 661	41 634	42 747	42 029
Reserves	1 997	2 643	2 843	4 467	4 679
Retained surpluses	39 957	39 018	38 791	38 280	37 350
Total Equity	41 954	41 661	41 634	42 747	42 029

Comment

The increase in Receivables in 1999-00 was due principally to the inclusion of grant funding from the State Government for the sealing of the airport runway.

The increase in payables in 2001-02, \$0.122m, is mainly attributable to an outstanding invoice for the purchase of an item of major plant.

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. Property, plant and equipment only increased by \$0.772m during the same year because the revaluation increment was offset by depreciation expense for 2000-01 of \$1.040m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	983	936	843	1 032	1 256
Payments to suppliers and employees	(1 524)	(1 316)	(1 369)	(1 557)	(1 847)
Interest received	126	108	149	169	143
Borrowing costs	(3)	(2)	0	0	0
Cash from operations	(418)	(274)	(377)	(356)	(448)
Proceeds from investments	34	0	0	0	0
Payments for investments	0	(625)	(200)	(135)	(705)
Payments for P, P & Equipment	(277)	(131)	(837)	(271)	(69)
Proceeds from sale of P, P & E	40	0	104	77	50
Cash used in investing activities	(203)	(756)	(933)	(329)	(724)
Repayment of borrowings	(31)	(25)	0	0	0
Cash from financing activities	(31)	(25)	0	0	0
Cash Flows from Government	788	859	1 125	1 067	1 178
Net increase in cash	136	(196)	(185)	382	6
Cash at the beginning of the period	8	144	(52)	(237)	145
	144	(52)	(237)	145	151

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 \$0.837m 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 \$0.200m from the Federal Government for the sealing of the runway. A further \$0.100m was received for the runway from the State Government in 2000-01.

Cash flows from Government in 2001-02, \$1.178m, includes funding under the Roads to Recovery Programme, \$0.228m.

FINANCIAL ANALYSIS

	Bench	1997-98	1998-99	1999-00	2000-01	2001-02
	Mark					
Financial Performance						
Result from operations (\$'000s)		(504)	(292)	(59)	(497)	(765)
Operating margin	>1.0	0.78	0.87	0.98	0.81	0.76
Financial Management						
Current ratio	>1	9.84	9.86	7.12	14.73	11.80
Cost of debt	7.5%	7.6%	-	-	-	-
Debt collection	30 days	34	48	65	76	49
Creditor turnover	30 days	29	42	19	23	73
Other information						
Staff numbers FTEs		17	17	17	17	18
Average staff costs (\$'000s)		35	36	36	36	41

Comment

The financial performance ratios show that Council has incurred operating losses for the five years to 30 June 2002. The total losses for this period amount to \$2.117m.

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 the past four years as Council repaid its outstanding borrowings in 1998-99.

The debt collection ratio has been consistently above the benchmark of 30 days. However, it has decreased significantly in 2001-02 due to the sale of the Flinders Island Lodge during 2001-02 that resulted in settlement of significant rate arrears.

The creditor turnover figure has been greater than 30 days in 1998-99 (36 days) and 2001-02 (68 days). Turnover for 2001-02 was affected by an outstanding invoice at 30 June, relating to the purchase of an item of major plant.

The increase in average staff costs from \$0.036m in 2000-01 to \$0.041m in 2001-02 is due mainly to the Area Marketing and Development Office being operational for the full year (compared with five months in 2001) and increased use of casual staff.

OVERALL COMMENT

In the five years under review, Council recorded total operating deficits (excluding non-operating items) of \$2.117m. The change in useful lives and resulting increase in depreciation expense for road assets impacted upon the operating result for both 2000-01, deficit \$0.497m, and 2001-02, deficit \$0.718m.

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 approximately 4 200. However, during the summer months the population increases by threefold especially upon the return of owners of holiday homes and caravans.

Pursuant to a Council resolution passed on 21 August 2001, the May Shaw Nursing Centre Authority was established. The rules of the single authority, published in a Government Gazette notice, created the entity on 3 October 2001. Although the Centre was previously being run as a separate entity, its financial results were incorporated into Council's financial statements.

A separate financial statement was prepared for the new Authority for the period 3 October 2001 to 30 June 2002. The transactions and balances were subsequently consolidated into the Council's financial statements. Financial information relating to the May Shaw Nursing Centre can be located in Section 4.5 of this report.

AUDIT OF THE 2000-01 FINANCIAL STATEMENTS

Further to my Report No 2 for 2000-01 (page 412), the initial signed financial statements for 2000-01 were received by my Office on 18 December 2001, with amended statements received on 10 January 2002. An unqualified audit report was issued on 15 January 2002.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements for 2001-02 were received on 1 November 2002 and an unqualified audit report was issued on 4 November 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	3 317	3 507	3 719	4 008	4 229
Grants	1 850	2 055	2 641	3 009	3 006
Other operating revenue	366	385	444	700	749
Non-operating revenue	132	41	88	45	76
Total Revenue	5 665	5 988	6 892	7 762	8 060
Borrowing costs	142	147	125	112	158
Depreciation	1 876	1 968	1 942	1 409	1 446
Other operating expenses	4 368	4 755	5 341	5 982	6 990
Non-operating expenses	132	40	92	13 778	100
Total Expenses	6 518	6 910	7 500	21 281	8 694
Result from Ordinary Activities	(853)	(922)	(608)	(13 519)	(634)

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 of 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 decrease in depreciation in 2000-01 from that of the prior year, \$0.533m, is due principally to a reduction of \$0.940m in depreciation of roads, offset by a increase of \$0.392m in depreciation of infrastructure assets. Roads had been revalued downwards while infrastructure assets had been revalued upwards.

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 \$13.774m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	247	(4)	17	67	126
Receivables	292	420	286	446	346
Investments	1 451	1 481	2 439	2 336	2 776
Inventories	14	0	0	0	0
Other	44	74	0	0	0
Total Current Assets	2 048	1 971	2 742	2 849	3 248
Property, plant & equipment	43 401	43 898	42 960	41 676	42 716
Other	44	5	81	60	42
Total Non-Current Assets	43 445	43 903	43 041	41 736	42 758
Payables	302	114	363	438	519
Borrowings	178	204	206	228	277
Provisions	257	325	394	307	388
Other	112	119	197	131	20
Total Current Liabilities	849	762	1 160	1 104	1 204
Borrowings	1 525	1 320	1 358	1 528	2 951
Provisions	57	21	43	94	127
Other	0	0	59	162	296
Total Non-Current Liabilities	1 582	1 341	1 460	1 784	3 374
Net Assets	43 062	43 771	43 163	41 697	41 428
Reserves	2 715	2 701	868	12 849	12 980
Retained surpluses	40 347	41 070	42 295	28 848	28 448
Total Equity	43 062	43 771	43 163	41 697	41 428

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 in 1999-00 is due to the Council's decision to set aside cash for earmarked projects in the future, funds for which were predominately received from increased grant funding.

The balance of Other current assets in 1997-98 and 1998-99 related to prepayments for items such as annual insurance premiums, subscriptions and a range of rentals on properties. In 1999-00, there was a change in procedures so that annual payments were made on the first day of the new financial year. As a result, prepayments are no longer applicable.

While Property, plant and equipment decreased marginally in 2000-01, the movement was due largely to an upward revaluation of infrastructure assets, \$11.991m, offset by a downward revaluation of \$13.774m in the value of other assets, principally roads.

In total, Council borrowings increased by \$1.472m from 2000-01 to 2001-02. The increase is the result of new borrowings, \$1.699m, offset by principal repayments of \$0.227m. The new borrowings are comprised of a \$1.000m loan for the Triabunna call centre and a \$0.699m loan for sewage reuse projects.

The decrease in Reserves in 1999-00, \$1.833m, was due to a change in Council's policy to disclose only those reserves earmarked for projects that are backed by cash balances. The subsequent increase in 2000-01, \$11.981m, is due to the creation of an asset revaluation reserve, \$11.991m, and transfers from reserves to accumulated surplus, \$0.010m. The majority of the revaluation increment related to Infrastructure assets that were revalued on 1 July 2000.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 040	4 096	4 163	4 590	5 480
Payments to suppliers and employees	(4 645)	(5 275)	(5 041)	(6 023)	(7 312)
Interest received	91	78	134	144	139
Borrowing costs	(142)	(147)	(125)	(112)	(158)
Cash from operations	(656)	(1 248)	(869)	(1 401)	(1 851)
Payments for P, P & Equipment	(1 241)	(817)	(1 073)	(1 925)	(2 202)
Proceeds from sale of P, P & E	31	24	88	91	76
Cash used in investing activities	(1 210)	(793)	(985)	(1 834)	(2 126)
Proceeds from borrowings	285	0	223	400	1 699
Repayment of borrowings	(191)	(179)	(183)	(227)	(228)
Cash from financing activities	94	(179)	40	173	1 471
Cash Flows from Government	1 853	1 999	2 793	3 009	3 005
Net increase in cash	81	(221)	979	(53)	499
Cash at the beginning of the period	1 617	1 698	1 477	2 456	2 403
Cash at the end of the period	1 698	1 477	2 456	2 403	2 902

Comment

Payments for property, plant and equipment in 2000-01, \$1.925m, includes significant additions such as roads and bridges construction of \$0.386m, furniture and fittings expenditure at the council offices of \$0.109m and works in progress amounting to

\$0.205m. Payments totaling \$2.202m in 2001-02 include almost \$1.000m relating to the Triabunna call centre.

As previously noted, Council drew down \$1.699m in new loans in 2001-02, of which \$1.000m related to the call centre.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(853)	(923)	(604)	214	(610)
Operating margin	>1.0	0.87	0.87	0.92	1.03	0.93
Financial Management						
Current ratio	>1	2.41	2.59	2.36	2.58	2.70
Cost of debt	7.5%	8.3%	9.6%	8.7%	8.7%	7.1%
Debt collection	30 days	32	44	28	41	30
Creditor turnover	30 days	33	13	35	30	24
Other information						
Staff numbers FTEs		54	54	55	56	64
Average staff costs (\$'000s)		42	46	48	47	49

Comment

Council has incurred operating losses in four of the five years under review, the exception being an operating surplus of \$0.214m in 2000-01.

Council's current ratio has been consistently around 2.5 and indicates that Council is able to meet its short-term liabilities.

Council's debt collection ratio has been equal to or above the benchmark of 30 days for four of the five years under review. Council's creditor turnover figure has been slightly above 30 days in 1997-98, 33 days, and 1999-00, 35 days.

OVERALL COMMENT

Council took out a new loan in December 2001 for \$1.000m to finance the construction of the Triabunna call centre. The building, which was substantially complete at 30 June 2002, was included in Council's work-in-progress balance at that date. The centre has been unoccupied since its construction, however the State Government has indicated that no financial costs will be incurred by Council. Council is currently negotiating with the Government for the transfer of the building and the associated loan.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

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 people.

The Premier suspended the Kentish Council on 27 February 2002 and announced a Board of Inquiry. The terms of reference of the inquiry were:

- The stability of the Council and the sufficiency of its decision making;
- Any deficiencies in the relationship between the mayor, Councillors and general manager in respect to the exercise and performance by the Council of its functions and powers under the *Local Government Act 1993*;
- The probity of decisions made by the Kentish Council in connection with the winding up of the Kentish/Latrobe Joint Authority; and
- The likelihood that, in the future, the council will effectively carry out its statutory functions.

An administrator was appointed to enable the Council's operations to continue during the review period.

The Board of Inquiry completed its Report and presented to the Premier in July 2002. The Report made the following recommendations:

- The Minister responsible for Local government dismiss all Councillors at Kentish Council pursuant to Section 226 of the *Local Government Act 1993*;
- A plebiscite be conducted with due weight to be given to matters raised in the Report relating to the future of the Council;
- An Administrator be appointed for a period of up to two years ; and
- The number of councillors be reduced from ten to nine to conform with the number of representatives elected to like rural councils and to prevent a hung Council.

The Premier dismissed the Councillors of the Kentish Council on 21 August 2002 and appointed an Administrator until 21 August 2003. Elections due in October 2002 were postponed under the Local Government (Kentish Council Election) Order 2002. A plebiscite will be held to assess the ratepayers' intentions relating to the future of the Council.

A date for the plebiscite has not yet been determined.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 26 September 2002, with amended financial statements submitted on 21 October 2002. An unqualified audit report was issued on 31 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	1 780	1 870	1 983	2 118	2 386
Grants	1 192	1 295	1 593	2 239	1 974
Other operating revenue	205	125	107	161	162
Non-operating revenue	0	0	900	0	1
Total Revenue	3 177	3 290	4 583	4 518	4 523
Borrowing costs	71	67	69	61	60
Depreciation	811	731	719	1 115	1 277
Other operating expenses	2 720	2 639	2 684	2 860	3 235
Non-operating expenses	323	1 713	1	5	36
Total Expenses	3 925	5 150	3 473	4 041	4 608
Result from Ordinary Activities	(748)	(1 860)	1 110	477	(85)

Comment

Revenue from Rates, fees and charges has increased from \$1.780m in 1997-98 to \$2.386m in 2001-02, the majority of which relates to increases in rate revenue as a result of advice from an independent financial advisor who conducted a review of the council's viability in 1998-99. A further review was undertaken during 2000-01.

In 1999-00 grants increased by \$0.298m principally as a result of Natural Heritage Trust funding for the Sheffield Waste Water Treatment Plant project, \$0.095m, and \$0.160m from the Department of Primary Industries, Water and Environment for the Clean Water Quality Program. In 2000-01 the item includes Commonwealth Road to Recovery funding totalling \$0.789m, with a further amount of \$0.313m received for this purpose in 2001-02.

Non-operating revenue in 1999-00, \$0.900m, reflects Councils acquisition of an ownership interest in 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.

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 then current practices being inconsistent with benchmark rates provided by a consultant engaged by the Tasmanian Audit 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.

During the 2001-02 financial year, Council revalued and reviewed the useful lives for roads, water and sewerage assets, the effect of which was to further increase the annual depreciation expense by \$0.118m.

In 1997-98 Non-operating expenses comprised a write-off of compost inventory previously considered saleable, \$0.157m, and the expensing of the undepreciated book value of bridges replaced, \$0.166m.

In 1998-99 the item included two further asset write-offs. A long-term lease of elderly person units was treated as a disposal for nil consideration to Tandara Nursing Homes Inc., \$1.348m. In addition, the written-down value totalling \$0.365m of the Gowrie Park Recreation Centre, which was recorded as an asset of Council's but not controlled by it, was removed from its asset register.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	385	428	709	1 264	2 033
Receivables	138	75	128	235	229
Investments	36	37	37	0	0
Inventories	27	27	0	0	0
Other	27	26	0	70	39
Total Current Assets	613	593	874	1 569	2 301
Property, plant & equipment	24 609	22 714	22 553	22 575	27 987
Investments	912	912	1 737	1 737	900
Other	92	68	86	83	81
Total Non-Current Assets	25 613	23 694	24 376	24 395	28 968
Payables	357	305	156	281	181
Borrowings	105	128	144	81	88
Provisions	82	83	10	16	49
Other	30	30	1	1	11
Total Current Liabilities	574	546	311	379	329
Borrowings	616	587	670	589	501
Provisions	30	32	37	33	31
Other	24	0	0	0	0
Total Non-Current Liabilities	670	619	707	622	532
Net Assets	24 982	23 122	24 232	24 963	30 408
Reserves	26 163	26 091	26 091	26 291	31 900
Retained surpluses	(1 181)	(2 969)	(1 859)	(1 328)	(1 492)
Total Equity	24 982	23 122	24 232	24 963	30 408

Comment

The increase in the cash balance at 30 June 2002 principally reflects Council holding unexpended grant funds totalling \$0.095m, and the receipt of \$0.386m from the winding up of the Kentish Latrobe Joint Authority.

The balance of other current assets in 2000-01 and 2001-02 represents amounts owing to Council in relation to the GST.

The decrease in Property, plant and equipment in 1998-99, \$1.895m, is principally attributable to the write-off of elderly person units transferred to Tandara Lodge Community Care Inc. and disposal of the Gowrie Park Recreation Centre referred to earlier in this segment of the Report.

The increase in Property, plant and equipment in 2001-02 resulted from a revaluation of the roads, water and sewerage infrastructure assets undertaken by Council Consulting Engineers. The net movement in the revaluation, \$5.530m, and was also recorded against the asset revaluation reserve.

An investment in the Kentish/Latrobe Joint Authority (The 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.

While the Authority officially ceased in April 2002, the employees and assets were transferred back to the member councils in October 2001. Consequently, the investment balance of \$0.837m carried forward from 2000-01 has been eliminated from the accounts. As a result of the wind-up, Council incurred a loss on the investment of \$0.036m, which was included as a Non-operating expense in the current year.

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

The Payables balance in 1999-00, \$0.156m, was unusually low as problems were encountered with Council's accounting system. Council processed cheques drawn in July 2000 as June payments resulting in both the cash and creditor balances being understated. The decrease in Payables in 2001-02 is due to the wind-up of the Joint Authority and the absence of any amounts owing to it by Council.

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 that Authority. Leave balances were paid to the Joint Authority. In 2001-02, the provisions have increased by \$0.031m with the recognition of the employees who were transferred back to the Council after the wind up of the Authority.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	1 937	2 032	2 002	2 175	2 791
Payments to suppliers and employees	(2 669)	(2 700)	(2 826)	(3 105)	(3 404)
Interest received	36	26	35	63	78
Borrowing costs	(77)	(67)	(69)	(61)	(55)
Cash from operations	(773)	(709)	(858)	(928)	(590)
Proceeds from investments	0	0	0	0	389
Payments for investments	(400)	0	0	0	0
Payments for P, P & Equipment	(670)	(537)	(569)	(669)	(960)
Proceeds from sale of P, P & E	77	0	16	19	37
Cash used in investing activities	(993)	(537)	(553)	(650)	(534)
Proceeds from borrowings	0	100	240	0	0
Repayment of borrowings	(120)	(105)	(141)	(143)	(81)
Cash from financing activities	(120)	(5)	99	(143)	(81)
Cash Flows from Government	1 192	1 295	1 593	2 239	1 974
Net increase in cash	(694)	44	281	518	769
Cash at the beginning of the period	1 115	421	465	746	1 264
	421	465	746	1 264	2 033

Comment

Council has consistently incurred a deficit of Cash from operations during the period under review. Cash Flows from Government provide additional funding for both the operating and capital works program.

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. In 2001-02, \$0.386m was included as proceeds from investments, representing the return of Council's share of the cash balances arising from the wind up of the Authority.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(425)	(147)	211	482	(50)
Operating margin	>1.0	0.88	0.96	1.06	1.12	0.99
Financial Management						
Current ratio	>1	1.07	1.09	2.81	4.14	6.99
Cost of debt	7.5%	9.8%	9.4%	8.5%	8.6%	8.2%
Debt collection	30 days	28	15	24	40	35
Creditor turnover	30 days	38	35	18	33	20
Other information						
Staff numbers FTEs		-	-	9	8	16
Average staff costs (\$'000s)		0	0	18	55	43

Comment

The financial performance of the Council over the five-year period has resulted in accumulated losses totalling \$1.106m. However the accumulated losses from operations, which exclude non-operating transactions, totalled \$0.071m. Apart from the negative result noted in 1997-98, council has been close to, or better than, the benchmark operating margin of one.

Council were above the benchmark current ratio in all the 5 years under review. The increase in cash balances held between 1999-00 and 2001-02 has significantly improved Council's liquidity position.

The debt collection ratio was consistently below the benchmark of 30 days for the period 1997-98 to 1999-00. Due to increased rate debtors being held at 30 June 2001 and 30 June 2002, the ratio for these periods is above the benchmark. However, Council is taking action to recover the outstanding rate debtors.

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 period 1997-98 and 1998-99. Consequently, the analysis on average staff costs was not prepared for these years.

The average staff costs for 1999-00 is distorted, as the majority of the nine employees at 30 June 2000 did not commence until March-April 2000, with the transfer of the corporate services function. The average staff costs for 2001-02 are below the average as all the sixteen employees were not employed for the full financial period. Six employees were transferred from the Kentish/Latrobe Joint Authority in October 2001.

OVERALL COMMENT

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

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 1 100 square kilometres with Council services provided to a population of approximately 1 800 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 1 October 2002. An unqualified audit report was issued on 29 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	2 032	2 103	2 147	2 182	2 332
Grants	930	1 087	3 347	1 915	1 924
Other operating revenue	138	197	274	360	362
Non-operating revenue	0	939	0	1	8
Total Revenue	3 100	4 326	5 768	4 458	4 626
Borrowing costs	39	24	15	11	6
Depreciation	1 085	1 106	1 102	1 138	1 169
Other operating expenses	2 430	2 480	2 673	4 861	3 440
Non-operating expenses	12	9	30	47	41
Total Expenses	3 566	3 619	3 820	6 057	4 656
Result from Ordinary Activities	(466)	707	1 948	(1 599)	(30)

Comment

Revenue from Rates, fees and charges has steadily increased during the five years to 30 June 2002.

The increased grant revenue in 1999-00 includes \$1.660m for the Networking the Nation project. Non-operating revenue in 1998-99, \$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 \$0.039m in 1997-98 to \$0.006m in 2001-02, and is attributable to regular repayments of loan borrowings, with no additional new borrowings, resulting in a reduction in the balance of loans outstanding.

Other operating expenses increased by \$2.188m in 2000-01. The major additional item included in that year was the one-off expense of \$1.660m for costs associated with the Networking the Nation project. Corresponding grant funding was received during the previous year.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	267	160	80	754	318
Receivables	184	246	388	318	425
Investments	1 010	1 196	3 228	3 150	2 490
Inventories	218	299	404	399	367
Other	38	57	59	32	35
Total Current Assets	1 717	1 958	4 159	4 653	3 635
Property, plant & equipment	20 435	20 238	19 965	19 510	19 440
Investments	600	600	486	486	0
Other	0	42	28	14	0
Total Non-Current Assets	21 035	20 880	20 479	20 010	19 440
Payables	60	49	135	1 767	109
Borrowings	147	152	35	36	39
Provisions	306	349	299	314	369
Other	123	139	116	147	253
Total Current Liabilities	636	689	585	2 264	770
Borrowings	310	163	128	92	45
Provisions	47	34	39	34	31
Other	0	42	28	14	0
Total Non-Current Liabilities	357	239	195	140	76
Net Assets	21 759	21 910	23 858	22 259	22 229
Reserves	2 323	1 780	1 522	1 700	1 803
Retained surpluses	19 436	20 130	22 336	20 559	20 426
Total Equity	21 759	21 910	23 858	22 259	22 229

Comment

The balance of cash assets decreased from \$0.754m at 30 June 2001 to \$0.318m at 30 June 2002. However, this reduction includes \$1.146m from the current and non-current investment balances, which decreased from \$3.636m to \$2.490m. The decrease is due to the expenditure of Networking the Nation funding received in the prior year.

Receivables has been stable over the five-year period under review, although the balance of \$0.425m as at 30 June 2002 includes \$0.065m relating to the trade-in consideration on the sale of a truck.

The increase in Payables 1999-00 to 2000-01, \$1.632m, is predominantly due to expenditure incurred associated with Networking the Nation. This year's balance of payables is consistent with normal operations of council.

Borrowings have decreased over the five-year period under review from \$0.457m at 30 June 1998 to \$0.084m at 30 June 2002. There have been no new borrowings in this period.

Other current liabilities include monies held in trust. At 30 June 2002, council held \$0.231m to be expended for a number of specific purposes.

The decrease in reserve balances from 1997-98 to 1998-99, \$0.543m, is due to the revaluation of buildings during the year in accordance with the Valuer Generals Municipal Valuation. The balances for 2000-01 and 2001-02 have increased through transfers to a number of asset replacement reserves.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 095	2 117	2 201	2 593	2 808
Payments to suppliers and employees	(2 497)	(2 522)	(2 851)	(3 481)	(5 436)
Interest received	88	90	108	227	124
Borrowing costs	(43)	(29)	(19)	(11)	(6)
Cash from operations	(357)	(344)	(561)	(672)	(2 510)
Proceeds from investments	0	0	0	148	1 256
Payments for investments	(68)	(190)	(1 955)	0	0
Payments for P, P & Equipment	(318)	(578)	(898)	(849)	(1 337)
Proceeds from sale of P, P & E	97	56	134	163	239
Cash used in investing activities	(289)	(712)	(2 719)	(538)	158
Repayment of borrowings	(150)	(138)	(147)	(35)	(28)
Cash from financing activities	(150)	(138)	(147)	(35)	(28)
Cash Flows from Government	931	1 087	3 347	1 919	1 944
Net increase in cash	135	(107)	(80)	674	(436)
Cash at the beginning of the period	132	267	160	80	754
	267	160	80	754	318

Comment

The net cash from operations has remained fairly stable over the initial four years under review. In 2001-02, the net cash from operations outflow increased by \$1.838m resulting from an increase of \$1.955m in payments to suppliers and employees predominantly due to expenditure of Networking the Nation project funds. These grant funds were received from Government in 1999-00 and held in an investment account.

Payments for Property, plant and equipment remained fairly consistent over the initial four years under review. However in 2001-02 the expenditure increased by \$0.488m to \$1.337m and included payments for a grader, \$0.204m; Currie stormwater works, \$0.259m; and road works (including bridges), \$0.396m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(454)	(223)	1 978	(1 553)	3
Operating margin	>1.0	0.87	0.94	1.52	0.74	1.00
Financial Management						
Current ratio	>1	2.70	2.84	7.11	2.06	4.72
Cost of debt	7.5%	8.5%	7.6%	9.2%	8.6%	7.1%
Debt collection	30 days	33	43	66	53	67
Creditor turnover	30 days	15	9	21	142	11
Other information						
Staff numbers FTEs		28	29	28	26	28
Average staff costs (\$'000s)		45	40	43	45	46

Comment

Council's results from operations have varied across the five years under analysis. An operating surplus of \$1.948m was recorded for the 1999-00 due largely to the receipt of the \$1.660m grant funding for the Networking the Nation project. The expenditure was incurred in the following year, which resulted in the large deficit of \$1.553m.

Council's current ratio is above benchmark for all years and indicates that the Council is able to meet all short-term liabilities. The 1999-00 ratio is significantly greater than comparative years due to additional investment funds relating to unexpended grants.

The debt collection ratio has been consistently above the benchmark of 30 days. However, council has policies in place to pursue outstanding debts and is currently pursuing all longer-term debtors.

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

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

However, during our 2000-01 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 are currently reviewing the completeness of the road asset network to identify and correct any discrepancies.

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 and Kempton. The Council services a population of approximately 5 500 persons.

Management of the Midlands Multi-Purpose Health Centre (MMPHC) was returned to the Department of Health and Human Services (DHHS) from the Council effective from 1 December 2001. There remained a number of unresolved issues with the transfer as at 30 June 2002, which have now either been cleared or are close to a resolution.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Council, signed by the General Manager, were received on 30 September 2002 and an unqualified audit report was issued on 29 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	2 801	2 909	3 092	3 160	3 012
Grants	3 342	3 426	3 964	4 111	3 798
Other operating revenue	162	166	228	189	131
Non-operating revenue	227	287	606	157	481
Total Revenue	6 532	6 788	7 890	7 617	7 422
Borrowing costs	179	139	124	107	105
Depreciation	1 963	1 938	1 794	2 497	2 485
Other operating expenses	5 062	5 029	5 312	5 213	4 995
Non-operating expenses	198	357	689	251	775
Total Expenses	7 402	7 463	7 919	8 068	8 360
Result from Ordinary Activities	(870)	(675)	(29)	(451)	(938)

Comment

The majority of revenue categories have reduced for the 2001-02 year, predominantly due to the transfer of operations of the MMPHC back to the DHHS.

The increase in grant revenue from 1998-99 to 1999-00, \$0.538m, is mainly attributable to additional funding received from the DHHS for the MMPHC. 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. This funding was reduced in 2001-02 due to the reduced time period the Council operated the MMPHC.

Depreciation expense decreased by \$0.144m from 1998-99 to 1999-00 due primarily 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 and as a result, depreciation expense for roads increased by \$0.676m in 2000-01.

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 of in any given year. The 1997-98 Non-operating revenue of \$0.227m included \$0.130m for the recognition of the Callington Mill as a Council asset and \$0.097m in proceeds from the sale of property, plant and equipment. For the 2001-02 year both Non-operating revenue and expenses increased due to a significant number of plant and equipment sales and replacement.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	634	456	561	451	441
Receivables	380	459	598	731	500
Investments	1 000	1 500	1 750	2 535	1 674
Inventories	61	118	163	159	193
Other	14	14	10	49	51
Total Current Assets	2 089	2 547	3 082	3 925	2 859
Property, plant & equipment	40 656	39 383	38 846	67 878	67 654
Other	88	44	29	15	0
Total Non-Current Assets	40 744	39 427	38 875	67 893	67 654
Payables	333	325	368	404	308
Borrowings	178	153	168	181	174
Provisions	202	240	192	220	241
Other	313	182	253	229	126
Total Current Liabilities	1 026	900	981	1 034	849
Borrowings	1 439	1 435	1 382	1 400	1 222
Provisions	40	30	14	32	28
Other	44	0	0	0	0
Total Non-Current Liabilities	1 523	1 465	1 396	1 432	1 250
Net Assets	40 284	39 609	39 580	69 352	68 414
Reserves	1 608	2 095	2 262	32 775	32 247
Retained surpluses	38 676	37 514	37 318	36 577	36 167
Total Equity	40 284	39 609	39 580	69 352	68 414

Comment

The receivables balance as at 30 June 2002 has decreased by \$0.231m from the prior year amount of \$0.731m. Council collected a considerable number of older rate debts worth \$0.153m during the 2001-02 year that had been responsible for the gradual increase in receivables noted in the earlier years under analysis.

The investment balance increased by \$0.785m during 2000-01, which was due mainly to an increase in cash flows from government of \$0.487m. Reduced grants funding and increased capital expenditure resulted in a decrease in surplus funds at 30 June 2002, bringing the investment balance down to \$1.674m.

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 could not be 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 amounting to \$26.464m. The revaluation adjustment also impacted upon the balance of reserves, which increased by \$30.513m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 910	2 939	3 024	3 295	3 749
Payments to suppliers and employees	(4 852)	(5 268)	(4 969)	(5 445)	(5 525)
Interest received	77	85	113	162	110
Borrowing costs	(188)	(143)	(134)	(110)	(107)
Cash from operations	(2 053)	(2 387)	(1 966)	(2 098)	(1 773)
Proceeds from investments	102	0	0	0	861
Payments for investments	0	(500)	(250)	(785)	0
Payments for P, P & Equipment	(978)	(976)	(1 887)	(1 542)	(3 022)
Proceeds from sale of P, P & E	97	287	606	157	481
Cash used in investing activities	(779)	(1 189)	(1 531)	(2 170)	(1 680)
Proceeds from borrowings	170	150	160	200	0
Repayment of borrowings	(439)	(178)	(198)	(169)	(185)
Cash from financing activities	(269)	(28)	(38)	31	(185)
Cash Flows from Government	3 336	3 426	3 640	4 127	3 628
Net increase in cash	235	(178)	105	(110)	(10)
Cash at the beginning of the period	399	634	456	561	451
Cash at end of the period	634	456	561	451	441

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. Payments for Property, plant and equipment in 2001-02 amounted to \$3.022m, the highest level in the five-year

period under review. Capital works for this year included road additions, \$1.434m, bridge reconstructions, \$0.573m, and the purchase of plant and equipment totalling \$0.736m. Increased trade-ins and sales of plant items resulted in proceeds from sale rising to \$0.481m for the 2001-02 year.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(899)	(605)	54	(357)	(644)
Operating margin	>1.0	0.88	0.91	1.01	0.95	0.92
Financial Management						
Current ratio	>1	2.04	2.83	3.14	3.80	3.37
Cost of debt	7.5%	11.1%	8.8%	8.0%	7.0%	7.0%
Debt collection	30 days	50	58	71	84	61
Creditor turnover	30 days	25	25	23	29	18
Other information						
Staff numbers FTEs		34	36	37	43	40
Average staff costs (\$'000s)		37	35	35	36	39

Comment

The financial performance ratios show that Council has incurred operating losses in all years except for 1999-00, when an operating surplus of \$0.054m was recorded, partially as a result of increased funding from DHHS for the MMPHC.

The debt collection ratio has been consistently above the benchmark of 30 days. The increase in 2000-01 is due to increased rate debtors and private works outstanding at 30 June 2001. The improvement in the receivables balance at 30 June 2002, noted earlier, is reflected in the decrease in the debt collection ratio for 2001-02.

OVERALL COMMENT

The audit of the financial statements for the 2001-02 financial year was completed with satisfactory results.

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 people.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 25 October 2002 and an unqualified audit report was issued on 18 November 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	1 392	1 456	1 478	1 627	1 676
Grants	1 841	1 428	1 700	2 011	2 647
Other operating revenue	35	35	114	182	297
Non-operating revenue	87	94	179	142	145
Total Revenue	3 355	3 013	3 471	3 962	4 765
Borrowing costs	17	19	29	30	39
Depreciation	978	971	1 009	1 231	571
Other operating expenses	2 664	2 775	3 021	3 206	3 421
Non-operating expenses	73	90	76	113	7 173
Total Expenses	3 732	3 855	4 135	4 580	11 204
Result from Ordinary Activities	(377)	(842)	(664)	(618)	(6 439)

Comment

During the period 1997-98 to 2000-01 Council returned a total deficit from Ordinary Activities of \$2.501m, or an annual average deficit of \$0.625m. For 2001-02, and due to a write-down of road assets, \$7.047m, Council recorded a deficit of \$6.439m. Had it not been for the write-down, recommended by its valuation consultants, Council would have returned a surplus of \$0.608m for the year.

The increase in government grants for 2001-02, \$0.636m, is due principally to funding received for reconstruction of the Nursing Home at Nubeena, \$0.300m, and increased funding for roads and bridges projects, \$0.250m.

The decrease in depreciation expense in 2001-02 results directly from the revaluation of Council's roads and bridges, together with a reassessment of useful lives, referred to earlier in this segment of the Report.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	463	223	523	725	235
Receivables	426	214	240	296	390
Investments	450	771	495	412	501
Other	18	0	30	0	5
Total Current Assets	1 357	1 208	1 288	1 433	1 131
Property, plant & equipment	17 943	17 331	16 797	16 239	10 589
Other	0	0	0	31	21
Total Non-Current Assets	17 943	17 331	16 797	16 270	10 610
Payables	75	5	177	295	657
Borrowings	17	33	35	52	74
Provisions	241	289	315	259	261
Other	50	15	47	55	55
Total Current Liabilities	383	342	574	661	1 047
Borrowings	267	433	399	546	722
Provisions	78	37	43	48	42
Other	90	86	92	83	10
Total Non-Current Liabilities	435	556	534	677	774
Net Assets	18 482	17 641	16 977	16 365	9 920
Reserves	37	37	37	1	1
Retained surpluses	18 445	17 604	16 940	16 364	9 919
Total Equity	18 482	17 641	16 977	16 365	9 920

Comment

The large decrease in the value of Property, plant and equipment for 2001-02, \$5.560m, results from the revaluation of the council's road network, referred to earlier in this segment of the Report, \$7.047m, partially offset by asset additions and the annual depreciation change.

The increased balance in payables noted in 2001-02 is due to the timing of creditor invoices and included capital creditors relating to progress payments for the construction of a multi-purpose centre at Nubeena, \$0.230m.

The increase in borrowings in 2000-01 was due to \$0.200m being taken up to fund Council's share of the Copping Waste Management Project, while new borrowings of \$0.250m were taken up in 2001-02 to assist funding for the re-development of a Nursing Home.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	1 462	1 549	1 584	1 919	2 096
Payments to suppliers and employees	(2 806)	(3 020)	(2 798)	(3 323)	(3 449)
Interest received	20	32	50	45	31
Borrowing costs	(17)	(19)	(26)	(31)	(39)
Cash from operations	(1 341)	(1 458)	(1 190)	(1 390)	(1 361)
Payments for P, P & Equipment	(163)	(338)	(500)	(818)	(2 021)
Proceeds from sale of P, P & E	0	0	127	142	145
Cash used in investing activities	(163)	(338)	(373)	(676)	(1 876)
Proceeds from borrowings	120	200	0	200	250
Repayment of borrowings	(25)	(17)	(32)	(35)	(52)
Cash from financing activities	95	183	(32)	165	198
Cash Flows from Government	1 726	1 694	1 619	2 011	2 647
Net increase in cash	317	81	24	110	(392)
Cash at the beginning of the period	596	913	994	1 018	1 128
Cash at end of the period	913	994	1 018	1 128	736

Comment

The significant increase in payments for Property, plant and equipment for the year is mainly attributable to capital expenditure of \$1.190m for construction of a multi-purpose centre at Nubeena.

As mentioned previously in this section of the Report, cash inflows from government grants increased by \$0.636m, principally for the redevelopment of the Nursing Home at Nubeena and additional funding for roads and bridges.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(391)	(846)	(767)	(647)	589
Operating margin	>1.0	0.89	0.78	0.81	0.86	1.15
Financial Management						
Current ratio	>1	3.54	3.53	2.24	2.17	1.08
Cost of debt	7.5%	6.0%	4.1%	6.7%	6.6%	6.5%
Debt collection	30 days	112	54	59	66	85
Creditor turnover	30 days	10	1	21	34	73
Other information						
Staff numbers FTEs		36	37	38	34	36
Average staff costs (\$'000s)		41	40	42	47	53

Comment

The trend of a deficit from operations for the period under review was reversed in 2001-02 due to increased revenues, \$0.803m, particularly from grant receipts, and a decrease in depreciation, \$0.660m, as a result of an infrastructure asset revaluation. This improved surplus resulted in an operating margin of 1.15, which is comfortably above the benchmark result of one.

The current ratio of 1.13, although still above the benchmark, decreased noticeably compared to previous years under analysis and is due to an increase in Payables relating to the construction of the multi-purpose centre. These capital creditors also had a negative effect on creditor turnover, where the 2001-02 result is more than double the result from any other of the four years under review.

The debt collection ratio has been consistently high over the five-year review period, as Council has taken a lenient approach to local ratepayers in recent years. This is due to the impact of the Port Arthur tragedy on the level of local economic activity. Council expects that this trend will now recover as the level of economic activity within the municipality has improved.

OVERALL COMMENT

The audit of the financial statements for the 2001-02 financial year was completed with satisfactory results.

Although the overall result for 2001-02 shows a decrease in net assets, this is due to a one-off adjustment for the revaluation of infrastructure assets. The financial analysis above indicates an improving trend in revenues and tighter cost restraint over expenditures.

The Council is currently undertaking major capital investment programs, with the development of the multi-function centre and redevelopment of the nursing home facility. Both of these projects will provide long lasting benefits to the municipality.

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 four joint authorities operating in Tasmania and include:

- Dulverton Regional Waste Management Authority;
- Esk Water Authority;
- Cradle Coast Water; and
- Hobart Regional Water Authority.

The Kentish/Latrobe Joint Authority officially ceased on 22 April 2002.

In addition, the West Coast Council has created a separate company, known as the West Coast Health and Community Services Pty Ltd and the May Shaw Nursing Centre was established as a single authority on 3 October 2001 under the control of Glamorgan/Spring Bay Council.

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, Cradle Coast Water and Hobart Regional Water Authority perform similar functions, a comparison of financial information for 2001-02 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

	Cradle Coast Water	Esk Water Authority	Hobart Regional Water Authority
	\$'000s	\$'000s	\$'000s
Operating revenue	7 744	8 780	18 485
Non-operating revenue	0	8	1 970
Total Revenue	7 744	8 788	20 455
Borrowing costs	1 393	552	3 200
Depreciation	1 270	2 194	4 568
Other operating expenses	4 203	3 482	9 349
Non-operating expenses	22	14	65
Total Expenses	6 888	6 242	17 182
Result from ordinary activities	856	2 546	3 273
Income tax expense	(49)	(875)	(892)
Result after taxation	807	1 671	2 381

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 eight councils, in particular, the major population areas of Hobart, Glenorchy and Clarence.

On average, Other operating expenses represented 49% of operating revenue.

All three Authorities recorded positive Results from Ordinary Activities after taxation.

FINANCIAL POSITION

	Cradle Coast Water \$'000s	Esk Water Authority \$'000s	Hobart Regional Water Authority \$'000s
Cash	0	3 974	1 964
Receivables	395	634	5 670
Investments	1 700	0	0
Inventories	129	186	1 089
Other	358	978	0
Total Current Assets	2 582	5 772	8 723
Property, plant & equipment	57 402	96 576	161 046
Investments	0	0	0
Other	1 095	400	1 244
Total Non-Current Assets	58 497	96 976	162 290
Payables	307	43	2 572
Borrowings	695	1 000	10 900
Provisions	791	1 411	3 447
Other	846	362	0
Total Current Liabilities	2 639	2 816	16 919
Borrowings	21 367	7 000	22 298
Provisions	451	3 498	5 209
Total Non-Current Liabilities	21 818	10 498	27 507
Net Assets	36 622	89 434	126 587
Capital	0	83 102	5 974
Reserves	28 937	6 062	112 359
Retained profits	7 685	270	8 254
Total Equity	36 622	89 434	126 587

Comment

The receivables balance for Hobart Regional Water Authority is considerably greater than the other two Authorities. This is due to the balance of \$5.670m 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 \$2.572m includes accrued interest of \$0.856m. Cradle Coast Water had accrued interest payable at 30 June 2002 of \$0.475m, which has been recorded under other liabilities.

The Hobart Regional Water Authority's current provisions balance of \$3.447m includes the proposed dividend payment of \$2.100m. The dividends payable for Esk Water Authority and Cradle Coast Water were \$1.114 m and \$0.428m respectively.

The Hobart Regional Water Authority's balance of current loan debt totals \$10.900m due to the Authority undertaking portfolio management principles over its whole loan portfolio in order to minimise interest costs.

CASH POSITION

	Cradle Coast Water \$'000s	Esk Water Authority \$'000s	Hobart Regional Water Authority \$'000s
Receipts from customers	7 726	8 283	18 239
Payments to suppliers and employees	(4 249)	(3 855)	(9 638)
Interest received	84	136	1 128
Borrowing costs	(1 418)	(552)	(2 548)
Cash from operations	2 143	4 012	7 181
Payments for P, P & Equipment	(1 809)	(661)	(3 992)
Proceeds from sale of P, P & E	141	65	161
Cash used in investing activities	(1 668)	(596)	(3 831)
Proceeds from borrowings	0	0	11 900
Repayment of borrowings	(626)	0	(11 900)
Dividends paid	(514)	(1 484)	(2 400)
Cash from financing activities	(1 140)	(1 484)	(2 400)
Net increase in cash	(665)	1 932	950
Cash at the beginning of the period	2 337	2 042	1 014
Cash at end of the period	1 672	3 974	1 964

Comment

All three Authorities had positive net cash flows from operations. However, Cradle Coast Water recorded a net decrease in cash. The decrease in cash held is attributable to significant payments for property, plant and equipment.

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 \$11.900m in proceeds from borrowings and the same amount in repayments during 2001-02.

FINANCIAL ANALYSIS

	Bench Mark	Cradle Coast Water	Esk Water Authority	Hobart Regional Water Authority
Financial Performance				
Result from operations (\$'000s)		878	2 552	1 368
EBIT (\$'000s)		2 249	3 098	6 473
Operating margin	>1.0	1.13	1.41	1.08
Return on assets		3.7%	3.0%	3.8%
Return on equity		2.2%	1.9%	1.9%
Financial Management				
Debt to equity		60.2%	8.9%	26.2%
Debt to total assets		36.1%	7.8%	19.4%
Interest cover	>3	1.6	5.6	2.0
Current ratio	>1	0.98	2.05	0.52
Cost of debt	7.5%	6.2%	6.90%	9.60%
Debt collection	30 days	19	26	112
Creditor turnover	30 days	24	11	35
Returns to Shareholders				
Dividends paid or payable (\$'000s)		428	1 683	2 100
Dividend payout ratio	50%	53.0%	100.7%	88.2%
Dividend to equity ratio		1.2%	1.9%	1.7%
Income tax paid or payable (\$'000s)		0	0	0
Effective tax rate	30%	-	-	-
Total return to the State (\$'000s)		428	1 683	2 100
Total return to equity ratio		1.2%	1.9%	1.7%
Other information				
Staff numbers FTEs		24	26	58
Average staff costs (\$'000s)		53	57	63

Comment

The three Authorities all recorded operating profits, which is reflected in the positive operating margins. The returns on equity were similar for all three Authorities.

Cradle Coast Water's debt to equity ratio of 60.2% and debt to total assets ratio of 36.1% are considerably higher than the other Authorities. The cost of debt for the Hobart Regional Water Authority of 9.6% is affected by the Authority's involvement in derivative instrument trading as part of its debt management practices. The increased costs are offset by non-operating revenue that relates to profits taken when favourable transactions have been closed-out.

The Hobart Regional Water Authority's current ratio at 30 June 2002 was 0.52, compared with a benchmark of 1. As noted previously this is the result of the significant current borrowings balance, totalling \$10.900m.

The Hobart Regional Water Authority had a debt collection period of 112 days due to the receivables balance including three months of water sales for each constituent council.

The Hobart Regional Water Authority had a creditor turnover period of 60 days due principally to the inclusion of a number of capital creditors for asset purchases at 30 June 2002.

All three Authorities had dividend payout ratios above the benchmark of 50%. The dividend to equity ratio ranged from 1.2% for Cradle Coast Water to 1.9% for Esk Water Authority.

All three Authorities are subject to taxation equivalents, however no tax payments have been made due to carried forward tax losses.

The staff costs of the three Authorities were similar, with an overall average of \$0.058m.

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.

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 responsible Minister is the Premier.

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 and guarantee fees by the authority.

The Dulverton Regional Waste Management Authority was required to apply the Part 3A provisions from 2 December 1998. Further to my Report No 2 for 2000-01 (page 445), the Authority recognised opening tax balances and tax equivalent transactions in its 2000-01 financial statements.

AUDIT OF THE 2000-01 FINANCIAL STATEMENTS

Further to my Report No 2 for 2000-01 (page 445), the initial signed financial statements for 2000-01 were received by my Office on 13 August 2002, with amended statements received on 22 August 2002. An unqualified audit report was issued on 17 October 2002.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The Authority has provided financial statements in draft form. The audit of these accounts has not yet been finalised.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	956	1 118	1 150	1 315	1 296
Total Revenue	956	1 118	1 150	1 315	1 296
Borrowing costs	105	105	73	65	66
Depreciation	52	69	74	128	87
Other operating expenses	649	704	988	984	1 145
Total Expenses	806	878	1 135	1 177	1 298
Result from ordinary activities	150	240	15	138	(2)
Income tax expense	0	0	0	25	0
Result after taxation	150	240	15	113	(2)

Comment

Operating revenue has steadily increased over the past five years, which is due mainly to increased revenue from user charges at the waste disposal facility. Operating revenue for 2000-01, \$1.315m, includes contributions by member councils totalling \$0.103m. The member councils resolved to release the tax payable by the Authority for the period to 30 June 2000. The funds are to be used by the Authority for capital purposes.

Borrowing costs have decreased from \$0.105m in 1997-98 to \$0.066m in 2001-02 due to a change in the interest rate attaching to the loans provided by the participating councils. The initial interest rate was 10.05%. From 1999-00 onwards the rate has been adjusted to the indicative Treasury rate at 30 June.

The increase in other operating expenses from 1998-99 to 1999-00 is partly attributable to a contribution of \$0.104m to the Latrobe Council for road works.

Tax equivalents have been calculated from 2000-01 onwards, with a tax expense of \$0.025m recognised in the initial year of application.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	340	284	138	127	211
Receivables	165	212	247	345	284
Total Current Assets	505	496	385	472	495
Property, plant & equipment	974	1 296	1 414	1 308	1 418
Other				1	
Total Non-Current Assets	974	1 296	1 414	1 309	1 418
Payables	26	44	96	23	169
Other	0	62	2	7	9
Total Current Liabilities	26	106	98	30	178
Borrowings	1 046	1 046	1 046	1 046	1 046
Other	0	0	0	35	32
Total Non-Current Liabilities	1 046	1 046	1 046	1 081	1 078
Net Assets	407	640	655	670	657
Reserves	9	559	677	572	682
Retained profits	398	81	(22)	98	(25)
Total Equity	407	640	655	670	657

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.

A direct adjustment to equity was made in the Authority's 2000-01 financial statements for the initial recognition of tax balances amounting to \$0.119m. This amount comprised tax payable, \$0.103m, a provision for deferred income tax payable, \$0.029m, and a future income tax benefit, \$0.013m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	938	1 055	1 108	1 220	1 351
Payments to suppliers and employees	(730)	(623)	(996)	(1 171)	(998)
Interest received	14	15	7	6	5
Borrowing costs	(105)	(105)	(73)	(65)	(66)
Cash from operations	117	342	46	(10)	292
Payments for P, P & Equipment	(32)	(398)	(192)	(1)	(208)
Cash used in investing activities	(32)	(398)	(192)	(1)	(208)
Net increase in cash	85	(56)	(146)	(11)	84
Cash at the beginning of the period	255	340	284	138	127
Cash at end of the period	340	284	138	127	211

Comment

Payments for property, plant and equipment totalled \$0.398m in 1998-99. The payments included an expansion of the landfill site and the construction of composting operations.

FINANCIAL ANALYSIS

	Bench	1997-98	1998-99	1999-00	2000-01	2001-02
	Mark					
Financial Performance						
Result from operations (\$'000s)		150	240	15	138	(2)
EBIT (\$'000s)		255	345	88	203	64
Operating margin	>1.0	1.19	1.27	1.01	1.12	1.00
Return on assets		17.6%	21.1%	4.9%	11.3%	3.5%
Return on equity	12%	44.6%	45.8%	2.3%	17.1%	-0.3%
Financial Management						
Debt to equity		257.0%	163.4%	159.7%	156.1%	159.2%
Debt to total assets		70.7%	58.4%	58.1%	58.7%	54.7%
Interest cover	>3	2.4	3.3	1.2	3.1	1.0
Current ratio	>1	19	5	4	16	3
Cost of debt	7.5%	10.0%	10.0%	7.0%	6.2%	6.3%
Debt collection	30 days	63	69	78	104	80
Creditor turnover	30 days	14	15	30	9	46
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 the timing of issuing invoices.

The creditor turnover ratio has been equal to or less than the benchmark of 30 days for all years, except 2001-02. A ratio of 46 days was calculated for 2001-02 due to two large invoices outstanding at 30 June for landfill operations and reimbursement of wages.

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 \$0.541m. The figures for 2001-02 are draft only as the Authority is currently finalising the financial statements for that year.

5.2 CRADLE COAST WATER

INTRODUCTION

The North West Water Authority was established by the Minister for Local Government 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 Industries, 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 principle activity of the entity is to operate as a bulk water authority and charge councils for water consumption according to the 'user pays' principle.

The entity is administered by a five person Board of Management. The entity traded under the name of Cradle Coast Water and in December 2001, the entity changed its name from the North West Water Authority to 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 2001-02 FINANCIAL STATEMENTS

Signed financial statements of Cradle Coast Water were received on 22 October 2002. An unqualified audit report was issued on 29 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	8 229	7 448	7 835	8 011	7 744
Non-operating revenue	13	154	17	0	0
Total Revenue	8 242	7 602	7 852	8 011	7 744
Borrowing costs	2 434	1 663	1 468	1 451	1 393
Depreciation	1 783	1 204	1 225	1 227	1 270
Other operating expenses	3 254	3 106	3 838	3 916	4 203
Non-operating expenses	3 125	9	4	27	22
Total Expenses	10 596	5 982	6 535	6 621	6 888
Result from ordinary activities	(2 354)	1 620	1 317	1 390	856
Income tax expense	161	(1 100)	206	104	49
Result after taxation	(2 515)	2 720	1 111	1 286	807

Comment

The majority of the entity'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 amounting to \$2.747m. The entity entered into a liability Assumption Agreement with Tascorp to consolidate and restructure its debt. During 1998-99 the entity 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 decreased by \$0.771m in 1998-99 to \$1.663m as a result of the debt defeasance in 1997-98. The borrowings costs have gradually decreased over the remaining four years of analysis, in conjunction with a reduction in total loan debt.

Depreciation reduced for the 1998-99 year by \$0.579m due to the entity's decision to revalue infrastructure assets on an optimised written down deprival value basis as at 30 June 1998. The value of infrastructure assets was reduced by \$26.700m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receivables	14	50	62	475	395
Investments	1 340	1 900	1 708	2 374	1 700
Inventories	37	36	112	112	129
Other	99	114	427	227	358
Total Current Assets	1 490	2 100	2 309	3 188	2 582
Property, plant & equipment	58 448	57 030	55 865	56 796	57 402
Other	685	1 455	1 249	1 144	1 095
Total Non-Current Assets	59 133	58 485	57 114	57 940	58 497
Payables	316	175	179	332	307
Borrowings	1 339	552	622	662	695
Provisions	1 487	1 693	894	881	791
Other	643	710	870	751	846
Total Current Liabilities	3 785	3 130	2 565	2 626	2 639
Borrowings	23 478	23 246	22 659	22 034	21 367
Provisions	745	276	136	416	451
Total Non-Current Liabilities	24 223	23 522	22 795	22 450	21 818
Net Assets	32 615	33 933	34 063	36 052	36 622
Reserves	28 619	27 889	27 529	28 746	28 937
Retained profits	3 996	6 044	6 534	7 306	7 685
Total Equity	32 615	33 933	34 063	36 052	36 622

Comment

Receivables increased by \$0.413m for the 2000-01 year, as it included \$0.398m due from the local councils supplied by the entity (1999-00 \$0.020m). As at 30 June 2002, councils supplied by the entity owed \$0.341m.

The application of revised Australian Accounting Standard AASB 1018 "Statement of Financial Performance" required the entity to recognise Cost of Sales. Consequently, the composition of inventories was expanded in 1999-00 to include chemicals and water on hand as well as sundry spares.

Other non-current assets represent the future income tax equivalent benefit to be obtained by the entity. The deferred tax assets represent net timing differences.

Total borrowings balance has decreased by \$2.755m, from \$24.817m in 1997-98 to \$22.062m in 2001-02. The entity has not made any new borrowings since 1998-99.

With the establishment of the North West Water Authority as a local government joint authority in 1999-00, all employees with balances in the RBF Superannuation Fund were provided an opportunity to access their superannuation. Consequently, as a number of employees took up that opportunity, the total current and non current provisions balance decreased from \$1.969m in 1998-99 to \$1.030m in 1999-00.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 214	7 360	7 408	7 961	7 726
Payments to suppliers and employees	(3 544)	(3 051)	(5 375)	(4 126)	(4 249)
Interest received	52	73	85	100	84
Borrowing costs	(2 433)	(1 664)	(1 304)	(1 400)	(1 418)
Cash from operations	2 289	2 718	814	2 535	2 143
Payments for P, P & Equipment	(618)	(561)	(612)	(1 065)	(1 809)
Proceeds from sale of P, P & E	131	94	123	126	141
Cash used in investing activities	(487)	(467)	(489)	(939)	(1 668)
Proceeds from borrowings	0	1 400	0	0	0
Repayment of borrowings	(2 893)	(2 420)	(551)	(587)	(626)
Dividends paid	0	(673)	0	(345)	(514)
Cash from financing activities	(2 893)	(1 693)	(551)	(932)	(1 140)
Net increase in cash	(1 091)	558	(226)	664	(665)
Cash at the beginning of the period	2 432	1 341	1 899	1 673	2 337
Cash at end of the period	1 341	1 899	1 673	2 337	1 672

Comment

Receipts from customers have remained fairly stable over the 5-year period. Payments to suppliers and employees have increased from \$3.544m 1997-98 to \$4.249m 2001-02. In 1999-00 payments were unusually high due to the payment of RBF entitlements to employees who elected to leave the scheme, \$1.712m.

Borrowing costs have reduced substantially due to the defeasance of debt during 1997-98. Repayments of borrowings for the 1997-98 year include \$2.747m for the debt restructure.

Payments for Property, plant and equipment increased by \$0.453m in 2000-01 to a total of \$1.065m. Purchases for that year included \$0.234m for furniture, plant and equipment and the remainder related to payments for infrastructure assets. A major component of infrastructure works in the 2000-01 included the roofing of reservoirs, a program that was continued during 2001-02 and accounted for the majority of the expenditure on Property, plant and equipment in that year.

Dividends paid for the 4-year period from 1997-98, when the entity first became liable for dividends, total \$1.532m. Dividends provided for or paid total \$1.960m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		758	1 475	1 304	1 417	878
EBIT (\$'000s)		3 205	3 292	2 785	2 841	2 249
Operating margin	>1.0	1.10	1.25	1.20	1.21	1.13
Return on assets		4.3%	5.4%	4.6%	4.7%	3.7%
Return on equity		-5.4%	8.2%	3.3%	3.7%	2.2%
Financial Management						
Debt to equity		76.1%	70.1%	68.3%	63.0%	60.2%
Debt to total assets		40.9%	39.3%	39.2%	37.1%	36.1%
Interest cover	>3	1.3	2.0	1.9	2.0	1.6
Current ratio	>1	0.39	0.67	0.90	1.21	0.98
Cost of debt	7.5%	9.8%	6.8%	6.2%	6.3%	6.2%
Debt collection	30 days	1	2	3	22	19
Creditor turnover	30 days	43	26	20	33	24
Returns to Shareholders						
Dividends paid or payable (\$'000s)		0	673	345	514	428
Dividend payout ratio	50%	-	24.7%	31.1%	40.0%	53.0%
Dividend to equity ratio		-	2.0%	1.0%	1.5%	1.2%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		0	673	345	514	428
Total return to equity ratio		-	2.0%	1.0%	1.5%	1.2%
Other information						
Staff numbers FTEs		23	23	23	24	24
Average staff costs (\$'000s)		52	54	55	54	53

Comment

The result from operations is positive in all years with EBIT, Return on assets and Return on equity all declining. However, the negative 5.4% return on assets in 1997-98 relates to the loss incurred through the additional expenditure of \$2.747m relating to the debt defeasance. The return of 8.2% reached in 1998-99 was assisted by the \$1.100m tax benefit for that year.

The debt to equity and debt to total assets ratios have improved over the five-year period in line with a reduction in the level of borrowings, which have decreased from \$24.817m in 1997-98 to \$22.062m in 2001-02.

The current ratio has remained below benchmark in all the years under review, excepting the 2000-01 year. However, the entity is confident in being able to meet their short-term liabilities.

Debtors of the entity were negligible until the 2000-01 year, thus keeping the debt collection ratio at a very minimal level. The higher ratios for the 2000-01 and 2001-02 are due to the increased debt owed by local councils.

The creditor turnover ratio has been around the benchmark for all years except 1997-98. The balance of payables outstanding at the end of that year included material amounts for capital items, which have distorted the ratio. The entity complies with its policy of paying debts within applicable terms.

A dividend was not paid for the 1997-98 period. In 1998-99, a dividend was paid under division 2 of the *Government Business Enterprises Act 1995*. Dividends paid or payable since 1999-00 were in accordance with Part 3A of the *Local Government Act 1993*.

As Cradle Coast Water has carried forward tax losses, no tax equivalent payments have been made in the years under review.

OVERALL COMMENT

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

5.3 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 2001-02 FINANCIAL STATEMENTS

Signed financial statements of Esk Water Authority were received on 27 August 2002 and an unqualified audit report was issued on 10 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	7 786	7 047	7 546	8 140	8 780
Non-operating revenue	6	0	10	9	8
Total Revenue	7 792	7 047	7 556	8 149	8 788
Borrowing costs	1 032	891	851	606	552
Depreciation	2 040	2 054	2 081	2 106	2 194
Other operating expenses	3 256	3 278	3 399	3 448	3 482
Non-operating expenses	61	1 424	16	39	14
Total Expenses	6 389	7 647	6 347	6 199	6 242
Result from ordinary activities	1 403	(600)	1 209	1 950	2 546
Income tax expense	534	339	345	613	875
Result after taxation	869	(939)	864	1 337	1 671

Comment

The majority of the Authority's revenue is derived from bulk water sales to municipal, industrial and wayside consumers. In the first year of operations, 1997-98, revenue from municipal consumers was relatively large, \$6.497m. During 1998-99 this revenue decreased to \$5.765m due to lower water consumption, and has been steadily increasing in later years to the 2001-02 level of \$7.586m. While two-part water pricing was introduced during the 2001-02 year, the increase in the current year's revenues was attributable to a continuing move towards more uniform pricing. 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 reduced from \$15.150m at 1 July 1997 to \$8.000m at 30 June 2002. There was no change in the level of borrowings during the 2001-02 year, but \$1.000m is due to be repaid during the 2002-03 year and has been transferred to a current liability. Borrowing costs have correspondingly reduced each year, with a decrease between the 1997-98 and 2000-01 financial years of \$0.426m. Costs for the 2001-02 year have reduced due to a loan repayment occurring late in the 2000-01 year.

Non-operating expenses during 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 and amounted to \$1.424m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	3 711	4 468	2 936	2 042	3 974
Receivables	267	408	42	384	634
Inventories	69	74	168	180	186
Other	853	648	596	638	978
Total Current Assets	4 900	5 598	3 742	3 244	5 772
Property, plant & equipment	96 684	96 301	96 256	98 179	96 576
Other	572	562	339	376	400
Total Non-Current Assets	97 256	96 863	96 595	98 555	96 976
Payables	57	107	117	93	43
Borrowings	32	1 000	3 000	0	1 000
Provisions	606	436	854	1 182	1 411
Other	279	1 670	527	572	362
Total Current Liabilities	974	3 213	4 498	1 847	2 816
Borrowings	13 089	12 000	8 000	8 000	7 000
Provisions	1 322	1 614	1 779	2 546	3 498
Total Non-Current Liabilities	14 411	13 614	9 779	10 546	10 498
Net Assets	86 771	85 634	86 060	89 406	89 434
Capital	83 102	83 102	83 102	83 102	83 102
Reserves	2 532	2 532	2 688	6 034	6 062
Retained profits	1 137	0	270	270	270
Total Equity	86 771	85 634	86 060	89 406	89 434

Comment

Receivables for 1999-00 are lower than usual due to the early payment of June water charges by the local councils supplied by the Authority. Receivables for 2001-02 include a number of municipal charges for May.

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 AASB 1018 "Statement of Financial Performance" 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 (equal to \$0.394m for 2002), which represents net timing differences

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 that total \$2.482m at 30 June 2002. Movement in the deferred tax liability, \$0.899m, accounts for most of the movement in this category for 2001-02. 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. A balance of \$0.270m was retained during the 1999-00 year. This level has been maintained throughout the succeeding years with all annual operating profits returned to shareholders as dividend payments.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2000-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 831	6 889	7 544	7 879	8 283
Payments to suppliers and employees	(3 741)	(3 386)	(4 648)	(3 371)	(3 855)
Interest received	166	221	230	108	136
Borrowing costs	(964)	(929)	(885)	(579)	(552)
Cash from operations	3 292	2 795	2 241	4 037	4 012
Payments for P, P & Equipment	(327)	(1 571)	(1 591)	(987)	(661)
Proceeds from sale of P, P & E	19	5	16	72	65
Cash used in investing activities	(308)	(1 566)	(1 575)	(915)	(596)
Repayment of borrowings	(2 029)	(121)	(2 000)	(3 000)	0
Dividends paid	0	(351)	(198)	(1 016)	(1 484)
Cash from financing activities	(2 029)	(472)	(2 198)	(4 016)	(1 484)
Net increase in cash	955	757	(1 532)	(894)	1 932
Cash at the beginning of the period	2 756	3 711	4 468	2 936	2 042
Cash at end of the period	3 711	4 468	2 936	2 042	3 974

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, referred to earlier in this segment of the Report.

Expenditure on Property, plant and equipment during 1998-99 and 1999-00, \$1.571m and \$1.591m respectively, included 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 first 4 years of the Authority's operations, \$7.150m. Borrowing costs reduced during 2000-01 with the reduction in interest-bearing liabilities from \$11.000m to \$8.000m over the course of the year. Borrowing costs for 2001-02 are comparable with the prior year.

Dividends paid for the 5-year period total \$3.049m. Total dividends provided for or paid total \$4.163m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		1 458	824	1 215	1 980	2 552
EBIT (\$'000s)		2 496	1 715	2 060	2 556	3 098
Operating margin	>1.0	1.23	1.13	1.19	1.32	1.41
Return on assets		2.4%	1.7%	2.0%	2.5%	3.0%
Return on equity		1.0%	0.6%	1.0%	1.5%	1.9%
Financial Management						
Debt to equity		15.1%	15.2%	12.8%	8.9%	8.9%
Debt to total assets		12.8%	12.7%	11.0%	7.9%	7.8%
Interest cover	>3	2.4	1.9	2.4	4.2	5.6
Current ratio	>1	5.03	1.74	0.83	1.76	2.05
Cost of debt	7.5%	7.9%	6.8%	7.1%	6.4%	6.9%
Debt collection	30 days	13	21	2	17	26
Creditor turnover	30 days	13	24	26	22	11
Returns to Shareholders						
Dividends paid or payable (\$'000s)		351	198	594	1 337	1 683
Dividend payout ratio	50%	40.4%	40.8%	68.8%	100.0%	100.7%
Dividend to equity ratio		0.4%	0.2%	0.7%	1.5%	1.9%
Income tax paid or payable (\$'000s)		-	-	-	-	-
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		351	198	594	1 337	1 683
Total return to equity ratio		0.4%	0.2%	0.7%	1.5%	1.9%
Other information						
Staff numbers FTEs		26	26	26	27	26
Average staff costs (\$'000s)		49	49	52	53	57

Comment

The return on assets and equity ratios are low for the 1998-99 year due to the extraordinary expense of \$1.424m being the West Tamar Council payment.

The Debt to equity and total asset ratios are decreasing as the outstanding liability decreases. The ratios recorded in the 2001-02 year are consistent with the prior year.

The current ratio for 1999-00 is below benchmark due to the impending payment of \$3.000m of the loan portfolio, thereby increasing current liabilities for the year. The current ratio for the remaining years is consistent with benchmark.

The debt collection turnover reduced for the 1999-00 year due to the early payment of June invoices by the member councils. The 2001-02 debt collection turnover is slightly increased due to the later payment of May invoices by some of the member councils. These payments were received in early July 2002. In prior years the comparable May invoices have been paid in June. The turnover rate is still within Esk Water Authority terms of payment for this class of customer.

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 \$6.508m (after tax \$3.802m) for the past 5 years.

The 2001-02 audit was completed satisfactorily with no issues outstanding.

5.4 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, Clarence and Glenorchy 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 2001-02 FINANCIAL STATEMENTS

Signed financial statements of the Hobart Regional Water Authority were received on 10 September 2002 and an unqualified audit report was issued on 18 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	18 312	17 366	19 048	19 223	18 485
Non-operating revenue	353	312	220	965	1 970
Total Revenue	18 665	17 678	19 268	20 188	20 455
Borrowing costs	3 992	1 790	2 107	2 569	3 200
Depreciation	4 018	4 526	4 421	4 547	4 568
Other operating expenses	8 056	8 256	9 944	10 243	9 349
Non-operating expenses	3 836	244	39	294	65
Total Expenses	19 902	14 816	16 511	17 653	17 182
Result from ordinary activities	(1 237)	2 862	2 757	2 535	3 273
Income tax expense	828	(533)	944	675	892
Result after taxation	(2 065)	3 395	1 813	1 860	2 381

Comment

Bulk water sales to constituent councils represents approximately 98% of normal operating revenue for each year under review. Greater demand was experienced from 1999-00 to 2000-01 due to prolonged dry periods around the summer months.

Non-operating revenue in 2000-01 includes \$0.382m interest received on derivative trading undertaken as part of the Authority's debt management activity. In 2001-02 interest received from this activity amounted to \$1.261m.

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 activity.

Borrowing costs have increased since 1999-00 as the right to offset interest received against interest expense on derivative trading was extinguished in 2000-01. The increased costs are offset by Non-operating revenue that relates to interest received on derivative trading. In 2000-01 the net borrowing costs were \$2.187m, while in 2001-02 the net expense was \$1.939m.

Other operating expenditure increases between 1999-00 to 2000-01 correlates with increased water sales as it includes the direct costs of power and chemicals used in treatment. The same relationship explains the decrease noted in other operating expenditure in 2001-02 of \$0.894m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	5	19	36	1 014	1 964
Receivables	4 288	4 113	4 581	4 644	5 670
Investments	3 500	2 250	2 200	0	0
Inventories	767	781	751	817	1 089
Total Current Assets	8 560	7 163	7 568	6 475	8 723
Property, plant & equipment	169 856	162 801	162 314	161 686	161 046
Other	5 619	1 387	1 263	1 254	1 244
Total Non-Current Assets	175 475	164 188	163 577	162 940	162 290
Payables	5 075	2 263	2 433	1 814	2 572
Borrowings	13 233	8 398	16 000	9 900	10 900
Provisions	2 597	3 013	3 569	3 894	3 447
Total Current Liabilities	20 905	13 674	22 002	15 608	16 919
Borrowings	23 267	27 000	18 298	23 298	22 298
Provisions	7 523	3 074	4 118	4 313	5 209
Total Non-Current Liabilities	30 790	30 074	22 416	27 611	27 507
Net Assets	132 340	127 603	126 727	126 196	126 587
Capital	5 974	5 974	5 974	5 974	5 974
Reserves	118 480	112 548	112 359	112 368	112 359
Retained profits	7 886	9 081	8 394	7 854	8 254
Total Equity	132 340	127 603	126 727	126 196	126 587

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 due to the Authority changing the timing of meter readings to the end of June instead of at the end of May resulting in council receipts for water becoming outstanding at 30 June for each year since. 2001-02 Receivables mainly comprises normal bulk water accounts, \$4.724m, accrued interest, \$0.377m, and other recoverables, \$0.271m..

The Inventories item has increased due principally to the recognition of treated water stock held ready for sale of \$0.325m being brought to account for the first time.

Other Non-Current Assets from the 1997-98 year onwards include future income tax benefits resulting from significant tax losses, which are available to be utilised to

offset future profits. The balance of this asset varies from year to year according to the Result from ordinary activities, changes in tax rates and timing differences. No actual tax payments have been made despite Hobart Water recording income tax expenses. This is due to the carried forward tax losses noted above.

Payables peaked at \$5.075m 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. The decrease in payables to \$1.814m in 2000-01 is due to capital creditors for contract work being paid out before the end of the year.

Borrowings have varied significantly between current and non-current for each of the five years under review. The Authority appointed Macquarie Risk Advisory Services in 1999-00 to actively manage its loan portfolio in order to minimise interest cost. Total borrowings from 1997-98 to 2000-01 have seen a decrease of \$1.100m each year. No reduction to debt was made in 2001-02.

Non-current provisions include employee entitlements, 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	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	14 418	17 498	18 405	19 524	18 239
Payments to suppliers and employees	(9 514)	(6 941)	(9 907)	(10 633)	(9 638)
Interest received	25	122	200	556	1 128
Borrowing costs	(3 416)	(2 349)	(2 081)	(2 583)	(2 548)
Cash from operations	1 513	8 330	6 617	6 864	7 181
Payments for P, P & Equipment	(905)	(3 348)	(3 570)	(4 791)	(3 992)
Proceeds from sale of P, P & E	330	312	220	305	161
Cash used in investing activities	(575)	(3 036)	(3 350)	(4 486)	(3 831)
Proceeds from borrowings	57 182	136 492	48 977	15 000	11 900
Repayment of borrowings	(55 152)	(141 022)	(50 077)	(16 100)	(11 900)
Dividends paid	(280)	(2 000)	(2 200)	(2 500)	(2 400)
Cash from financing activities	1 750	(6 530)	(3 300)	(3 600)	(2 400)
Net increase in cash	2 688	(1 236)	(33)	(1 222)	950
Cash at the beginning of the period	817	3 505	2 269	2 236	1 014
Cash at end of the period	3 505	2 269	2 236	1 014	1 964

Comment

Movements in receipts from customers and payments to suppliers and employees are consistent with variations noted in operating revenues and expenses.

Interest received has increased since 2000-01 as Hobart Water expands their active trading activities to minimise net borrowing costs.

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 had decreased since 1997-98, significant dividend payments have been made to member councils over the five-year period.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		2 246	2 794	2 576	1 864	1 368
EBIT (\$'000s)		2 755	4 652	4 864	5 104	6 473
Operating margin	>1.0	1.14	1.19	1.16	1.11	1.08
Return on assets		1.5%	2.6%	2.8%	3.0%	3.8%
Return on equity		-1.5%	2.6%	1.4%	1.5%	1.9%
Financial Management						
Debt to equity		27.6%	27.7%	27.1%	26.3%	26.2%
Debt to total assets		19.8%	20.7%	20.0%	19.6%	19.4%
Interest cover	>3	0.7	2.6	2.3	2.0	2.0
Current ratio	>1	0.4	0.5	0.3	0.4	0.5
Cost of debt	7.5%	11.3%	5.0%	6.0%	6.5%	5.8%
Debt collection	30 days	84	85	86	88	98
Creditor turnover	30 days	13	20	30	22	35
Returns to Shareholders						
Dividends paid or payable (\$'000s)		2 000	2 200	2 500	2 400	2 100
Dividend payout ratio	50%	-96.9%	64.8%	137.9%	129.0%	88.2%
Dividend to equity ratio		1.5%	1.7%	2.0%	1.9%	1.7%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		2 000	2 200	2 500	2 400	2 100
Total return to equity ratio		1.5%	1.7%	2.0%	1.9%	1.7%
Other information						
Staff numbers FTEs		48	57	58	62	58
Average staff costs (\$'000s)		52	49	54	56	63

Comment

Over the past five 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 2.6% 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 is actively managed and maintained throughout the year.

Cost of debt does not include an adjustment for revenue earned on derivative trading activity.

Debt collection results include at least a full quarter's water sales for each of member councils 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 dividends 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 2001-02 year was completed with satisfactory results, with no major issues outstanding.

5.5 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 was owned and jointly controlled by the Kentish and Latrobe Councils.

The core business of the Authority was to be the primary provider of local government services to both owner Councils.

The Authority traded under the name of Mersey Works.

The Responsible Minister is the Premier.

In September 2001, the two member councils decided to wind up the Joint Authority. A director was subsequently appointed to oversee the wind-up of the Authority and the distribution of the assets back to the two councils. The Joint Authority officially ceased on 22 April 2002 and the assets of the Authority were distributed back to the member councils at values in line with the 30 June 2001 balances.

The financial analysis refers to the period the Authority 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. The 2001-02 figures relate to the period from 1 July 2001 to 22 April 2002.

AUDIT OF THE 2000-01 FINANCIAL STATEMENTS

Initial signed statements were received on 15 March 2002, with amended statements received on 28 March 2002. An unqualified audit report was issued on 15 April 2002.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed statements were received on 18 April 2002 and an unqualified audit report was issued on 22 April 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	5 627	6 070	5 188	4 860	1 169
Non-operating revenue	50	33	11	25	282
Total Revenue	5 677	6 103	5 199	4 885	1 451
Depreciation	208	243	249	253	71
Other operating expenses	5 450	5 822	4 955	4 575	1 368
Non-operating expenses	0	0	117	0	0
Total Expenses	5 658	6 065	5 321	4 828	1 439
Result from Ordinary Activities	19	38	(122)	57	12

Comment

The nature of the Authority was to undertake work for the owner councils. There was 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 four of the years of operations, the Authority made profits. In the 1999-00 financial period a loss of \$0.122m was incurred as a result of an asset revaluation decrement totalling \$0.057m and a loss on a stock write-down totalling \$0.060m.

The majority of the revenue and expenditure for 2001-02 relates to the period 1 July 2001 to 12 October 2001, which is the date that Mersey Works ceased operations.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	609	657	632	184	0
Receivables	707	741	513	1 453	0
Inventories	22	36	0	9	0
Other	14	0	10	0	0
Total Current Assets	1 352	1 434	1 155	1 646	0
Property, plant & equipment	1 338	1 536	1 383	1 137	0
Total Non-Current Assets	1 338	1 536	1 383	1 137	0
Payables	284	435	253	510	0
Provisions	0	8	178	128	0
Other	107	190	77	45	0
Total Current Liabilities	391	633	508	683	0
Provisions	0	0	3	16	0
Total Non-Current Liabilities	0	0	3	16	0
Net Assets	2 299	2 337	2 027	2 084	0
Capital	2 280	2 280	2 027	2 084	0
Retained profits	19	57	0	0	0
Total Equity	2 299	2 337	2 027	2 084	0

Comment

Cash remained constant over the first three years of operations, but in 2000-01 the balance reduced by \$0.448m. The decrease was offset by an increase in the receivables balance. The receivables balance in 2000-01 is \$0.940m higher than the previous period and is the result of delays in raising invoices at the end of June 2001.

Property, plant and equipment reduced over the three years to 30 June 2001 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 individual owner councils held the employee provisions for the remaining employees, seconded to the Authority. In 1999-00, employees were transferred from the owner councils and the balance increased by \$0.173m to \$0.181m in total. The provisions balance decreased in 2000-01 by \$0.034m. The majority of the variance reflects a fall in the annual leave liability due to several employee resignations during the period.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 892	5 940	5 370	3 894	2 714
Payments to suppliers and employees	(5 110)	(5 517)	(5 094)	(4 378)	(2 171)
Interest received	33	33	29	18	21
Cash from operations	(185)	456	305	(466)	564
Net Payments to equity holders	0	0	0	0	(2 096)
Payments for P, P & Equipment	(374)	(769)	(595)	(34)	0
Proceeds from sale of P, P & E	168	361	265	52	1 348
Cash used in investing activities	(206)	(408)	(330)	18	(748)
Proceeds from Borrowings	1 000	0	0	0	0
Cash from Financing Activities	1 000	0	0	0	0
Net increase in cash	609	48	(25)	(448)	(184)
Cash at the beginning of the period	0	609	657	632	184
Cash at end of the period	609	657	632	184	0

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 \$1.000m recorded in proceeds from borrowings in 1997-98 represents cash paid into the Authority by the owner councils. It was part of the initial equity on formation.

The net payments to equity holders in 2001-02 represents the distributions made to the Kentish and Latrobe Councils upon the wind-up of the Authority. The proceeds from the sale of property, plant and equipment, \$1.348m, includes \$1.142m of notional proceeds from the two member councils and \$0.206m from external sales.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(31)	5	(16)	32	(270)
Operating margin	>1.0	0.99	1.00	1.00	1.01	0.81
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	111	-
Creditor turnover	30 days	31	40	27	57	-
Other information						
Staff numbers FTEs		64	63	38	32	0
Average staff costs (\$'000s)		39	41	57	43	n/a

Comment

As noted above, the Authority operations were not intended to generate significant profits. This is reflected in the results from operations and the operating margin.

The debt collection ratio was above the benchmark balance of 30 days for all years. In particular, the 111 days calculated for 2000-01 indicates delays in debt recovery. However, the major debtors of the Authority were the two owner councils and the unusually high ratio was the result of delays in issuing invoices for works undertaken in May 2001. In general, the Authority did not incur any problems in relation to the recovery of debt.

The creditor turnover ratio was above the benchmark of 30 days in three of the years of operations. The ratio was distorted by a higher than average creditor balance at year-end.

Average staff costs remained consistent over the period, with the exception of the \$0.057m balance in 1999-00. This balance was 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. An average staff cost was not calculated for 2001-02 due the calculation being distorted by the wind-up of the Authority.

OVERALL COMMENT

The operations of the Authority changed over the period of its operations to reflect movements in the requirements of both owner councils. Although the Authority officially ceased operations on 22 April 2002, the employees and assets were transferred back to the Latrobe and Kentish Councils in October 2001.

The 2001-02 audit was completed with no major issues outstanding.

5.6 MAY SHAW NURSING CENTRE AUTHORITY

INTRODUCTION

The May Shaw Nursing Centre Authority was established pursuant to a resolution of the Glamorgan/Spring Bay Council passed on 21 August 2001. The rules of the single authority, published in a Government Gazette notice, created the entity on 3 October 2001. The Authority, which consists of seven members, was established to manage and administer the nursing centre, doctor's residence and units in Swansea.

Financial statements were prepared for the new Authority for the period 3 October 2001 to 30 June 2002. The transactions and balances were subsequently consolidated into the Glamorgan/Spring Bay Council's financial statements.

The responsible Minister is the Premier.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 13 November 2002 and an unqualified audit report was issued on 18 November 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue					1 204
Total Revenue					1 204
Depreciation					48
Other operating expenses					1 133
Non-operating expenses					3
Total Expenses					1 184
Result from ordinary activities					20
Income tax expense					
Result after taxation					20

Comment

The major items of revenue include government grants, \$0.883m, and user charges, \$0.251m. User charges include items such as acute fees, emergency bed day fees, rent and resident fees. The major operating expense is employee costs, which totalled \$0.879m for the period to 30 June 2002.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash					36
Receivables					13
Other					3
Total Current Assets					52
Property, plant & equipment					1 577
Investments					426
Total Non-Current Assets					2 003
Payables					80
Provisions					56
Other					41
Total Current Liabilities					177
Provisions					68
Other					235
Total Non-Current Liabilities					303
Net Assets					1 575
Retained profits					1 575
Total Equity					1 575

Comment

Property, plant and equipment is comprised of land and buildings, \$1.418m, plant and equipment, \$0.087m, furniture and fittings, \$0.052m, and motor vehicles, \$0.050m.

The non-current investment balance of \$0.426m is mostly comprised of funds received in relation to accommodation bonds. Current and non-current other liabilities totalling \$0.276m relate to the balance of accommodation bonds repayable by the Authority.

The balance of retained profits at 30 June 2002 of \$1.575m is comprised of the net assets transferred from Glamorgan/Spring Bay Council on 3 October 2001, \$1.555m, and the net surplus for 2001-02, \$0.020m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers					1 194
Payments to suppliers and employees					(1 097)
Interest received					1
Cash from operations					98
Proceeds from accommodation bonds					194
Payments for accommodation bonds					(43)
Payments for investments					(208)
Payments for P, P & Equipment					(152)
Proceeds from sale of P, P & E					18
Cash used in investing activities					(191)
Net increase in cash					(93)
Cash at the beginning of the period					129
Cash at end of the period					36

Comment

The payments for property, plant and equipment, \$0.152m, include \$0.097m for new building works. The majority of these payments are for architect fees in relation to the construction of a new aged care facility.

The proceeds from accommodation bonds, \$0.194m, include four bond receipts totalling \$0.171m, together with interest and retentions totalling \$0.023m. The payment for investments, \$0.208m, is mostly comprised of the investment of the bond receipts.

FINANCIAL ANALYSIS

	Bench	1997-98	1998-99	1999-00	2000-01	2001-02
	Mark					
Financial Performance						
Result from operations (\$'000s)						23
Operating margin	>1.0					1.02
Financial Management						
Current ratio	>1					0.29
Cost of debt	7.5%					-
Debt collection	30 days					15
Creditor turnover	30 days					21
Other information						
Staff numbers FTEs						15
Average staff costs (\$'000s)						59

Comment

The Authority recorded a profit from operations of \$0.023m, which excludes a loss on disposal of assets of \$0.003m.

The current ratio at 30 June 2002 was 0.29, which is well below the benchmark of 1. The ratio is distorted by the fact that \$0.135m in Authority funds, which are not tied to accommodation bonds, are recorded as non-current investments.

The Authority's debt collection and creditor turnover ratios are both below the benchmark of 30 days.

OVERALL COMMENT

The May Shaw Nursing Centre commenced as a single authority of from 3 October 2001 and recorded a surplus from ordinary activities for the period to 30 June 2002, \$0.020m.

I note that a contract to build a new aged care facility was signed subsequent to 30 June 2002 and the contract states that the entire project will be completed by 23 May 2003. The construction is necessary in order for the Authority to obtain certification from the Commonwealth of Australia, prior to accreditation in August 2003.

The 2001-02 audit was completed with no major issues outstanding.

5.7 WEST COAST HEALTH AND COMMUNITY SERVICES PTY LTD

INTRODUCTION

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 eight Directors.

The Responsible Minister is the Premier.

The financial statements for 1997-98 included in the analysis relate to a period from 24 August 1997 to 30 June 1998, not a full financial year, due to the creation of the Company.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Company, signed by two Directors, were received on 31 October 2002 and an unqualified audit report was issued on that date.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Fees and charges	154	215	113	169	288
Grants	1 188	1 325	1 398	1 565	1 793
Other operating revenue	42	129	218	255	89
Non-operating revenue	0	0	1	0	0
Total Revenue	1 384	1 669	1 730	1 989	2 170
Depreciation	18	24	23	23	24
Other operating expenses	1 395	1 679	1 613	1 931	1 991
Non-operating expenses	0	0	4	4	12
Total Expenses	1 413	1 703	1 640	1 958	2 027
Result from Ordinary Activities	(29)	(34)	90	31	143

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 was experiencing financial difficulties. Arising from these problems, the Department of Health and Human Services (DHHS) provided an interim funding package that 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 \$0.090m. The Company has maintained a profit position for the last two years under review.

Other operating expenses increased by \$0.318m for the 2000-01 year over the prior year. The increase was primarily attributable to \$0.097m in additional employee expenses and \$0.202m in materials and contracts. This additional expenditure was offset by increased grant revenue of \$0.167m, which included an indexation back payment of \$0.087m and funding for a Change Manager totalling \$0.044m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	53	67	132	318	155
Receivables	21	49	28	70	27
Investments	5	5	6	16	271
Inventories	15	25	25	16	16
Other	14	40	3	23	1
Total Current Assets	108	186	194	443	470
Property, plant & equipment	167	167	150	152	144
Total Non-Current Assets	167	167	150	152	144
Payables	54	59	24	58	35
Borrowings	18	18	0	0	0
Provisions	38	46	39	84	92
Other	46	154	141	303	189
Total Current Liabilities	156	277	204	445	316
Borrowings	57	39	0	0	0
Provisions	19	29	42	20	25
Total Non-Current Liabilities	76	68	42	20	25
Net Assets	43	8	98	130	273
Capital	72	72	72	72	72
Retained surpluses	(29)	(64)	26	58	201
Total Equity	43	8	98	130	273

Comment

The cash balance increased by \$0.186m in 2000-01 and 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 \$0.152m is recorded as owing to Council.

The receivables balance increased by \$0.052m in 2000-01. This was the result of a significant increase in housing debtors, which totalled \$0.046m 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 \$0.023m 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 fund monies and amounts payable to Council to reimburse 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 \$0.152m and was significantly greater than any of the other periods under review.

As noted in the review of financial performance, the Company has improved profitability over the five years of operations. This has resulted in the Company moving from a retained deficit of \$0.029m in 1997-98 to a retained surplus balance of \$0.201m in 2001-02.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	157	293	332	378	329
Payments to suppliers and employees	(1 282)	(1 648)	(1 583)	(1 814)	(2 008)
Interest received	1	1	1	1	6
Borrowing costs					
Cash from operations	(1 124)	(1 354)	(1 250)	(1 435)	(1 673)
Payments for investments	(5)	(1)	0	(10)	(256)
Payments for P, P & Equipment	(17)	(18)	(60)	(63)	(58)
Proceeds from sale of P, P & E	0	0	56	33	30
Cash used in investing activities	(22)	(19)	(4)	(40)	(284)
Cash from financing activities	0	0	0	0	0
Cash Flows from Government	1 197	1 387	1 319	1 661	1 794
Net increase in cash	51	14	65	186	(163)
Cash at the beginning of the period	0	51	65	130	316
Cash at end of the period	51	65	130	316	153

Comment

The net cash outflows from operations have increased by \$0.549m from 1997-98 to 2001-02. These increases have been offset by corresponding increases in cash flows from government grants of \$0.597m over the same period.

The payments for Property, plant and equipment in 1997-98 and 1998-99 totalling \$0.017m and \$0.018m respectively, refer to the payments for equipment at the Rosebery Hospital, which was being purchased under a lease agreement. The outflows in the remaining three years under review largely represent the purchase of motor vehicles by the Company. Proceeds from the sale of property plant and equipment generally reflect the trade-in consideration for vehicles disposed of in purchasing the new vehicles.

Funds held in investments by the Company have increased during 2001-02 due to surplus funds on hand from increased grant funding. This is reflected in the payments for investments outflow of \$0.256m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations (\$'000s)		(29)	(34)	93	35	155
Operating margin	>1.0	0.98	0.98	1.06	1.02	1.08
Financial Management						
Current ratio	>1	0.69	0.67	0.95	1.00	1.49
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	39	52	31	60	26
Creditor turnover	30 days	31	26	11	21	14
Other information						
Staff numbers FTEs		17	18	19	20	23
Average staff costs (\$'000s)		46	49	48	50	51

Comment

The Company has improved their operating margin over the five-year period under review. Additional grant funds and several concessions from DHHS have assisted in the general profitability of the Company.

The current ratio improved significantly in 2000-01, with the Company achieving the benchmark ratio. The Company maintained a level above the benchmark for the 2001-02 year.

The debt collection ratio was above the benchmark balance of 30 days for the first four years under review. 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 wrote-off \$0.018m in bad debts during 2000-01. In general, the Company is undertaking regular reviews of the debtors and taking appropriate action where necessary. This is reflected in the decrease to within the benchmark for the 2001-02 year.

Average staff costs have remained consistent over the period.

OVERALL COMMENT

The Company has made an operating profit from operations of \$0.201m for the five-year period to 2001-02. The Company is not subject to income tax provisions and the West Coast Council is not seeking to obtain any dividend payments.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

APPENDIX 1

ACCOUNTING GUIDELINES FOR COUNCIL ROADS

This document sets out the approach of the Tasmanian Audit Office to accounting and audit issues associated with Council roads. The material indicates minimum standards in most cases; Councils may decide to adopt procedures that exceed minimum standards. Audit procedures describe core elements of an audit program and auditors may decide to make additional tests.

The key consideration is that the accounting estimates for useful lives and residual values should be consistent with the level of disaggregation of the road asset by segments and components and the approach to the distinction between capital and maintenance expenditure.

The procedures advocate a gradual accumulation of actual data so that accounting estimates are increasingly based on that data.

Description of the road network

A written description and the quantitative accounting elements of the network should exist as part of the non-current asset section of the financial records. If the data resides on a spreadsheet or is otherwise not integrated with the main accounting records, there should be appropriate controls over changes to the data and procedures to ensure that the two systems are synchronised.

The road asset should be divided into segments; that is links with defined starting and end points. Each segment should form a separate asset in the asset register. The number of segments should be chosen so as to ensure that the total number of road assets is not excessive to administer yet sufficient to ensure that the whole of any one segment has reasonably uniform engineering characteristics. Only in extreme cases, should the length of a segment exceed 2 kilometres of sealed road or 10 kilometres of gravel road.

Each segment should be of the same nature eg rural/urban; sealed/unsealed and have reasonably uniform attributes eg width, type of construction and extent of associated components such as kerb, gutter, footpath etc. Road furniture (signs, etc) and small culverts will normally be included as part of the segment asset and not be separately recognised. Larger culverts will be recognised separately with bridges.

The description and location of the segment should form part of the record or be immediately accessible by means of a coding etc.

The date and cost of any capital expenditure will be recorded for each segment as part of the individual segment asset record.

Each segment will have a value attached being a cost or revalued amount and a written down value. The date of any revaluation will be recorded and a cross-reference to a description of the methodology employed in revaluation.

The accounting record for a segment should be used for engineering purposes or at least be not inconsistent with those records.

Segment components

Each road segment has components with different useful lives. The components are referred to as seal (or surface), pavement and earthworks in this document. Components recommended for separate recognition for each segment are pavement, surface and earthworks. Shoulders, kerb and channel may be included with pavement costs or recognised as separate assets if deemed appropriate. Footpaths, especially if on both sides of a road, may represent a material component with a life different from the seal or pavement. In such cases footpaths would need to be treated as a separate component. Culverts and table drains may be treated as a component of earthworks. Road furniture will generally be immaterial and should be expensed and in such cases, would not form part of the asset register.

It is highly desirable but not essential to account for each component of each segment as a separate asset. Component accounting is however required when the depreciation cannot be calculated reliably by reference to the whole asset. If the separate segment components are recognised separately, the following discussion should be taken to refer to the assets considered at this disaggregated level.

Land under roads may be recognised as an asset but this is not presently required under accounting standards. If land under roads is not recognised generally, the cost of any additional acquisitions for the purpose of building or altering a road should be written off as an expense.

Valuation of a road segment

The fair value attributed to a road segment should reflect the length and width of the segment and its nature (gravel, urban sealed, rural sealed).

The value of the segment should not include value attributed to land under the road.

The value of the segment should include the construction cost of any earthworks. Where a council is using a 'fair value' basis, reasonable estimates for typical terrain on a cost per square metre basis would be acceptable. Where an historic cost basis is used, the cost of earthworks may already be available on an actual or 'deemed' basis. Where they are not, they may have to be excluded if no reliable information is available. Earthworks includes "cut and fill" activity as well as "sub-grade" costs associated with shaping, trimming and compacting existing materials as a road base.

Valuations other than historic cost must be kept up to date. Values change because of two factors.

First, the unit cost of replacement of a component will vary over time according to changes in the cost of materials, labour and overheads.

Second, the actual condition of a component may deviate from the assigned book value (written down replacement cost). For this reason, it is highly desirable that some systematic physical inspections occur where the inspection data is correlated with the asset records.

The length of time between revaluations should not exceed that which is likely to result in more than a 10% change in net book value from the previous revaluation having regard to any additions or deletions during the period. In any case, a period of more than 5 years between revaluations is excessive.

Useful lives and residual values

The objective in setting a useful life for a road segment or component is to reflect the interval between initial construction and the next reconstruction intervention. The appropriate residual value is the value retained at the date of the estimated next reconstruction. I.e. if construction cost is \$100 000 per km (plus earthworks) on a green field site and only \$40 000 on an existing pavement, the residual value is \$60 000 (plus earthworks) i.e. reconstruction cost plus residual value should equal replacement cost. In general, the longer the assumed useful life, the smaller the residual value and vice versa because the longer reconstruction intervals are more likely to require more extensive interventions.

It is unlikely that seals or concrete kerb or footpaths will have a residual value.

The useful life should reflect actual practice and actual history. It is immaterial that reconstruction occurs for cosmetic reasons rather than because of pavement failure.

Residual values should reflect actual practice.

Council must assemble a database that is incremented each year to record occasions of capital expenditure so that hypotheses about useful lives and residual values become increasingly based on actual events.

The residual value of an earthworks component should approximate its fair value since it is unlikely to be replaced; i.e. it has an indefinitely long life. Therefore, it would generally not be depreciated. However, if depreciated, a useful life of 100 years or more would not be unreasonable.

If the segment is not further divided into separate assets of seal, pavement etc, the useful life of the whole segment asset will be determined by the interval between capital expenditure on the component with the shortest life eg the seal of a sealed road. (Because according to the accounting standard on depreciation, the useful life of the segment is determined assuming that only maintenance is done.)

The remaining useful life of a segment should be consistent with any knowledge of the actual construction date of the segment **or the last date of capital expenditure on that segment** and the estimated useful life of the segment.

The useful life of a road segment where there is no documented history of capital expenditure can be estimated by reference to segments with similar properties.

Normally, the useful life used in the depreciation and valuation estimates for each segment will be an average of the actual lives achieved for segments with similar properties. Similarly, construction costs will be an average of actual values.

Distinction between capital and maintenance expenditure

Expenditure can only be capitalised if it extends the useful life of the segment. All other expenditure is maintenance. **Accordingly, if expenditure is classified as a capital expenditure on a segment, the remaining useful life must be re-set at that time.** Generally, simple rules such that classify expenditure as capital when it exceeds a certain dollar limit or relates to an area of reconstruction that exceeds a certain minimum, will not automatically equate with an extension of useful life. In fact, the longer the segment, the more likely that nearly all expenditure should be considered as maintenance. Even a substantial reconstruction of a small part of a segment will not extend the useful life of the whole segment and thus such expenditure should be classified as maintenance.

Gravel re-sheeting with a useful life of less than one year should be expensed as should all work of a patching nature where the next intervention of the same type eg grading, pothole repair etc is likely to recur on that component and segment within a year.

Accounting for capital expenditure

Accountants should set up a system to identify situations where capital expenditure is going to occur. It would be usual for these to be planned well in advance and be included in Council's forward plan and budget.

Expenditure that can be treated as capital on a segment must include labour and material costs. Overheads should only be included to the extent necessary to reflect direct supervisory and design costs. Where capital expenditure is a small component of total expenditure on roads (including maintenance), the overhead component of supervisory or other costs capitalised should be a similarly small proportion of total overheads.

Expenditure that does not meet the strict qualitative test required to be classified as capital expenditure must be treated as maintenance expenditure.

When capital expenditure takes place it will normally be assumed that the segment (or component) has reached the assumed residual value and that the entirety of the amount of expenditure can be safely attributed to an increase in the value of the asset. However, the value then attributed to the asset should be tested for reasonableness

against the 'as new' per km value for assets with similar characteristics. If the amount exceeds this, an appropriate write off should occur.

Periodic examination of estimates, etc

The accounting standard on depreciation requires an annual reconsideration of useful life and remaining useful life.

TAO would consider this to be satisfied if Council maintains the statistical database referred to above and uses this annually to re-set useful lives and remaining useful lives.

It is not strictly necessary to make a physical examination of the road asset specifically for financial reporting purposes where the valuation basis is fair value **provided that the continual modification of estimates is refreshed by the accumulation of data and those revised estimates are used to recalculate asset values and lives. Periodic physical inspection and feedback is required under the historic cost basis.**

While this data is being accumulated, it would be appropriate to use a weighted average approach to the revision of useful lives. Eg assume that the initial estimate of useful life of a particular component or segment at 30 June 2001 was 25 years. This estimate is not based on actual data. Over 2001-2002, 3 events of capital expenditure occur such that the estimated duration since the previous capital expenditure on these segments was 20, 30 and 35 years ago. Council could adopt a policy of applying a substantial weighting such as 10 or more to the original assumption and 1 to each of the recent observations so that the weighted average is:

$$(10(25) + 20 + 30 + 35)/13 = 25.77 \text{ years}$$

Whether this revised estimate of 25.77 years would have to be substituted for the previous estimate of 25 years would be resolved by applying the principle of materiality i.e. would it affect the expense determination or the non-current asset valuation by more than 5-10%.

It is not appropriate to revise remaining useful lives upwards based purely on physical examination unless this can be reconciled with the average frequency of capital works on segments of this class.

Example

The attached simplified example illustrates the guidelines.

Audit

Auditors should check that the preceding elements are in place or are being implemented. They should report to Council through the Auditor-General on any deficiencies and on the rate of progress in overcoming any deficiencies. It is essential that a factual database be accumulated so that costs/km and useful lives can be

determined in the future from this basis rather than on estimates alone. Auditors should check the treatment of the inclusion of overheads in component valuations and determine whether these are reasonable.

They should check for the degree of consistency between Council's capital budget for roads and the value of additions to the relevant segments.

In any case, auditors will ask Council to produce objective written evidence where Council's average construction costs per km, useful lives or residual values appear to be inconsistent with ranges observed for similar roads in similar councils.

Objective evidence for useful lives may include the use of lives adopted by neighbouring councils that have undertaken a comprehensive statistical study, or lives recommended by consultant engineers (backed by actual data). As a transitional measure only, councils may adopt without further justification, the following ranges based on the Roorda report as updated from some objective council data.

These are:

Urban or rural sealed road components

Spray seal		10 – 20 years
Asphaltic concrete seal	15 – 30	
Pavement		20 – 60
Earthworks		100 +
Kerb & channel	30 – 70	
Footpath		Variable – max 60 years concrete

Gravel roads

Wearing surface	1 - 5	
Pavement		40 – 100
Earthworks		100 +

Councils should in all cases be able to justify replacement costs for the shorter-lived components based on their own records. Estimates for the longer-lived components may be obtained from the same sources as above.

Auditors should check a sample of amounts capitalised to roads to determine that they have been applied to specific segments in the asset register. Conversely, auditors should examine a sample of large items classified as repairs and maintenance to roads to ensure that these have not materially extended the useful lives of the relevant road segments or components.

Accounting for Roads - Example

A Council has 2 roads, R1 and R2. Each road has 2 segments, R1S1, R1S2, R2S1 and R2S2. R1S1, R1S2 and R2S1 have two components C1 and C2 (surface and pavement respectively). R2S2 is a gravel road with components C3 and C2 (wearing surface and pavement respectively). R1S1 is 0.5 km, R1S2 is 2.5 km, R2S1 is 3km and R2S2 is 10km.

Earthworks (on the basis of materiality) and land under roads are not recognised.

Hence Council has 2 x 2 x 2 separate assets: R1S1C1, R1S1C2, ... R2S2C2, R2S2C3.

Council assumes for financial reporting purposes and based on an engineer's written advice that:

R1S1C1	has a useful life of 25 years with no residual
R1S2C1	25
R2S1C1	20 (less because of greater traffic volume)

R2S1C2	has a useful life of 40 years with 30% residual
R1S1C2	40
R1S2C2	40
R2S2C2	40 50%

R2S2C3 has a useful life of 3 years with no residual (re-sheet every 3 years)

All C1 type components are recognised at fair value, which is estimated as \$20 000 per km. R1S1C2 is an urban pavement with footpath, kerb and gutter and is valued at \$100 000 per km. All other C2 type components are valued at \$80 000 per km, including shoulders. R2S2C3 is valued at \$10 000 per km.

All costs/values include a 10% allowance for design and supervision plus materials and equipment.

Council records provide for the following records **for each component of each segment** to be entered where known. Essential elements are denoted with an asterisk. The remainder are desirable.

- *Construction or reconstruction date
- *Segment length
- *Segment width
- Depth of material
- *Type of construction/material
- Maintenance history (brief note only with or without costs)
- *Useful life
- *Remaining useful life
- *Residual value (%) – if used at all
- *Gross book value (\$)
- *Written down value

Inspection (data capture) report (if any) with date, person inspecting and comment.

Initially, construction dates are left blank for R1S1C2, R1S2C2 and R2S1C2 because they are not known. R2S1C1 was last completely resealed in 1987.

During the course of 2001-2002, extensive patching is done on R1S2C1 (approx 200 m² at a cost of \$6 000), R2S2C3 is regraded but not re-sheeted (cost \$9 000) and R2S1C1 is completely resealed (cost \$55 000).

These activities will be accounted for as follows:

R1S2C1 – expensed, as it has not extended the useful life of the surface. Treat as maintenance necessary to achieve the assumed useful life of 25 years.

R2S2C3 – expensed as annual maintenance necessary to achieve life of pavement and wearing surface

R2S1C1 – capitalise. Write off any remaining book value prior to reconstruction. Revise annual life to actual achieved (14 years). Depreciate over 14 years to zero residual value in future.

In addition, update the comments field for each asset where there has been extensive maintenance.

If contrary to the assumptions in this example, there were 5 additional assets similar to R1S1C1 the cost per km to reconstruct and the estimated useful life should be recalculated factoring in the recent experience

E.g. if the other 5 assets, recalculate useful lives as $(5 \times 20 + 1 \times 14)/6 = 19$ years. Revise remaining useful lives down by 1 year (if material).

Also, if the other 5 similar assets had assumed per km costs of \$20 000 with total value (length x cost per km) of \$140 000, recalculate average cost per km as $(\$140\,000 + \$55\,000)/10 = \$19\,500$ per km. Revalue these components if material or wait for the next total revaluation if not material.