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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2002-2003

PART B - VOLUME THREE Local Government Authorities

No. 2 of 2003 - November 2003

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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.

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 four Councils (2002, 5) were audited by private sector auditors for the year ended 30 June 2003. These Councils were Brighton, Hobart City, Kingborough and Launceston City.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The following is a summary as at 11 November 2003 of the audit status of the financial statements for the 29 Councils for the 2002-03 year.

In 2002-03, four Councils had not submitted signed financial statements by 1 October 2003.

Those Councils comprised:

Council	<i>Date Received</i>
Devonport City Council *	8 October 2003
Sorell Council *	12 November 2003
Tasman Council *	7 November 2003
West Coast Council	4 November 2003

* Draft accounts received by 1 October 2003

Results of audits: -

Audits completed and Unqualified Opinions issued	25
Audits not completed	4

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.

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	23 336	33 506	24 402	39 145	66 667	61 270
Grants	3 272	9 669	1 944	5 814	4 207	7 792
Other operating revenue	765	4 683	1 929	1 958	3 580	4 912
Non-operating revenue	10 033	9 849	1 346	35 551	7 745	6 931
Total Revenue	37 406	57 707	29 621	82 468	82 199	80 905
Borrowing Costs	414	1 177	897	1 743	845	546
Depreciation	7 879	8 840	7 763	9 599	21 866	18 166
Other operating expenses	18 981	31 311	21 492	39 209	60 848	54 030
Non-operating expenses	1 357	1 430	811	10 439	688	2 254
Total Expenses	28 631	42 758	30 963	60 990	84 247	74 996
Result from Ordinary Activities	8 775	14 949	(1 342)	21 478	(2 048)	5 909

Comment

Apart from Devonport, all the 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 \$35.551m of assets being the most significant. Non-operating revenue for Hobart includes \$5.202m relating to revaluation increments that represent reversals of previous revaluation decrements, that were previously expensed. Clarence has included a Non-operating revenue item of \$7.800m that represents a non-cash contribution from the Tasmanian Cricket Association for the redevelopment of the Bellerive Oval.

Glenorchy has recorded Non-operating expenses of \$10.439m in 2002-03. This balance includes a fundamental error of \$9.302m that was identified in the prior year financial statements. The error occurred as sewerage assets recognised for the first time in 2001-02 did not have any accumulated depreciation attached to the gross values of the assets. The amount of the error above reflects the value of accumulated depreciation that should have been included.

Without Non-operating revenue and expenditure items, Burnie, Clarence and Launceston would have recorded a surplus for the year. Glenorchy would have had a deficit of \$3.634m and Hobart a deficit of \$9.105m. Devonport's deficit would have increased to \$1.877m.

FINANCIAL POSITION

	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	372	20 870	523	1 213	565	2 488
Receivables	2 181	3 156	1 677	1 819	3 107	7 012
Investments	11 800	4 000	1 500	5 147	12 122	23 271
Inventories	327	210	278	294	249	818
Other	48	659	1 815	421	29	210
Total Current Assets	14 728	28 895	5 793	8 894	16 072	33 799
Property, Plant And Equipment	239 241	311 004	276 145	342 752	579 818	653 737
Investments	401	26 376	14 330	38 160	36 520	56 949
Other	107	243	1 821	2 087	474	902
Total Non-Current Assets	239 749	337 623	292 296	382 999	616 812	711 588
Payables	2 037	4 293	1 183	3 233	3 921	3 206
Borrowings	877	847	3 139	2 879	1 553	1 524
Provisions	1 316	1 831	1 498	2 955	1 836	4 999
Other	48	0	1 665	120	826	3 869
Total Current Liabilities	4 278	6 971	7 485	9 187	8 136	13 598
Borrowings	6 600	23 939	9 325	23 726	10 529	8 444
Provisions	523	457	765	1 122	6 314	1 071
Other	0	0	0	0	45	1 258
Total Non-Current Liabilities	7 123	24 396	10 090	24 848	16 888	10 773
Net Assets	243 076	335 151	280 514	357 858	607 860	721 016
Reserves	24 912	81 453	282 725	57 589	273 349	111 285
Retained Surpluses/(Deficit)	217 622	253 698	(2 211)	300 269	334 511	609 731
Outside Equity Interests	542	0	0	0		
Total Equity	243 076	335 151	280 514	357 858	607 860	721 016

Comment

The higher net assets for Hobart and Launceston reflect the greater 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.

Devonport Council had an accumulated deficit at 30 June. The Council has adopted a Physical Concept of Capital framework, whereby capital is understood to be the operating capability provided by the physical resources of the City. A deficit is considered to be a loss of operating capability at the level that existed at the beginning of the period. Council considers good stewardship of its resources would be reflected in a nil balance of the accumulated surplus account.

CASH POSITION

	Burnie \$'000s	Clarence \$'000s	Devonport \$'000s	Glenorchy \$'000s	Hobart \$'000s	Launceston \$'000s
Receipts from customers	24 934	34 246	27 501	41 304	73 341	67 789
Payments to suppliers and employees	(19 894)	(29 429)	(22 371)	(40 273)	(61 709)	(55 917)
Interest received	752	754	328	488	671	1 328
Borrowing costs	(416)	(1 222)	(901)	(1 743)	(857)	(550)
Cash from operations	5 376	4 349	4 557	(224)	11 446	12 650
Proceeds from investments	0	2 000	0	0	0	163
Payments for investments	(3 700)	(4 000)	(857)	0	0	(484)
Payments for P, P & Equipment	(5 841)	(7 857)	(8 861)	(6 716)	(15 183)	(20 072)
Proceeds from sale of P, P & E	532	490	684	201	492	2 448
Cash used in investing activities	(9 009)	(9 367)	(9 034)	(6 515)	(14 691)	(17 945)
Proceeds from borrowings	1 500	12 000	1 800	2 037	1 700	2 289
Repayment of borrowings	(958)	(17 555)	(1 527)	(2 066)	(1 456)	(2 122)
Cash from financing activities	542	(5 555)	273	(29)	244	167
Cash flows from Government	3 272	13 168	1 944	7 382	4 134	7 853
Net increase/(decrease) in cash	181	2 595	(2 260)	614	1 133	2 725
Cash at the beginning of the period	191	18 275	2 783	6 149	11 563	23 034
Cash at end of the period	372	20 870	523	6 763	12 696	25 759

Comment

Glenorchy, Hobart and Launceston closing cash balances include cash at bank and current investment balances. Burnie, Clarence and Devonport have separate current investment balances of \$11.800m, \$4.000m and \$1.500m, respectively that are not included in the balance of cash at year-end.

With the exception of Glenorchy, all the Councils generated a cash surplus from operations. The surplus plus Cash flows from Government allow the Councils to undertake significant capital works that are reflected in the Payments for property, plant and equipment.

Launceston and Clarence have particularly strong cash positions that reflect consistently strong operating results. Hobart and Glenorchy also had significant cash reserves at year-end.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
Financial Performance							
Result from operations (\$'000s)		99	6 530	(1 877)	(3 634)	(9 105)	1 232
Operating margin	>1.0	1.00	1.16	0.94	0.93	0.89	1.02
Financial Management							
Current ratio	>1	3.44	4.15	0.77	0.97	1.98	2.49
Cost of debt	7.5%	6.3%	6.8%	7.5%	6.6%	7.2%	5.4%
Debt collection	30 days	32	31	25	17	17	37
Creditor turnover	30 days	55	52	20	40	9	37
Other information							
Staff numbers		193	225	185	283	570	479
Average staff costs (\$'000s)		42	40	54	48	53	48

Comment

Burnie, Clarence and Launceston were the only councils with positive results from operations, reflecting good results from operations.

Devonport's operating margin reflects a deficit in 2002-03 that is attributable to unbudgeted increases in other operating expenses not being met by corresponding increases in revenue.

Both Devonport and Hobart recorded operating deficits, which are the result of the Councils not fully budgeting 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 operates the Burnie Airport. At 30 June 2003, 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 and statement of Financial Position is not deemed material.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The signed financial statements of the Burnie City Council were received on 29 September 2003 and an unqualified audit report was issued on 16 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	17 637	19 845	20 228	21 507	23 336
Grants	3 143	2 660	2 584	4 508	3 272
Other operating revenue	1 383	763	776	622	765
Non-operating revenue	1 208	853	791	5 138	10 033
Total Revenue	23 371	24 121	24 379	31 775	37 406
Borrowing costs	395	336	307	317	414
Depreciation	7 904	7 677	7 498	7 379	7 879
Other operating expenses	15 104	16 740	17 869	16 957	18 981
Non-operating expenses	3 061	2 057	1 623	833	1 357
Total Expenses	26 464	26 810	27 297	25 486	28 631
Result from Ordinary Activities	(3 093)	(2 689)	(2 918)	6 289	8 775

Comment

Rates, fees and charges have increased steadily over the five-year period under review. The increase in 2002-03 of \$1.829m includes \$1.012m income from the operations of the Burnie Airport. In 2001-02, the Council recorded \$0.323m, representing revenue for the Burnie Airport from February 2002.

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 have been fairly constant over the period under review. The increase of \$2.024m in 2002-03 is attributable to an increase of \$0.710m in expenditure relating to the operations of the Burnie Airport and an increase in Council's material and contract expenditure totalling \$1.591m.

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.

The balance of non-operating revenue increased in 2002-03 by \$4.895m, to \$10.033m and represents additional asset infrastructure adjustments. Council continued its asset review using GIS technology and found an additional \$7.908m in drainage assets. In addition, Council adopted a policy to recognise retaining walls constructed in conjunction with road assets, resulting in the recognition of \$4.611m. The increases in assets recognised was offset by Council amending its policy in relation to the recognition of specific park and reserve assets, resulting in a write off of \$1.690m.

Over the three-year period to 2000-01, Council had returned an overall negative result from Ordinary Activities totalling \$8.700m, or an average annual deficit of \$2.900m. A surplus from Ordinary Activities was recorded in 2001-02 and 2002-03, totalling \$6.289m and \$8.775m respectively, due principally to the take-up of additional assets referred to earlier in this segment of the report.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	42	173	65	191	372
Receivables	1 126	2 336	1 802	2 075	2 181
Investments	9 250	7 414	5 365	8 100	11 800
Inventories	303	401	318	301	327
Other	60	62	29	93	48
Total Current Assets	10 781	10 386	7 579	10 760	14 728
Property, plant & equipment	221 480	227 156	225 331	232 099	239 241
Investments	330	473	701	708	401
Other	0	0	0	137	107
Total Non-Current Assets	221 810	227 629	226 032	232 944	239 749
Payables	1 115	1 805	1 240	1 784	2 037
Borrowings	711	757	796	958	877
Provisions	1 131	1 361	1 167	1 247	1 316
Other	59	14	105	21	48
Total Current Liabilities	3 016	3 937	3 308	4 010	4 278
Borrowings	5 019	4 202	3 412	5 977	6 600
Provisions	384	356	290	338	523
Total Non-Current Liabilities	5 403	4 558	3 702	6 315	7 123
Net Assets	224 172	229 520	226 601	233 379	243 076
Reserves	27 188	31 350	29 280	23 915	24 912
Retained surpluses	196 984	198 170	197 321	208 982	217 622
Outside Equity Interests	0	0	0	482	542
Total Equity	224 172	229 520	226 601	233 379	243 076

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.

Receivables increased by \$0.107m in 2002-03 due primarily to an increase in parking debtors, \$0.087m, increases in accrued interest

and other revenue, \$0.075m and an increase of \$0.166m in the repayment of loans from outside organisations. The increases were offset by a decrease in rate debtors of \$0.237m.

Council's investment balance increased by \$2.735m in 2001-02 to \$8.100m due to unexpended grant funds received during the year. Investments increased by a further \$3.700m in 2002-03 as a result of unexpended grant funds and the accumulation of funds towards the completion of a major capital project at the Roundhill Sewerage Treatment Plant.

The balance of Property, plant and equipment has increased steadily over the five-year period under review. In 2001-02, the Council consolidated assets relating to the Burnie Airport, resulting in an increase of \$2.532m. In addition, previously unrecorded assets were recognised totalling \$4.649m. In 2002-03, the balance has increased by \$7.142m primarily due to additional assets being recognised, \$9.501m and a revaluation of land and buildings at the Burnie Airport totalling \$0.997m. These increases were offset by the impact of increases in accumulated depreciation during the financial period.

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.

The Payables balance has fluctuated over the five-year period, with increased balances reflecting material creditor balances relating to capital expenditure at year-end.

Borrowings have decreased from \$5.730m in 1998-99 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. During 2002-03, Council borrowed a further \$1.500m, which will be used for the Roundhill Sewerage Treatment Plant project.

Council's Reserves decreased by \$5.365m in 2001-02 as a result of Council transferring the general reserve balance to accumulated surplus balance.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	18 010	18 544	21 478	22 381	24 934
Payments to suppliers and employees	(15 972)	(15 977)	(19 549)	(17 520)	(19 894)
Interest received	802	678	899	608	752
Borrowing costs	(438)	(358)	(314)	(354)	(416)
Cash from operations	2 402	2 887	2 514	5 115	5 376
Proceeds from investments	3 700	1 836	2 049	0	0
Payments for investments	0	0	0	(2 735)	(3 700)
Payments for P, P & Equipment	(9 694)	(7 044)	(7 199)	(10 468)	(5 841)
Proceeds from sale of P, P & E	1 208	563	695	489	532
Proceeds from Outside Equity Interest	0	0	0	490	0
Cash used in investing activities	(4 786)	(4 645)	(4 455)	(12 224)	(9 009)
Proceeds from borrowings	0	0	0	3 523	1 500
Repayment of borrowings	(634)	(772)	(750)	(796)	(958)
Cash from financing activities	(634)	(772)	(750)	2 727	542
Cash Flows from Government	3 143	2 660	2 584	4 508	3 272
Net increase/(decrease) in cash	125	130	(107)	126	181
Cash at the beginning of the period	(83)	42	172	65	191
Cash at the end of the period	42	172	65	191	372

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.

The increase in Receipts from customers in 2002-03, totalling \$2.553m includes an increase in general rate receipts of \$1.006m and receipts from 12 months of operations for the Burnie Airport, \$0.980m.

In 2000-01, Payments to suppliers and employees increased by, \$3.572m, 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. In 2002-03, the cash payments total increased by \$2.374m due to Burnie Airport payment totalling \$0.701m and an increase in Council's materials and contract payments totalling \$1.530m.

Since 1 July 1997 Burnie Council has maintained its investment in property plant and equipment, with new assets either purchased or constructed totalling \$40.246m as opposed to the annual depreciation charge \$38.337m.

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. Council has borrowed a further \$1.500m in 2002-03 to fund internal capital works, in particular, the Roundhill Sewerage Treatment Plant project.

The above factors, coupled with the draw down of invested funds over the three-year period to 2000-01 enabled Council to record a neutral cash flow movement. In 2001-02 and 2002-03 unexpended grant funds and borrowings have enabled Council to increase its investments by \$6.435m and maintain a static cash flow movement.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(1 240)	(1 485)	(2 086)	1 984	99
Operating margin	>1.0	0.95	0.94	0.92	1.08	1.00
Financial Management						
Current ratio	>1	3.57	2.64	2.29	2.68	3.44
Cost of debt	7.5%	6.9%	6.8%	7.3%	6.8%	6.3%
Debt collection	30 days	20	38	29	32	34
Creditor turnover	30 days	19	42	27	43	55
Other information						
Staff numbers FTEs		196	201	193	186	193
Average staff costs (\$'000s)		38	41	49	45	42

Comment

From 1998-99 to 2000-01, Council had failed to cover operating expenses returning \$4.811m (Result from operations) over the period. Council recorded a surplus from operations of \$1.984m for 2001-02 and \$0.099m for 2002-03. These results are reflected by the Operating margin ratio, which was below the benchmark in the first three years under review.

Council has a strong current ratio, which is the result of it holding significant investment balances.

The Cost of debt ratio reflects the current market rates and is considered appropriate.

The debt collection ratio has been consistent with the benchmark in all periods except 1999-00. 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 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.

Average staff costs have been within expectations with the exception of 2000-01. The increase in the average costs for 2000-01 is the result of \$1.738m being paid in relation to a number of redundancies.

OVERALL COMMENT

Over the five-year period, Burnie City Council has recorded an accumulated deficit from operating activities totalling \$2.728m.

Burnie City Council is considered to be 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.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2003 and an unqualified audit report was issued on 13 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	26 891	28 837	29 849	31 714	33 506
Grants	1 847	1 818	1 948	2 395	9 669
Other operating revenue	4 567	3 966	4 000	4 582	4 683
Non-operating revenue	293	657	1 183	6 202	9 849
Total Revenue	33 598	35 278	36 980	44 893	57 707
Borrowing costs	1 884	1 393	1 758	1 460	1 177
Depreciation	6 780	6 631	7 653	11 658	8 840
Other operating expenses	25 069	27 305	27 561	28 613	31 311
Non-operating expenses	2 824	933	115	0	1 430
Total Expenses	36 557	36 262	37 087	41 731	42 758
Result from Ordinary Activities	(2 959)	(984)	(107)	3 162	14 949

Comment

Grant revenue in 2002-03 has increased to \$9.669m due to the receipt of \$7.250m from the Federal Government for the Effluent Refuse Scheme.

Non-operating expenses in 1998-99 included a write-down in Council's interest in Hobart Water of \$2.549m, after it was initially recognised in the prior financial year. The significant increase in Non-operating revenue for 2001-02 is related to the contribution of \$5.000m for the first stage of the redevelopment at Bellerive Oval. These contributions continued in the 2002-03 year, with a further \$7.800m being recognised. Non-operating revenue in the current year also includes \$1.134m for the contribution of subdivision road assets.

Depreciation expense in 2001-02 has increased significantly due to the revaluation of road base and seal assets as at 1 July 2001. Depreciation in 2002-03 has reduced back down to \$8.840m after the remainder of the road asset components were revalued.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	14 817	15 790	14 587	18 275	20 870
Receivables	1 785	2 413	3 130	3 148	3 156
Investments	2 176	2 000	2 000	2 000	4 000
Inventories	161	131	153	176	210
Other	98	74	115	767	659
Total Current Assets	19 037	20 408	19 985	24 366	28 895
Property, plant & equipment	262 364	260 735	257 301	304 164	311 004
Investments	25 954	25 954	25 954	25 954	26 376
Other	514	433	382	307	243
Total Non-Current Assets	288 832	287 122	283 637	330 425	337 623
Payables	3 250	2 984	2 927	3 022	4 293
Borrowings	15 357	17 347	16 445	16 988	847
Provisions	1 330	1 293	1 294	1 555	1 831
Total Current Liabilities	19 937	21 624	20 666	21 565	6 971
Borrowings	16 427	15 387	15 021	13 353	23 939
Provisions	341	337	447	258	457
Total Non-Current Liabilities	16 768	15 724	15 468	13 611	24 396
Net Assets	271 164	270 182	267 488	319 615	335 151
Reserves	22 714	23 784	22 521	71 906	81 453
Retained surpluses	248 450	246 398	244 967	247 709	253 698
Total Equity	271 164	270 182	267 488	319 615	335 151

Comment

Although Council's cash levels and current borrowings appear high, the amount in the first four years of analysis is inflated due to overnight loans being taken out near the end of each financial year.

During the 2002-03 financial year, the Council no longer required this arrangement. Instead these funds are now managed through a long-term borrowing arrangement with an associated interest offset facility.

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. The increase in reserves in 2002-03 is due to the funds being set aside to fund the Effluent Refuse Scheme previously mentioned.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	26 873	29 164	31 280	32 327	34 246
Payments to suppliers and employees	(24 830)	(26 681)	(28 570)	(29 071)	(29 429)
Interest received	622	515	541	539	754
Borrowing costs	(2 277)	(1 517)	(1 812)	(1 499)	(1 222)
Cash from operations	388	1 481	1 439	2 296	4 349
Proceeds from investments	6 475	176	1 000	1 000	2 000
Payments for investments	(1 046)	0	(1 000)	(1 000)	(4 000)
Payments for P, P & Equipment	(11 452)	(5 935)	(6 023)	(4 556)	(7 857)
Proceeds from sale of P, P & E	145	343	8	0	490
Cash used in investing activities	(5 878)	(5 416)	(6 015)	(4 556)	(9 367)
Proceeds from borrowings	14 704	16 388	15 694	16 294	12 000
Repayment of borrowings	(13 331)	(15 438)	(16 962)	(16 428)	(17 555)
Cash from financing activities	1 373	950	(1 268)	(134)	(5 555)
Cash Flows from Government	4 735	4 739	5 117	6 082	13 168
Net increase/(decrease) in cash	618	1 754	(727)	3 688	2 595
Cash at the beginning of the period	12 942	13 560	15 314	14 587	18 275
Cash at end of the period	13 560	15 314	14 587	18 275	20 870

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. For the current year, net cash has risen due to the large grant receipt from the Federal Government.

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 \$11.452m during the 1998-99 financial year. Apart from this peak, expenditure in the past four years on Council's assets was less than the decline in Council's assets represented by depreciation. Over this period, expenditure on assets totalled \$24.371m whereas depreciation for the same period amounted to \$34.782m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(428)	(708)	(1 175)	(3 040)	6 530
Operating margin	>1.0	0.99	0.98	0.97	0.93	1.16
Financial Management						
Current ratio	>1	0.95	0.94	0.97	1.13	4.15
Cost of debt	7.5%	5.3%	5.2%	5.6%	5.6%	6.8%
Debt collection	30 days	21	27	34	32	31
Creditor turnover	30 days	28	31	30	26	52
Other information						
Staff numbers FTEs		213	214	207	210	225
Average staff costs (\$'000s)		35	35	40	41	40

Comment

Although Council has incurred a loss from operations for the first four years of analysis, its results are close to the benchmark for operating margin. The losses incurred in 2000-01 and 2001-02 differ from the result from ordinary activities due to the major items of non-operating revenue recorded in these years. The 2001-02 year included a \$5.000m contribution for the new grandstand at Bellerive oval.

Without these significant transactions, a net loss of \$5.351m from operations has been earned over the four year period, averaging a loss of \$1.337m per annum. This result exists primarily from Council not budgeting annually to cover operating expenses, including all depreciation. However, depreciation charges over this four-year period totalled \$32.722m, indicating that Council does rate for most of the depreciation expense. Council is committed to move progressively towards full funding of depreciation expense.

The 2002-03 result is influenced by the Federal Government funding for the Effluent Refuse Scheme, of \$7.250m. Without this the grant, the result from operations would have been a loss of \$0.720m, which is consistent with other years in the analysis.

The substantial increase in creditor turnover is due to the June accounting period being extended for a longer time in order to correctly recognise expenses into the correct financial year.

OVERALL COMMENT

This year's audit was completed with satisfactory results.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 8 October 2003. An unqualified audit report was issued on 28 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	21 799	22 394	23 109	23 256	24 402
Grants	2 577	1 890	2 787	2 615	1 944
Other operating revenue	1 454	1 380	1 618	1 761	1 929
Non-operating revenue	162	13 701	887	703	1 346
Total Revenue	25 992	39 365	28 401	28 335	29 621
Borrowing costs	1 249	1 170	1 173	1 028	897
Depreciation	6 121	6 210	6 377	7 529	7 763
Other operating expenses	17 067	17 132	18 861	19 801	21 492
Non-operating expenses	842	533	759	274	811
Total Expenses	25 279	25 045	27 170	28 632	30 963
Result from Ordinary Activities	713	14 320	1 231	(297)	(1 342)

Comment

Revenue from Rates, fees and charges has steadily increased during the period under review. However, in 2002-03, rates, fees and charges increased by \$1.146m. The increase is mainly attributable to an increase of \$0.901m in rates revenue and user charges, in particular increases in the municipal and sewerage rates. These increases correspond to rate increases determined through Council's budgetary process.

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. The 2001-02 grant revenue balance includes subsidies totalling \$0.415m to eliminate Public Body Assistance Act loans held by Council, which were fully subsidised by the State Government.

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 balance of Non-operating revenue has increased by \$0.643m in 2002-03 primarily as a result of the recognition of non-monetary assets provided to Council, totalling \$1.088m (\$0.425m, 2001-02). These assets represent sub-division projects completed, with ownership of the infrastructure assets transferring to Council.

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 \$1.249m in 1998-99 to \$0.897m in 2002-03 and is attributable to regular repayments of loan borrowings that, in turn, has resulted in a reduction in the balance of loans outstanding.

Other operating expenses have increased by \$1.691m in 2002-03. The movement is mainly attributable to an increase of \$1.089m in employee costs. The increase is due to an increase of employee numbers from 170 to 185, a back-pay to recognise an enterprise bargaining agreement increase from 1 January 2002, an enterprise bargaining agreement increase from 1 January 2003 and a number of employee reclassifications.

Non-operating expenses have increased by \$0.537m to \$0.811m in 2002-03. The balance relates to the loss on disposal of assets sold.

The loss is primarily attributable to infrastructure assets replaced in the period, which still had written down values recorded in Council's asset registers.

Council has recorded surpluses from ordinary activities in three of the five years under review. Deficits from ordinary activities of \$0.297m and \$1.342m have been incurred in 2001-02 and 2002 - 03. The deficit in 2001-02 was partly attributable to the increased depreciation charges recorded in that year, \$1.152m. The deficit in 2002-03 is attributable to the increases in other operating expenses and non-operating expenses of \$2.228m not being met by corresponding increases in revenue.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	5 929	4 034	3 411	2 783	523
Receivables	1 889	1 855	2 187	1 891	1 677
Investments	0	0	500	0	1 500
Inventories	270	260	266	295	278
Other	4 177	1 675	1 778	1 822	1 815
Total Current Assets	12 265	7 824	8 142	6 791	5 793
Property, plant & equipment	239 816	246 349	265 641	269 595	276 145
Investments	1 858	14 857	14 565	14 745	14 330
Other	1 629	1 585	1 447	1 230	1 821
Total Non-Current Assets	243 303	262 791	281 653	285 570	292 296
Payables	1 045	1 126	1 122	1 230	1 183
Borrowings	2 842	1 998	2 383	1 583	3 139
Provisions	930	1 020	1 164	1 223	1 498
Other	4 015	1 507	1 658	1 557	1 665
Total Current Liabilities	8 832	5 651	6 327	5 593	7 485
Borrowings	12 950	12 745	11 783	10 608	9 325
Provisions	517	536	534	539	765
Total Non-Current Liabilities	13 467	13 281	12 317	11 147	10 090
Net Assets	233 269	251 683	271 151	275 621	280 514
Reserves	233 269	251 683	271 151	275 621	282 725
Retained surpluses/(deficits)	0	0	0	0	(2 211)
Total Equity	233 269	251 683	271 151	275 621	280 514

Comment

Council's Cash balance has decreased by \$2.260m in 2002-03. This decrease will be reviewed below under the Cash Position analysis.

The balance of \$1.500m recorded as current investments for 2002-03 represents a transfer of sinking fund investments previously recorded as non-current. The \$1.500m will be used to repay two sinking fund loans during 2003-04. A corresponding increase of \$1.556m is recorded in the current Borrowings balance for 2002-03.

The balance of Property, plant and equipment has increased from \$239.816m in 1998-99 to \$276.145m in 2002-03 due mainly to asset revaluation increments. Council revalue 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. In 2002-03, the investment in Cradle Coast Water was increased by \$0.908m to reflect Council's increased equity ownership. As noted above, a transfer of \$1.500m to current investments offset the increase in non-current investments of \$0.908m.

The Council has adopted a Physical Concept of Capital framework, whereby capital is understood to be the operating capability provided by the physical resources of the City. A deficit is considered to be a loss of operating capability at that level that existed at the beginning of the period. Council considers good stewardship of its resources would be reflected in a nil balance of the accumulated surplus account.

Council has achieved this result in the first four-years under review. However, in 2002-03 an accumulated deficit of \$2.211m was recorded. The deficit is mainly attributable to the deficit result from ordinary activities, \$1.342m and an adjustment directly to equity, \$0.278m for the impact of the revised accounting standard AASB 1028 "Employee Benefits".

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	22 747	23 356	24 332	26 019	27 501
Payments to suppliers and employees	(16 776)	(16 842)	(19 011)	(20 803)	(22 371)
Interest received	430	414	492	395	328
Borrowing costs	(1 326)	(1 185)	(1 201)	(1 088)	(901)
Cash from operations	5 075	5 743	4 612	4 523	4 557
Proceeds from investments	1 129	0	0	496	0
Payments for investments	0	(164)	(146)	0	(857)
Payments for P, P & Equipment	(10 164)	(10 004)	(7 637)	(6 731)	(8 861)
Proceeds from sale of P, P & E	2 055	1 689	338	444	684
Cash used in investing activities	(6 980)	(8 479)	(7 445)	(5 791)	(9 034)
Proceeds from borrowings	2 000	1 575	1 418	750	1 800
Repayment of borrowings	(2 951)	(2 023)	(1 778)	(2 725)	(1 527)
Cash from financing activities	(951)	(448)	(360)	(1 975)	273
Cash Flows from Government	2 577	1 890	2 787	2 615	1 944
Net increase/(decrease) in cash	(279)	(1 294)	(406)	(628)	(2 260)
Cash at the beginning of the period	5 390	5 111	3 817	3 411	2 783
	5 111	3 817	3 411	2 783	523

Comment

Over the five-years under review, Council's cash position has been consistently decreasing as Council have used cash surpluses from operations and cash flows from Government to finance capital expenditure and the reduction of loan debt. However, as noted previously, Council's cash position has decreased by \$2.260m in 2002-03.

The decrease is primarily attributable to Payments for property, plant and equipment totalling \$8.861m. In 2002-03, in addition to funding general infrastructure works, Council expended \$2.518m on the purchase of land and buildings. In particular, Council commenced work on the New Horizons Project with the purchase of a property in Best Street.

The decrease in the cash position is further compounded with 2002-03 being the only period under review in which Proceeds from borrowings exceeded repayments by \$0.273m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		1 393	1 152	1 103	(726)	(1 877)
Operating margin	>1.0	1.06	1.05	1.04	0.97	0.94
Financial Management						
Current ratio	>1	1.39	1.38	1.29	1.21	0.77
Cost of debt	7.5%	7.9%	7.9%	8.3%	7.8%	7.5%
Debt collection	30 days	32	30	35	30	25
Creditor turnover	30 days	19	20	22	24	20
Other information						
Staff numbers FTEs		161	154	170	170	185
Average staff costs (\$'000s)		44	46	45	47	54

Comment

The financial performance ratios show that Council has recorded operating surpluses in the three years to 30 June 2001, with operating deficits of \$0.726m and \$1.877m incurred in 2001-02 and 2002-03. The total surplus for the period under review amounted to \$1.045m.

Council's current ratio has been consistently above the benchmark in the four-year period to 2001-02 and indicates that the Council was able to meet all short-term liabilities. However, the current ratio for 2002-03 is significantly below the benchmark due to the significant decrease in Council's cash position.

The cost of debt has remained fairly consistent during the past five years and is calculated as 7.5% for 2002-03.

The debt collection ratio has been equal to or higher than the benchmark of 30 days for the four-year period to 2001-02. The ratio is affected by the balance of infringement debtors. Council takes action to recover infringement debts through the court

system, although this process is mainly unsuccessful. In 2002-03 the ratio is below the benchmark as a result of Council treating longer-term infringement debtors as unrecoverable.

The creditor turnover figure has been below 30 days for the entire period under review.

The Average staff costs have been consistent for the initial four years under review. Average staff costs in 2002-03 has increased as a result of back-pay to recognise an enterprise bargaining agreement increase from 1 January 2002, an enterprise bargaining agreement increase from 1 January 2003 and a number of employee reclassifications.

OVERALL COMMENT

In the five years under review Council recorded a total surplus from operations amounting to \$1.045m.

The 2002-03 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 42 500 people.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements of the Glenorchy City Council were received on 18 September 2003 and an unqualified audit report was issued on 9 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	32 491	33 423	35 900	36 827	39 145
Grants	4 822	4 444	4 297	6 187	5 814
Other operating revenue	1 244	1 836	1 994	1 397	1 958
Non-operating revenue	2 633	1 108	36 272	32 054	35 551
Total Revenue	41 190	40 811	78 463	76 465	82 468
Borrowing costs	1 884	1 940	1 854	1 798	1 743
Depreciation	7 108	6 801	8 250	8 989	9 599
Other operating expenses	35 316	36 552	34 692	36 285	39 209
Non-operating expenses	9 278	1 302	681	596	10 439
Total Expenses	53 586	46 595	45 477	47 668	60 990
Result from Ordinary Activities	(12 396)	(5 784)	32 986	28 797	21 478

Comment

Non-operating revenue in recent years mainly comprises revenue arising from the identification of infrastructure assets owned by the council that had not been previously recorded. These amounts include \$35.883m for roads and water assets in 2000-01, \$31.533m for sewerage infrastructure, lands and buildings in 2001-02, and \$35.040m for roads and stormwater assets in 2002-03.

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

Depreciation expenses increased by \$2.798m between 1999-00 and 2002-03 due principally to the recognition of infrastructure assets not previously recognised as 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 on disposal of assets, \$1.344m; and a loss of \$0.353m from sale and leaseback of the vehicle fleet.

Non-operating expenses in 2002-03 included a fundamental error of \$9.302m that was identified in the prior year financial statements. The error occurred as sewerage assets recognised for the first time in 2001-02 did not have any accumulated depreciation attached to the gross values of the assets. The amount of the error above reflects the value of accumulated depreciation that should have been included.

Between 1998-99 and 2002-03, operating expenses exceeded operating revenues by a total of \$20.241m, representing an average annual operating deficit of \$4.048m. This results principally from Council not budgeting annually to recover all operating expenses including depreciation and asset retirement losses. The annual depreciation charge over this period totaled \$40.747m, an average of \$8.1494m per annum.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	316	303	511	591	1 213
Receivables	1 932	2 693	2 348	2 190	1 819
Investments	2 174	2 076	2 243	5 558	5 147
Inventories	105	284	285	287	294
Other	589	392	586	508	421
Total Current Assets	5 116	5 748	5 973	9 134	8 894
Property, plant & equipment	231 145	226 489	267 218	306 709	342 752
Investments	39 590	39 556	39 231	38 160	38 160
Other	1 353	585	1 183	1 927	2 087
Total Non-Current Assets	272 088	266 630	307 632	346 796	382 999
Payables	1 811	2 705	3 101	3 291	3 233
Borrowings	1 377	1 543	1 850	2 065	2 879
Provisions	2 311	2 487	2 258	2 469	2 955
Other	177	323	257	109	120
Total Current Liabilities	5 676	7 058	7 466	7 934	9 187
Borrowings	25 086	25 043	24 692	24 606	23 726
Provisions	597	714	695	883	1 122
Total Non-Current Liabilities	25 683	25 757	25 387	25 489	24 848
Net Assets	245 845	239 563	280 752	322 507	357 858
Reserves	25 099	24 008	30 054	43 497	57 589
Retained surpluses	220 746	215 555	250 698	279 010	300 269
Total Equity	245 845	239 563	280 752	322 507	357 858

Comment

The increase in Investments noted in 2001-02 to \$5.558m resulted from significant amounts of grant funding being received during that year, which when spent resulted in around \$2.000m worth of budgeted works being delayed to 2002-03. No attempt was made to increase the 2002-03 budget allocations to account for these unspent monies and as a consequence they were available for investing that year. The 2003-04 budget allocations have been increased so that the unspent monies will be spent.

The increases in Property, plant and equipment in 2000-01 and subsequent years generally reflect the value of infrastructure assets not previously recognised, as referred to earlier in the previous segment of the Report.

Council's borrowing has remained relatively constant over the 5-year period, although a slight decrease of \$0.066m was noted in 2002-03. The level of borrowings, \$26.605m, remains the highest of any local government authority.

Total equity has increased over the period by \$112.012m due principally to the recognition of additional assets, \$102.456m referred to earlier in this segment of the Report; and increases in the asset revaluation reserves on revaluing assets, \$35.110m, offset by the excess of expenses over revenues for the 5-year period, \$20.242m.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	34 183	35 563	38 095	39 486	41 304
Payments to suppliers and employees	(36 324)	(36 695)	(35 477)	(36 348)	(40 273)
Interest received	328	331	367	379	488
Borrowing costs	(1 884)	(1 810)	(1 854)	(1 798)	(1 743)
Cash from operations	(3 697)	(2 611)	1 131	1 719	(224)
Payments for P, P & Equipment	(2 944)	(2 681)	(6 191)	(5 439)	(6 716)
Proceeds from sale of P, P & E	2 458	612	142	104	201
Cash used in investing activities	(486)	(2 069)	(6 049)	(5 335)	(6 515)
Proceeds from borrowings	1 531	1 534	1 594	2 042	2 037
Repayment of borrowings	(1 226)	(1 377)	(1 603)	(1 871)	(2 066)
Cash from financing activities	305	157	(9)	171	(29)
Cash Flows from Government	4 821	4 444	5 302	6 840	7 382
Net increase/(decrease) in cash	943	(79)	375	3 395	614
Cash at the beginning of the period	1 515	2 458	2 379	2 754	6 149
Cash at end of the period	2 458	2 379	2 754	6 149	6 763

Comment

The significant increase in Net cash noted at the end of 2001-02 is partly due to the large amounts of grants being received, as previously mentioned, as well as the displacement of a number of programmed works to 2002-03 due to the unexpected grants expenditure required for 2001-02. Cash holdings remained high in 2002-03 because the delayed programmed works were incorporated into the normal budget allocation for 2002-03. A budgeted cash deficit for 2003-04 will expend those funds.

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.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(5 751)	(5 590)	(2 605)	(2 662)	(3 634)
Operating margin	>1.0	0.87	0.88	0.94	0.94	0.93
Financial Management						
Current ratio	>1	0.90	0.81	0.80	1.15	0.97
Cost of debt	7.5%	7.1%	7.3%	7.0%	6.7%	6.6%
Debt collection	30 days	21	29	21	19	17
Creditor turnover	30 days	2	13	38	37	40
Other information						
Staff numbers FTEs		284	250	257	297	283
Average staff costs (\$'000s)		47	49	49	42	48

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 \$20.241m or an annual average deficit of \$4.048m. Over that same period, current liabilities have also consistently exceeded current assets at year-end except for 2001-02. The high level of cash being held at the end of that year, as previously noted, significantly influences the year's result. Although high cash holdings were also held at the end of the current year, there was an excess of current liabilities over current assets because an unusually high proportion of the loan portfolio being classified as current. This resulted from Council's policy to accelerate the level of loan repayments and to pay off its PBA loans in 2003-04.

The low level of creditor turnover from 1998-99 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 have risen above the benchmark level. It should be noted though, that a large payment, due early in July each year, skews the year end result, and without this creditor, the turnover levels would be satisfactory.

OVERALL COMMENT

While Council has increased the level of re-investment in infrastructure assets from a five-year average of \$4.794m to an average of \$6.115m over the last three years, the level of investment is still significantly less than the current level of asset deterioration represented by the depreciation charge of \$9.599m for the 2002-03 year.

The average annual deficit of \$4.048m noted above indicates that Council is not yet setting rates at a sufficiently high level to recover all operating expenses, or that expenditure being incurred exceeds what the council can appropriately afford. Improvement has been noted in the 2000-01 and 2001-02 years where the deficit on operations was reduced to \$2.605m and \$2.662m respectively. However, the deficit of \$3.634m for 2002-03 indicated a significant reversal of this trend.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements of the Hobart City Council were received on 19 September 2003 and an unqualified audit report was issued on 16 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	56 338	59 658	60 934	63 366	66 667
Grants	2 892	2 785	3 091	3 837	4 207
Other operating revenue	2 932	2 976	3 870	3 577	3 580
Non-operating revenue	39 406	1 727	935	5 604	7 745
Total Revenue	101 568	67 146	68 830	76 384	82 199
Borrowing costs	1 038	1 118	909	869	845
Depreciation	21 198	21 821	19 135	20 152	21 866
Other operating expenses	49 817	51 723	55 461	56 235	60 848
Non-operating expenses	1 933	19 948	3 687	4 512	688
Total Expenses	73 986	94 610	79 192	81 768	84 247
Result from Ordinary Activities	27 582	(27 464)	(10 362)	(5 384)	(2 048)

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.

Rate revenue increased during 2002-03 due to CPI, AAV growth and one-off revenue of \$0.874m in respect of the introduction of the mobile garbage bin service.

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 \$4.987m. The remainder of the Non-operating revenue generally represents the disposal proceeds of non-current assets and contributions of assets from developers. However, in 2002-03, it includes \$5.202m of revaluation increments that represent reversals of previous revaluation decrements that had been previously expensed.

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 disposed assets.

During 2000-01, sealed roads were 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 increased the depreciation expense.

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). This is due to the large annual depreciation charge. Over the same period, Council has been cash flow positive (see Cash Position below).

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(832)	(1 176)	(511)	1 254	565
Receivables	4 140	3 406	3 993	4 285	3 107
Investments	8 743	10 681	9 909	10 309	12 122
Inventories	238	251	252	233	249
Other	15	5	14	32	29
Total Current Assets	12 304	13 167	13 657	16 113	16 072
Property, plant & equipment	567 581	555 730	566 819	567 402	579 818
Investments	38 800	38 800	36 520	36 520	36 520
Other	571	730	620	461	474
Total Non-Current Assets	606 952	595 260	603 959	604 383	616 812
Payables	3 646	3 545	4 775	4 920	3 921
Borrowings	1 841	1 974	1 852	1 456	1 553
Provisions	2 855	3 141	3 000	2 886	1 836
Other	249	270	415	688	826
Total Current Liabilities	8 591	8 930	10 042	9 950	8 136
Borrowings	11 682	10 789	10 595	10 382	10 529
Provisions	2 536	2 368	2 644	4 065	6 314
Other	47	45	45	45	45
Total Non-Current Liabilities	14 265	13 202	13 284	14 492	16 888
Net Assets	596 400	586 295	594 290	596 054	607 860
Reserves	213 694	232 551	252 146	258 713	273 349
Retained surpluses	382 706	353 744	342 144	337 341	334 511
Total Equity	596 400	586 295	594 290	596 054	607 860

Comment

Council has maintained cash and investment balances at over \$7.000m over the 5 year period. At the same time, borrowings have been reduced. Borrowing costs have reduced in line with the decline in borrowings.

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.

Revaluations in 2002-03 of \$19.056m related mainly to buildings (\$11.535m) and land (\$5.950m).

All revaluation reserve movements have a corresponding impact on the Property, plant and equipment balances, the carrying values for which have increased from \$568m at 30 June 1999 to \$580m at 30 June 2003.

The Non-Current assets item, Investments, represents Council's interest in Hobart Water. This investment was revalued at 30 June 2001 to \$36.520m corresponding to its percentage rights based on a 3 year average of water usage.

Despite recording operating deficiencies for each of the periods under review, Council has maintained its strong equity base with Total Equity increasing from \$596m at 30 June 1999 to \$608m at 30 June 2003, principally due to asset revaluations.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	58 587	62 406	66 032	73 327	73 341
Payments to suppliers and employees	(49 425)	(50 481)	(56 353)	(59 735)	(61 709)
Interest received	447	707	783	564	671
Borrowing costs	(1 040)	(1 168)	(919)	(881)	(857)
Cash from operations	8 569	11 464	9 543	13 275	11 446
Payments for P, P & Equipment	(11 754)	(12 923)	(13 252)	(14 675)	(15 183)
Proceeds from sale of P, P & E	558	588	897	508	492
Cash used in investing activities	(11 196)	(12 335)	(12 355)	(14 167)	(14 691)
Proceeds from borrowings	2 200	1 325	1 658	1 242	1 700
Repayment of borrowings	(188)	(2 085)	(1 974)	(1 851)	(1 456)
Cash from financing activities	2 012	(760)	(316)	(609)	244
Cash Flows from Government	2 760	3 225	3 021	3 666	4 134
Net increase/(decrease) in cash	2 145	1 594	(107)	2 165	1 133
Cash at the beginning of the period	5 766	7 911	9 505	9 398	11 563
Cash at end of the period	7 911	9 505	9 398	11 563	12 696

Comment

Despite recording negative Operating Results and Results from Ordinary Activities over the last four years, Hobart City Council has returned positive cash flows from operations. The cash balance at 30 June 2003 of \$12.696m, consisting of cash and current investments, is subject to restrictions on use totalling \$1.974m including the provision of parking facilities, \$0.233m, and Heritage funding, \$1.357m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(9 891)	(9 243)	(7 610)	(6 476)	(9 105)
Operating margin	>1.0	0.86	0.88	0.90	0.92	0.89
Financial Management						
Current ratio	>1	1.43	1.47	1.36	1.62	1.98
Cost of debt	7.5%	7.7%	8.8%	7.3%	7.3%	7.2%
Debt collection	30 days	31	24	26	25	17
Creditor turnover	30 days	8	6	23	13	9
Other information						
Staff numbers FTEs		515	552	541	560	570
Average staff costs (\$'000s)		47	45	48	51	53

Comment

Over the five-year period under review Council has consistently failed to cover operating expenses with an annual average deficiency of \$8.465m.

The cost of debt currently reflects the current market rates.

Statistics for debt collection indicate a satisfactory situation well below a 30 day benchmark. However, the provision for doubtful debts exceeds 50% in 2002-03, and relates almost entirely to the recovery of parking fines. Parking fine cash flow only amounts to approximately 75% of parking fine revenue. The remainder is not collected and has to be written off over time. As noted in Council's financial statements, outstanding accounts for parking offences are regarded as doubtful when legal proceedings are commenced for recovery.

Staff numbers increased in 1999-00 due to Council's direct management of the Tattersall's Hobart Aquatic Centre.

OVERALL COMMENT

Over the period of review Council has recorded annual deficits however, the Council has no liquidity difficulties. The discrepancy is due to the depreciation expense on infrastructure.

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 2002-03 FINANCIAL STATEMENTS

An unqualified audit report was issued on 15 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	53 999	55 408	57 686	57 995	61 270
Grants	11 651	8 779	7 884	8 871	7 792
Other operating revenue	1 263	837	3 394	3 461	4 912
Non-operating revenue	9 997	8 325	7 122	13 977	6 931
Total Revenue	76 910	73 349	76 086	84 304	80 905
Borrowing costs	816	614	599	646	546
Depreciation	14 834	14 882	15 194	15 544	18 166
Other operating expenses	43 984	43 215	49 409	51 995	54 030
Non-operating expenses	755	1 970	1 669	4 878	2 254
Total Expenses	60 389	60 681	66 871	73 063	74 996
Result from Ordinary Activities	16 521	12 668	9 215	11 241	5 909

Comment

Revenue from Rates, fees and charges has increased from \$53.999m in 1998-99 to \$61.270m in 2002-03. Of this amount, Rate revenue has risen from \$43.621m to \$48.247m over the same period and equates to an approximate 2% 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.

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 total for 2002-03 includes \$4.483m of infrastructure take-up adjustments. The remainder of the amounts in each of the years basically represents the sale proceeds on various assets.

While Borrowings have marginally increased over the period under review (from \$8.361m in 1998-99 to \$9.968m in 2002-03), Borrowing costs have decreased markedly due to lower interest rates.

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

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 753	4 982	4 545	3 584	2 488
Receivables	4 153	6 278	6 594	5 871	7 012
Investments	25 260	19 658	19 203	19 449	23 271
Inventories	805	700	768	759	818
Other	295	258	790	178	210
Total Current Assets	33 266	31 876	31 900	29 841	33 799
Property, plant & equipment	561 168	574 845	582 452	653 444	653 737
Investments	51 324	51 323	55 757	57 274	56 949
Other	1 475	1 367	1 286	1 187	902
Total Non-Current Assets	613 967	627 535	639 495	711 905	711 588
Payables	3 197	2 023	2 946	1 357	3 206
Borrowings	1 956	2 012	2 301	2 122	1 524
Provisions	3 796	3 807	4 045	4 538	4 999
Other	3 084	3 773	2 840	3 883	3 869
Total Current Liabilities	12 033	11 615	12 132	11 900	13 598
Borrowings	6 405	6 392	8 092	7 969	8 444
Provisions	761	682	928	860	1 071
Other	320	340	646	952	1 258
Total Non-Current Liabilities	7 486	7 414	9 666	9 781	10 773
Net Assets	627 714	640 382	649 597	720 065	721 016
Reserves	41 523	44 329	46 669	114 013	111 285
Retained surpluses	586 191	596 053	602 928	606 052	609 731
Total Equity	627 714	640 382	649 597	720 065	721 016

Comment

The Cash balance has remained reasonably constant over the five-year period and reflects the funds held to meet day to day requirements. The Current Asset item Investments consists mainly of 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 rates, excess water, parking infringement, and sundry debtors. The balance in 2002-03 includes \$0.756m of accrued revenue. The

Council includes a significant provision for doubtful debts within the total provision across all receivables of \$0.989m (\$0.797m in 2001-02) to offset parking infringement debtors of \$1.188m (\$0.948m 2001-02). All debtors relating to rateable property are ultimately secured on the property and do not require a provision for non-collectability.

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. In 2002-03 revaluations produced decrements in relation to water assets (\$3.968m), sewerage assets (\$3.470m) and small positive movements in road/bridge assets and other assets with a net total decrement of \$4.633m.

Non-current Investments represent the council's interest in the Esk Water Authority. This investment is revalued annually based on Council's entitlement to a share of net assets that is in turn related to water consumption.

Current liabilities include creditors outstanding at year-end, accrued expenses and employee provisions. Current and non-current liabilities include employee entitlements provisions for 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 \$0.306 during 2002-03 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	54 789	54 102	61 776	64 756	67 789
Payments to suppliers and employees	(43 819)	(45 031)	(52 271)	(54 314)	(55 917)
Interest received	1 324	1 558	1 694	1 144	1 328
Borrowing costs	(841)	(618)	(607)	(645)	(550)
Cash from operations	11 453	10 011	10 592	10 941	12 650
Proceeds from investments	2 315	2 204	1 626	853	163
Payments for investments	(3 312)	(2 366)	(932)	(992)	(484)
Payments for P, P & Equipment	(13 632)	(23 084)	(22 852)	(23 506)	(20 072)
Proceeds from sale of P, P & E	689	1 876	780	3 291	2 448
Cash used in investing activities	(13 940)	(21 370)	(21 378)	(20 354)	(17 945)
Proceeds from borrowings	2 522	2 082	4 061	2 092	2 289
Repayment of borrowings	(2 712)	(1 956)	(2 012)	(2 302)	(2 122)
Cash from financing activities	(190)	126	2 049	(210)	167
Cash Flows from Government	11 758	7 860	7 845	8 909	7 853
Net increase/(decrease) in cash	9 081	(3 373)	(892)	(714)	2 725
Cash at the beginning of the period	18 932	28 013	24 640	23 748	23 034
Cash at end of the period	28 013	24 640	23 748	23 034	25 759

Comment

Cash from operations has remained fairly stable over the past five years. Borrowing costs have gradually decreased over the period under review due to lower interest rates.

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. Expenditure on property, plant and equipment reduced in 2002-03 due to the completion of the Inveresk project while the Detention Basin works were still in progress.

FINANCIAL ANALYSIS

	Bench Mark	1998-99 \$'000s	1999-00 \$'000s	2000-01 \$'000s	2001-02 \$'000s	2002-03 \$'000s
Financial Performance						
Result from operations (\$'000s)		7 279	6 313	3 762	2 142	1 232
Operating margin	>1.0	1.12	1.11	1.06	1.03	1.02
Financial Management						
Current ratio	>1	2.76	2.74	2.63	2.51	2.49
Cost of debt	7.5%	9.8%	7.3%	6.9%	6.0%	5.4%
Debt collection	30 days	28	34	37	36	37
Creditor turnover	30 days	49	35	38	16	37
Other information						
Staff numbers FTEs		480	486	478	478	479
Average staff costs (\$'000s)		42	45	45	46	48

Comment

Council has consistently returned a positive result from operations (ie: Operating revenues less Operating expenses) for the period under review. The total surplus includes funds 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.

The debt collection ratio has generally exceeded the benchmark of 30 days. However, Council's 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 has set aside a considerable provision for doubtful debts.

OVERALL COMMENT

Council has recorded a net operating surplus in each of the five years to 30 June 2003. The cumulative Result from Ordinary Activities for the same period, which includes Non-operating items, mainly derived from asset recognitions referred to earlier in this section of the Report, is significantly greater. As Council completes

its recognition of assets process, there should be a diminution in the non-operating revenue or expense attributable to this source.

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 \$8.000m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Central Coast	Circular Head	Huon Valley	Kingborough	Meander Valley	Waratah-Wynyard	West Tamar
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	14 261	8 443	8 251	18 586	9 765	8 917	11 348
Grants	2 627	3 383	4 481	3 315	4 094	4 134	2 150
Other operating revenue	2 854	1 734	2 236	2 305	882	979	800
Non-operating revenue	0	228	147	3 531	135	430	158
Total Revenue	19 742	13 788	15 115	27 737	14 876	14 460	14 456
Borrowing Costs	193	136	226	117	0	259	202
Depreciation	4 890	2 176	2 723	6 287	3 544	2 530	3 374
Other operating expenses	13 789	8 638	10 672	17 559	9 939	8 915	9 855
Non-operating expenses	96	288	0	625	9	584	69
Total Expenses	18 968	11 238	13 621	24 588	13 492	12 288	13 500
Result from Ordinary Activities	774	2 550	1 494	3 149	1 384	2 172	956

Comment

Revenue from Rates, fees and charges ranged from \$8.251m (Huon Valley Council) to \$18.586m (Kingborough Council). The higher revenue recorded by Kingborough Council is due to its larger population base, which approximates 30 000 people. On average, revenue from Rates, fees and charges represents 69% of total operating revenue for the seven councils for 2002-03.

Government grants and subsidies represent 21% 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. Waratah-Wynyard and Huon Valley Councils recorded the highest percentages with 29% and 31% respectively.

Kingborough Council recorded significant Non-operating revenue of \$3.531m, which includes sub-division infrastructure assets taken over by Council, \$2.793m.

On average, borrowing costs represent 1.1% of total Operating expenditure. Depreciation expense accounted for 24% of total operating expenditure. The depreciation percentages were fairly consistent across the seven councils, ranging from 20% to 26%.

Each council was able to report a surplus from Ordinary Activities, with Kingborough recording the largest, \$3.149m.

FINANCIAL POSITION

	Central Coast \$'000s	Circular Head \$'000s	Huon Valley \$'000s	King- borough \$'000s	Meander Valley \$'000s	Waratah- Wynyard \$'000s	West Tamar \$'000s
Cash	219	691	6 660	284	516	712	5 713
Receivables	1 092	1 295	814	782	857	491	940
Investments	7 017	2 552	0	9 117	5 692	2 800	0
Inventories	78	124	3	92	76	182	124
Other	294	310	0	4	109	48	128
Total Current Assets	8 700	4 972	7 477	10 279	7 250	4 233	6 905
Property, Plant And Equipment	171 980	60 738	78 418	243 807	114 240	72 722	92 782
Investments	9 521	3 711	0	11 460	11 464	4 564	13 860
Other	614	143	0	14	0	70	37
Total Non-Current Assets	182 115	64 592	78 418	255 281	125 704	77 356	106 679
Payables	939	895	734	1 098	884	1 021	515
Borrowings	612	647	540	197	0	707	836
Provisions	1 199	540	482	1 060	693	848	773
Other	170	75	0	901	0	130	42
Total Current Liabilities	2 920	2 157	1 756	3 256	1 577	2 706	2 166
Borrowings	1 669	507	1 322	669	0	3 408	2 291
Provisions	586	65	183	331	51	136	209
Total Non-Current Liabilities	2 255	572	1 505	1 000	51	3 544	2 500
Net Assets	185 640	66 835	82 634	261 304	131 326	75 339	108 918
Capital	0	0	0	157 814	0	0	0
Reserves	34 747	4 442	8 897	101 763	28 299	9 382	58 945
Retained Surpluses	150 893	62 393	73 737	1 727	103 027	65 957	49 973
Total Equity	185 640	66 835	82 634	261 304	131 326	75 339	108 918

Comment

The balance of net assets ranged from \$66.835m (Circular Head Council) to \$261.304m (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	17 784	10 936	10 063	20 709	11 209	10 579	12 607
Payments to suppliers and employees	(14 486)	(9 170)	(10 712)	(17 401)	(10 674)	(9 855)	(10 677)
Interest received	445	231	365	502	394	257	349
Borrowing costs	(164)	(150)	(237)	(117)	0	(262)	(203)
Cash from operations	3 579	1 847	(521)	3 693	929	719	2 076
Proceeds from investments	1 279	0	0	0	0	200	0
Payments for investments	0	0	0	0	(140)	0	(960)
Payments for P, P & Equipment	(6 215)	(3 874)	(3 010)	(4 710)	(5 132)	(4 576)	(3 914)
Proceeds from sale of P, P & E	167	228	326	545	158	430	145
Cash used in investing activities	(4 769)	(3 646)	(2 684)	(4 165)	(5 114)	(3 946)	(4 729)
Proceeds from borrowings	0	0	0	0	0	300	300
Repayment of borrowings	(1 089)	(462)	(540)	(284)	0	(716)	(819)
Cash from financing activities	(1 089)	(462)	(540)	(284)	0	(416)	(519)
Cash flows from Government	2 627	2 983	4 486	3 315	4 094	4 134	2 150
Net increase/(decrease) in cash	348	722	741	2 559	(91)	491	(1 022)
Cash at the beginning of the period	(129)	2 521	5 919	6 842	607	221	1 210
Cash at end of the period	219	3 243	6 660	9 401	516	712	188

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.

FINANCIAL ANALYSIS

	Bench Mark	Central Coast	Circular Head	Huon Valley	King- borough	Meander Valley	Waratah- Wynyard	West Tamar
Financial Performance								
Result from operations (\$'000s)		870	2 610	1 347	243	1 258	2 326	867
Operating margin	>1.0	1.05	1.24	1.10	1.01	1.09	1.20	1.06
Financial Management								
Current ratio	>1	2.98	2.31	4.26	3.16	4.60	1.56	3.19
Cost of debt	7.5%	8.5%	9.8%	7.8%	9.3%	-	6.0%	6.4%
Debt collection	30 days	28	37	30	15	22	20	30
Creditor turnover	30 days	25	32	22	30	24	43	15
Other information								
Staff numbers		135	50	121	152	59	71	83
Average staff costs (\$'000s)		45	44	43	45	48	46	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 1.24.

All of the seven councils had positive working capital, with the average current ratio being 3.1.

The average cost of debt for the large councils was 8.0%. In calculating this average, Meander Valley Council was excluded, as it had no borrowings at 30 June 2003.

Both average debt collection and average creditor turnover were below the benchmarks of 30, at 26 days 27 days respectively.

The staff costs were consistent between the seven councils, with an overall average of \$0.045m.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2003 and an unqualified audit report was issued on 28 August 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	13 000	13 301	13 450	14 214	14 261
Grants	2 248	2 250	2 251	2 429	2 627
Other operating revenue	1 113	1 331	1 626	2 240	2 854
Non-operating revenue	0	9 033	0	488	0
Total Revenue	16 361	25 915	17 327	19 371	19 742
Borrowing costs	516	402	328	288	193
Depreciation	4 998	4 496	4 491	4 824	4 890
Other operating expenses	11 685	12 028	12 565	13 060	13 789
Non-operating expenses	214	125	72	109	96
Total Expenses	17 413	17 051	17 456	18 281	18 968
Result from Ordinary Activities	(1 052)	8 864	(129)	1 090	774

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 \$0.516m in 1998-99 to \$0.193m in 2002-03. 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. The surplus of \$0.774m recorded in 2002-2003 is due to additional contributions received for infrastructure works. This is reflected in the increase of \$0.614m in other operating income.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(518)	623	(478)	(129)	219
Receivables	1 025	1 165	1 330	1 219	1 092
Investments	8 530	6 950	7 638	8 296	7 017
Inventories	78	61	75	74	78
Other	138	135	332	224	294
Total Current Assets	9 253	8 934	8 897	9 684	8 700
Property, plant & equipment	145 590	150 944	158 902	170 143	171 980
Investments	0	9 032	9 032	9 521	9 521
Other	749	887	803	703	614
Total Non-Current Assets	146 339	160 863	168 737	180 367	182 115
Payables	235	314	502	727	939
Borrowings	906	830	777	1 089	612
Provisions	883	933	1 037	1 046	1 199
Other	287	364	156	158	170
Total Current Liabilities	2 311	2 441	2 472	3 020	2 920
Borrowings	4 581	3 750	3 371	2 282	1 669
Provisions	405	376	362	413	586
Total Non-Current Liabilities	4 986	4 126	3 733	2 695	2 255
Net Assets	148 295	163 230	171 429	184 336	185 640
Reserves	8 682	14 095	21 502	33 844	34 747
Retained surpluses	139 613	149 135	149 927	150 492	150 893
Total Equity	148 295	163 230	171 429	184 336	185 640

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 related 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	13 916	14 004	15 053	17 007	17 784
Payments to suppliers and employees	(11 505)	(11 852)	(13 496)	(13 622)	(14 486)
Interest received	509	558	580	501	445
Borrowing costs	(543)	(413)	(348)	(291)	(164)
Cash from operations	2 377	2 297	1 789	3 595	3 579
Proceeds from investments	0	1 581	0	0	1 279
Payments for investments	(369)	0	(689)	(657)	0
Payments for P, P & Equipment	(3 677)	(4 217)	(4 148)	(4 416)	(6 215)
Proceeds from sale of P, P & E	94	138	127	176	167
Cash used in investing activities	(3 952)	(2 498)	(4 710)	(4 897)	(4 769)
Proceeds from borrowings	0	0	400	0	0
Repayment of borrowings	(1 076)	(907)	(831)	(778)	(1 089)
Cash from financing activities	(1 076)	(907)	(431)	(778)	(1 089)
Cash Flows from Government	2 247	2 249	2 251	2 429	2 627
Net increase/(decrease) in cash	(404)	1 141	(1 101)	349	348
Cash at the beginning of the period	(114)	(518)	623	(478)	(129)
Cash at end of the period	(518)	623	(478)	(129)	219

Comment

Cash from operations increased from \$1.789m in 2000-01 to \$3.595m in 2001-02. The increase was 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 was due to the impact of the GST introduction.

Payments for property, plant and equipment amounted to \$6.215m in 2002-03, the majority of which related to capital works on the Penguin Sewerage Treatment Plant.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(838)	(44)	(57)	711	870
Operating margin	>1.0	0.95	1.00	1.00	1.04	1.05
Financial Management						
Current ratio	>1	4.00	3.66	3.60	3.21	2.98
Cost of debt	7.5%	9.4%	8.8%	7.9%	8.5%	8.5%
Debt collection	30 days	29	32	36	31	28
Creditor turnover	30 days	9	10	17	22	25
Other information						
Staff numbers FTEs		127	126	127	129	135
Average staff costs (\$'000s)		43	42	45	44	45

Comment

The financial performance ratios show that Council has recorded operating losses in three of the five years under review. Operating surplus of \$0.711m and \$0.870m were recorded in 2001-02 and 2002-03 respectively.

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 9.4% in 1998-99 to 8.5% in 2002-03. 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 surplus from operations (excluding non-operating items) of \$0.642m.

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 8 200 people and covers 4 917 square kilometres including the townships of Smithton and Stanley.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2003. An unqualified audit report was issued on 21 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	7 046	7 375	7 647	7 971	8 443
Grants	1 641	2 037	2 346	2 589	3 383
Other operating revenue	499	473	556	3 586	1 734
Non-operating revenue	1 434	3 711	178	279	228
Total Revenue	10 620	13 596	10 727	14 425	13 788
Borrowing costs	341	280	236	186	136
Depreciation	1 927	1 998	2 030	2 056	2 176
Other operating expenses	6 999	7 732	7 555	8 475	8 638
Non-operating expenses	0	75	401	468	288
Total Expenses	9 267	10 085	10 222	11 185	11 238
Result from Ordinary Activities	1 353	3 511	505	3 240	2 550

Comment

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

Other operating revenue in 2001-02 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. Other operating revenue in 2002-03, included contributions from the State Government of \$1.100m, relating to the upgrade of the Arthur River Road.

Non-operating revenue and expenditure also includes the profit and loss associated with the disposal of assets. For the 1998-99 and 1999-00 years, the balances represent the net profit or loss. The balances for subsequent three years record the total revenue from assets sales and the written down value of the assets sold.

In 1998-99, Non-operating revenue of \$1.434m also 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.

Grant revenue in 2002-03 of \$3.383m, includes \$0.500m received under the Networking the Nation program for the extension of mobile phone services for the Marrawah area. A further \$0.410m is due to be received in 2003-04 for the extension of services for Edith Creek, Trowutta, Togari, Montagu and Roger River areas.

Depreciation expense has remained fairly stable over the past five years. Borrowing costs have decreased from \$0.341m in 1998-99 to \$0.136m in 2002-03. The decrease is attributable to regular repayments of loan borrowings that 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. Other operating expenses in 2002-03, \$8.638m, included \$0.523m relating to the extension of mobile phone services.

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 of the Woolnorth Road.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	812	(17)	170	370	691
Receivables	735	795	711	732	1 295
Investments	1 100	900	1 328	2 151	2 552
Inventories	24	34	65	131	124
Other	270	417	208	423	310
Total Current Assets	2 941	2 129	2 482	3 807	4 972
Property, plant & equipment	55 631	57 612	57 826	59 255	60 738
Investments	0	3 711	3 711	3 711	3 711
Other	753	619	581	373	143
Total Non-Current Assets	56 384	61 942	62 118	63 339	64 592
Payables	589	457	862	599	895
Borrowings	410	409	428	455	647
Provisions	329	356	396	431	540
Other	191	123	107	86	75
Total Current Liabilities	1 519	1 345	1 793	1 571	2 157
Borrowings	2 429	2 046	1 618	1 161	507
Provisions	62	58	62	47	65
Other	0	0	0	0	0
Total Non-Current Liabilities	2 491	2 104	1 680	1 208	572
Net Assets	55 315	60 622	61 127	64 367	66 835
Reserves	2 647	4 442	4 442	4 442	4 442
Retained surpluses	52 668	56 180	56 685	59 925	62 393
Total Equity	55 315	60 622	61 127	64 367	66 835

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 within the Cash Position section.

Over the first two 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 resulted in increases in asset values of \$0.157m 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 increased by \$0.405m in 2000-01 and included several large capital creditors for work performed on the Smithton Recreation Centre. The Payables balance at 30 June 2003 of \$0.895m included \$0.575m relating to the mobile phone project.

Borrowings have decreased from \$2.839m in 1998-99 to \$1.154m in 2002-03 due to Council seeking to reduce its debt.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 886	7 783	8 744	12 328	10 936
Payments to suppliers and employees	(6 757)	(8 083)	(7 507)	(9 752)	(9 170)
Interest received	158	124	158	156	231
Borrowing costs	(353)	(292)	(248)	(199)	(150)
Cash from operations	934	(468)	1 147	2 533	1 847
Payments for P, P & Equipment	(2 517)	(2 541)	(2 650)	(3 948)	(3 874)
Proceeds from sale of P, P & E	697	328	178	279	228
Cash used in investing activities	(1 820)	(2 213)	(2 472)	(3 669)	(3 646)
Proceeds from borrowings	0	15	0	0	0
Repayment of borrowings	(440)	(399)	(406)	(430)	(462)
Cash from financing activities	(440)	(384)	(406)	(430)	(462)
Cash Flows from Government	1 641	2 037	2 346	2 589	2 983
Net increase/(decrease) in cash	315	(1 028)	615	1 023	722
Cash at the beginning of the period	1 596	1 911	883	1 498	2 521
Cash at end of the period	1 911	883	1 498	2 521	3 243

Comment

Receipts from customers remained fairly stable for the first three years under review. An increase of \$3.584m was recorded 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 \$2.245m in 2001-02, 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 amounted to \$3.948m in 2001-02 and \$3.874m in 2002-03. The majority of the payments relate to additions to transport infrastructure and include work undertaken on Woolnorth Road and Arthur River Road.

Cash flows from Government have increased from \$1.641m in 1998-99 to \$2.983m in 2002-03. Various National Heritage Trust

funding grants were received during 1999-00 and 2000-01. The 2000-01, 2001-02 and 2002-03 financial periods include Roads to Recovery funding of \$0.400m, \$0.420m and \$0.420m respectively.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(81)	(125)	728	3 429	2 610
Operating margin	>1.0	0.99	0.99	1.07	1.32	1.24
Financial Management						
Current ratio	>1	1.94	1.58	1.38	2.42	2.31
Cost of debt	7.5%	12.0%	11.4%	10.4%	10.2%	9.8%
Debt collection	30 days	36	39	34	34	37
Creditor turnover	30 days	29	21	40	22	32
Other information						
Staff numbers FTEs		44	48	47	47	50
Average staff costs (\$'000s)		45	46	48	48	44

Comment

The financial performance ratios show that Council has recorded positive results from operating activities in the past three financial years and small losses in the remaining two years. The total result from operating activities for the period under review amounts to \$6.561m. 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, although above the benchmark, has decreased from 12.0% in 1998-99 to 9.8% in 2002-03.

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

The creditor turnover figure has been below the benchmark in three of the years under review. The ratio for 2000-01, 40 days, included a significant amount for the Smithton Recreation Centre, which

related to capital expenditure. The ratio for 2002-03, 32 days, was affected by an accrual of \$0.523m relating to a mobile phone services project.

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 \$11.159m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements of Huon Valley Council were received on 20 August 2003 and the final phase of the audit is currently being undertaken at the time of completing this report. The figures within the following tables are unaudited for 2002-03 and therefore only limited commentary in respect of 2002-03 has been provided.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	7 010	7 112	7 269	7 767	8 251
Grants	2 967	3 650	3 857	4 346	4 481
Other operating revenue	1 363	1 495	1 570	2 066	2 236
Non-operating revenue	(7)	109	(14)	(31)	147
Total Revenue	11 333	12 366	12 682	14 148	15 115
Borrowing costs	476	473	403	298	226
Depreciation	2 365	2 405	2 595	2 619	2 723
Other operating expenses	8 347	8 241	8 221	9 212	10 672
Non-operating expenses	0	0	27 771	0	0
Total Expenses	11 188	11 119	38 990	12 129	13 621
Result from Ordinary Activities	145	1 247	(26 308)	2 019	1 494

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. This economic trend continued into the 2002-03 financial year with an increase in Rates resulting in a \$0.166m overall increase in rate revenues, and also reflective in the increase was charges of \$0.238m due to the rise of activity within the building/real estate sector.

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. This expenditure has continued into the 2002-03 year, with Council continuing with capital work commitments.

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 Tasmanian Audit Office.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	492	3 263	4 444	5 919	6 660
Receivables	994	1 007	883	759	814
Investments	1 813	0	0	0	0
Inventories	5	17	7	5	3
Other	64	0	0	110	0
Total Current Assets	3 368	4 287	5 334	6 793	7 477
Property, plant & equipment	103 368	103 642	75 405	75 906	78 418
Total Non-Current Assets	103 368	103 642	75 405	75 906	78 418
Payables	411	872	580	938	734
Borrowings	555	579	584	558	540
Provisions	434	471	414	428	482
Total Current Liabilities	1 400	1 922	1 578	1 924	1 756
Borrowings	3 954	3 381	2 796	1 843	1 322
Provisions	112	108	153	195	183
Total Non-Current Liabilities	4 066	3 489	2 949	2 038	1 505
Net Assets	101 270	102 518	76 212	78 737	82 634
Reserves	2 357	2 953	4 365	5 795	8 897
Retained surpluses	98 914	99 565	71 846	72 942	73 737
Total Equity	101 271	102 518	76 211	78 737	82 634

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 Property, plant and equipment 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 which 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.

The increase in reserves is attributable to the asset revaluations of land, buildings, building contents and bridges totalling \$2.403m.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 061	8 424	8 709	9 490	10 063
Payments to suppliers and employees	(8 295)	(7 683)	(10 034)	(8 897)	(10 712)
Interest received	155	171	255	230	365
Borrowing costs	(499)	(484)	(415)	(307)	(237)
Cash from operations	(578)	428	(1 485)	516	(521)
Payments for P, P & Equipment	(2 035)	(3 172)	(985)	(2 872)	(3 010)
Proceeds from sale of P, P & E	109	603	373	229	326
Cash used in investing activities	(1 926)	(2 569)	(612)	(2 643)	(2 684)
Repayment of borrowings	(750)	(550)	(579)	(743)	(540)
Cash from financing activities	(750)	(550)	(579)	(743)	(540)
Cash Flows from Government	2 967	3 650	3 857	4 346	4 486
Net increase/(decrease) in cash	(287)	959	1 181	1 476	741
Cash at the beginning of the period	2 593	2 305	3 263	4 444	5 919
Cash at end of the period	2 306	3 264	4 444	5 920	6 660

Comment

The increase in Receipts from customers for the last two financial years 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 Payments to suppliers for both current and prior year, to \$10.034m and \$10.712m respectively, is a result of an 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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		152	1 138	1 477	2 050	1 347
Operating margin	>1.0	1.01	1.10	1.13	1.17	1.10
Financial Management						
Current ratio	>1	2.41	2.23	3.38	3.53	4.26
Cost of debt	7.5%	10.6%	11.9%	11.9%	9.4%	7.9%
Debt collection	30 days	43	44	36	29	30
Creditor turnover	30 days	18	39	29	33	22
Other information						
Staff numbers FTEs		80	80	92	98	121
Average staff costs (\$'000s)		44	44	41	49	43

Comment

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

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

OVERALL COMMENT

The audit of the council's financial statements for 2002-03 is nearing finalisation.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 19 September 2003 and an unqualified audit report was issued on 17 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	15 211	16 029	16 728	17 350	18 586
Grants	2 432	3 132	3 405	3 525	3 315
Other operating revenue	1 864	1 830	2 231	2 091	2 305
Non-operating revenue	14 560	1 633	1 936	2 694	3 531
Total Revenue	34 067	22 624	24 300	25 660	27 737
Borrowing costs	278	224	180	145	117
Depreciation	5 695	6 132	5 449	5 757	6 287
Other operating expenses	14 084	14 912	15 772	16 744	17 559
Non-operating expenses	116	412	1 153	693	625
Total Expenses	20 173	21 680	22 554	23 339	24 588
Result from Ordinary Activities	13 894	944	1 746	2 321	3 149

Comment

Total revenue rose from \$25.660m in 2001-02 to \$27.737m in 2002-03. The main contributors to the increase were rates which increased by \$0.920m, user charges which increased by \$0.291m and non-cash contributions by developers which increased by \$1.405m. Rate revenue rose by 6.06% over the previous year.

Non-operating revenue in each of the years includes the value of sub-division infrastructure assets taken over by Council. In 2002-03 this amounted to \$2.793m. 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. Council has not taken any account of the variation since take-up of the value of their percentage interest in the underlying assets of Hobart Water.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(835)	94	287	(381)	284
Receivables	600	882	1 162	909	782
Investments	7 922	6 754	6 448	7 223	9 117
Inventories	141	161	106	89	92
Other	101	74	38	54	4
Total Current Assets	7 929	7 965	8 041	7 894	10 279
Property, plant & equipment	157 429	155 952	215 502	221 228	243 807
Investments	11 460	11 460	11 460	11 460	11 460
Other	120	40	28	20	14
Total Non-Current Assets	169 009	167 452	226 990	232 708	255 281
Payables	0	1 449	1 136	1 171	1 098
Borrowings	405	384	312	290	197
Provisions	846	790	954	1 051	1 060
Other	1 356	533	760	828	901
Total Current Liabilities	2 607	3 156	3 162	3 340	3 256
Borrowings	1 851	1 467	1 155	865	669
Provisions	179	153	117	229	331
Other	62	0	0	0	0
Total Non-Current Liabilities	2 092	1 620	1 272	1 094	1 000
Net Assets	172 239	170 641	230 597	236 168	261 304
Capital	151 315	152 867	154 464	157 044	157 814
Reserves	19 720	14 971	73 607	77 158	101 763
Retained surpluses	1 204	2 803	2 526	1 966	1 727
Total Equity	172 239	170 641	230 597	236 168	261 304

Comment

In 2002-03, Council increased its investments by \$1.894m to \$20.577m however \$11.460m of this represents Council's interest in Hobart Water.

During 2000-01 Council re-valued land, 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.

Movements in Property, plant and equipment in 2002-03 reflect a substantial increase arising from a revaluation that increased the values attributed to land (by \$6.661m), roads (by \$9.746m), and water, stormwater and sewerage works (by \$4.734m), bridges and minor infrastructure. Additions to non-current assets of \$7.503m (including the developer contributions referred to above) more or less balanced out depreciation of \$6.287m.

Borrowings are minor and have been decreasing over the period.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	16 389	17 292	18 343	19 366	20 709
Payments to suppliers and employees	(14 082)	(14 370)	(15 649)	(16 395)	(17 401)
Interest received	496	384	496	410	502
Borrowing costs	(289)	(234)	(190)	(151)	(117)
Cash from operations	2 514	3 072	3 000	3 230	3 693
Payments for P, P & Equipment	(5 625)	(6 474)	(6 647)	(6 953)	(4 710)
Proceeds from sale of P, P & E	564	418	502	608	545
Cash used in investing activities	(5 061)	(6 056)	(6 145)	(6 345)	(4 165)
Repayment of borrowings	(497)	(387)	(372)	(303)	(284)
Cash from financing activities	(497)	(387)	(372)	(303)	(284)
Cash Flows from Government	2 441	3 131	3 405	3 525	3 315
Net increase/(decrease) in cash	(603)	(240)	(112)	107	2 559
Cash at the beginning of the period	7 690	7 087	6 847	6 735	6 842
Cash at end of the period	7 087	6 847	6 735	6 842	9 401

Comment

Over the five-year period Kingborough Council has invested \$30.409m in property, plant and equipment including infrastructure. The source of this funding was cash from operations of \$15.509m and government grants of \$15.817m. Over the same period Council has reduced debt by \$1.398m. Council borrowings now stand at \$0.866m.

It is significant that Kingborough Council has been able to re-invest the funds generated from funding depreciation (\$29.320m over five years), while at the same time maintaining strong cash reserves currently \$9.401m (including short-term investments).

FINANCIAL ANALYSIS

	Bench	1998-99	1999-00	2000-01	2001-02	2002-03
	Mark					
Financial Performance						
Result from operations (\$'000s)		(550)	(277)	963	320	243
Operating margin	>1.0	0.97	0.99	1.04	1.01	1.01
Financial Management						
Current ratio	>1	3.04	2.52	2.54	2.36	3.16
Cost of debt	7.5%	12.3%	12.1%	12.3%	9.8%	9.3%
Debt collection	30 days	14	20	25	19	15
Creditor turnover	30 days	1	32	28	25	30
Other information						
Staff numbers FTEs		137	141	151	162	152
Average staff costs (\$'000s)		39	40	42	40	45

Comment

The Result from operations over the five-year period (i.e. operating revenue less operating expenses) shows a small surplus of \$0.699m over the period of review compared with the result from ordinary activities, including non-operating revenues and expenses, totalling \$22.054m. The large difference arises from non-cash contributions by developers and the recognition of the equity interest in Hobart Water. Council is prudent in budgeting to achieve a breakeven result ignoring these contributions.

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

The sustained growth in the Council 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 Birralea in the north to Liena in the south. The Council services a population of approximately 17 300 people.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2003, with amended statements received on 8 October 2003. An unqualified audit report was issued on 27 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	7 952	8 286	8 824	9 033	9 765
Grants	2 215	3 525	3 430	4 471	4 094
Other operating revenue	473	491	814	640	882
Non-operating revenue	136	843	1 232	243	135
Total Revenue	10 776	13 145	14 300	14 387	14 876
Borrowing costs	91	68	70	0	0
Depreciation	3 127	3 150	3 221	3 353	3 544
Other operating expenses	7 279	7 607	8 418	8 906	9 939
Non-operating expenses	76	0	0	407	9
Total Expenses	10 573	10 825	11 709	12 666	13 492
Result from Ordinary Activities	203	2 320	2 591	1 721	1 384

Comment

Revenue from rates, fees and charges increased by \$0.732m in 2002-03, mainly due to an increase in rate revenue of \$0.473m. 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 2000-01, \$1.232m includes an adjustment to the carrying value of council's share in Esk Water of \$0.598m.

Depreciation expense has remained fairly stable over the past five years. No borrowing costs have been incurred since 2000-01 as Council repaid the balance of borrowings outstanding during the financial year.

Council has recorded surpluses from ordinary activities in the past five years totalling \$8.219m.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	3 817	5 516	528	607	516
Receivables	654	753	990	931	857
Investments	0	0	4 000	5 554	5 692
Inventories	34	38	43	33	76
Other	0	83	61	100	109
Total Current Assets	4 505	6 390	5 622	7 225	7 250
Property, plant & equipment	104 947	105 358	107 359	108 204	114 240
Investments	10 864	10 864	11 462	11 462	11 464
Other	0	84	56	28	0
Total Non-Current Assets	115 811	116 306	118 877	119 694	125 704
Payables	351	656	499	1 053	884
Borrowings	144	135	0	0	0
Provisions	444	516	552	538	693
Total Current Liabilities	939	1 307	1 051	1 591	1 577
Borrowings	674	539	0	0	0
Provisions	92	56	63	84	51
Total Non-Current Liabilities	766	595	63	84	51
Net Assets	118 611	120 794	123 385	125 244	131 326
Reserves	23 515	23 378	23 378	23 516	28 299
Retained surpluses	95 096	97 416	100 007	101 728	103 027
Total Equity	118 611	120 794	123 385	125 244	131 326

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 2002-03, \$6.036m is due primarily to a revaluation of water, sewerage and bridge assets on 1 July 2002. Council's interest in Esk Water was recognised in 1997-98 and is represented by the balance of non-current investments of \$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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 327	8 355	9 710	10 119	11 209
Payments to suppliers and employees	(7 436)	(7 288)	(9 247)	(8 966)	(10 674)
Interest received	230	268	456	311	394
Borrowing costs	(90)	(50)	(89)	0	0
Cash from operations	1 031	1 285	830	1 464	929
Proceeds from investments	15	0	0	0	0
Payments for investments	0	0	(4 000)	(1 554)	(140)
Payments for P, P & Equipment	(1 882)	(3 357)	(4 806)	(4 433)	(5 132)
Proceeds from sale of P, P & E	339	391	232	132	158
Cash used in investing activities	(1 528)	(2 966)	(8 574)	(5 855)	(5 114)
Repayment of borrowings	(260)	(145)	(674)	0	0
Cash from financing activities	(260)	(145)	(674)	0	0
Cash Flows from Government	2 215	3 525	3 430	4 470	4 094
Net increase/(decrease) in cash	1 458	1 699	(4 988)	79	(91)
Cash at the beginning of the period	2 359	3 817	5 516	528	607
	3 817	5 516	528	607	516

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 all outstanding loan balances during 2000-01.

Payments for Property, plant and equipment amounted to \$4.806m in 2000-01, of which \$1.879m related to work-in-progress. The majority of these payments were for the Hadspen/Carrick wastewater treatment plant and the Deloraine water treatment project. In 2002-03, payments for Property, plant and equipment

amounted to \$5.132m, which included \$1.594m for roads and streets.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		143	1 477	1 359	1 885	1 258
Operating margin	>1.0	1.01	1.14	1.12	1.15	1.09
Financial Management						
Current ratio	>1	4.80	4.89	5.35	4.54	4.60
Cost of debt	7.5%	11.1%	10.1%	-	-	-
Debt collection	30 days	19	21	23	24	22
Creditor turnover	30 days	14	22	14	33	24
Other information						
Staff numbers FTEs		55	58	58	59	59
Average staff costs (\$'000s)		48	41	44	43	48

Comment

The financial performance ratios show that Council has recorded operating surpluses in the past five years. The total result from operations for the period under review is \$6.122m.

Council's current ratio is above the benchmark in all 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 \$6.122m.

The 2002-03 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 2002-03 FINANCIAL STATEMENTS

Signed financial statements of the Waratah-Wynyard Council were received on 14 August 2003 and an unqualified audit report was issued on 29 August 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	8 151	8 206	8 467	8 525	8 917
Grants	1 971	2 003	2 458	2 883	4 134
Other operating revenue	441	467	620	580	979
Non-operating revenue	941	5 344	234	431	430
Total Revenue	11 504	16 020	11 779	12 419	14 460
Borrowing costs	352	331	324	279	259
Depreciation	2 279	2 311	3 088	2 410	2 530
Other operating expenses	7 562	8 113	8 515	8 863	8 915
Non-operating expenses	706	1 014	433	805	584
Total Expenses	10 899	11 769	12 360	12 357	12 288
Result from Ordinary Activities	605	4 251	(581)	62	2 172

Comment

Grants revenue in 2002-03 is substantially greater than previous periods due to a Commonwealth Government grant of \$1m and a

State Government grant of \$0.370m for the construction of a sewerage scheme at Boat Harbour.

The Council also received \$0.370m from the State Government as a contribution from the Shack Site Project on behalf of residents of Boat Harbour towards the sewerage scheme. This amount is recorded in Other operating revenue for 2002-03.

Non operating revenue in 1999-00 includes 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 and the capital grants for the Boat Harbour Sewerage Scheme referred to above, Council has returned a positive Result from Ordinary Activities of \$6.509m.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	966	867	851	221	712
Receivables	428	329	558	597	491
Investments	2 000	2 047	2 500	3 000	2 800
Inventories	278	296	254	223	182
Other	91	114	97	65	48
Total Current Assets	3 763	3 653	4 260	4 106	4 233
Property, plant & equipment	70 415	71 878	70 675	70 814	72 722
Investments	0	4 564	4 564	4 564	4 564
Other	263	220	84	43	70
Total Non-Current Assets	70 678	76 662	75 323	75 421	77 356
Payables	306	492	551	640	1 021
Borrowings	689	725	736	715	707
Provisions	656	762	874	922	848
Other	158	163	117	148	130
Total Current Liabilities	1 809	2 142	2 278	2 425	2 706
Borrowings	4 598	4 272	4 033	3 815	3 408
Provisions	98	134	127	120	136
Other	97	81	41	0	0
Total Non-Current Liabilities	4 793	4 487	4 201	3 935	3 544
Net Assets	67 839	73 686	73 104	73 167	75 339
Reserves	7 787	9 382	9 382	9 382	9 382
Retained surpluses	60 052	64 304	63 722	63 785	65 957
Total Equity	67 839	73 686	73 104	73 167	75 339

Comment

Council's current assets have remained fairly stable over the period under review.

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 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.

In 2002-03, Payables are significantly greater than the prior year because the balance includes \$0.206m owing for contract works on the Boat Harbour Sewerage Scheme.

Over the period of review, Council has reduced its external borrowings by \$1.172m while at the same time increasing its cash investments by \$0.800m whilst maintaining its rate charges to modest increases.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 448	8 485	9 092	9 589	10 579
Payments to suppliers and employees	(7 609)	(7 734)	(8 849)	(9 368)	(9 855)
Interest received	175	232	268	209	257
Borrowing costs	(400)	(338)	(327)	(281)	(262)
Cash from operations	614	645	184	149	719
Proceeds from investments	0	0	0	0	200
Payments for investments	(500)	(46)	(453)	(500)	0
Payments for P, P & Equipment	(2 299)	(2 810)	(2 211)	(3 354)	(4 576)
Proceeds from sale of P, P & E	608	399	234	431	430
Cash used in investing activities	(2 191)	(2 457)	(2 430)	(3 423)	(3 946)
Proceeds from borrowings	500	400	500	500	300
Repayment of borrowings	(710)	(690)	(728)	(739)	(716)
Cash from financing activities	(210)	(290)	(228)	(239)	(416)
Cash Flows from Government	1 971	2 003	2 458	2 883	4 134
Net increase/(decrease) in cash	184	(99)	(16)	(630)	491
Cash at the beginning of the period	782	966	867	851	221
Cash at end of the period	966	867	851	221	712

Comment

While Council maintained a positive cash flow from operations, a major factor in the 2000-01 increase in Payments to suppliers and employees and Receipts from customers was the impact of the GST. The cash flows have been grossed up to reflect GST paid to suppliers and GST recoveries.

The subsequent increase during 2001-02 is not due to any individually significant item.

The increase in receipts from customers in 2002-03, totalling \$0.990m is partially attributable to a receipt of \$0.370m from the State Government as a contribution towards the Boat Harbour Sewerage Scheme and a \$0.274m increase in rates revenue. Payments to suppliers and employees increased by \$0.487m due to general increases in employee costs and materials and contracts.

Council has maintained its investment in property, plant and equipment throughout the period reinvesting a total of \$15.250m in

non-current assets compared with the depreciation expense for the same period totalling \$12.618m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		370	(79)	(382)	436	2 326
Operating margin	>1.0	1.04	0.99	0.97	1.04	1.20
Financial Management						
Current ratio	>1	2.08	1.71	1.87	1.69	1.56
Cost of debt	7.5%	6.4%	6.0%	5.7%	5.5%	6.0%
Debt collection	30 days	19	15	24	26	20
Creditor turnover	30 days	30	27	32	30	43
Other information						
Staff numbers FTEs		74	74	71	71	71
Average staff costs (\$'000s)		40	44	46	47	46

Comment

Although Council has maintained a positive cash flow from activities, its result from operations, i.e. operating revenue less operating expenditure, has virtually broken even over the first four years under review. This is reflected in the operating margin ratio analysis.

The 2002-03 Result from operations is significantly greater due to the increase in operating revenue. The increase includes a Commonwealth Government grant of \$1.000m, a State Government grant of \$0.370m and a contribution from the Shack Site Project of \$0.370m for the construction of a sewerage scheme at Boat Harbour.

The Council is maintaining a Current ratio comfortably above the benchmark, with the majority of its current assets comprising cash and investments.

The Cost of debt ratio is in line with the benchmark, with the average interest rate on borrowings reflecting current market rates.

The Debt collection and Creditor turnover ratios are within acceptable limits. The 2002-03 Creditor ratio is greater than the

benchmark, but this is the result of the year end Payables balance including \$0.206m in capital creditors.

Average staff costs have remained stable over the period under review.

OVERALL COMMENT

In the five years under review Council recorded a total operating surplus of \$6.509m. A significant part of the surplus relates to the recognition of Council's interest in Cradle Coast Water, totalling \$4.564m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 12 September 2003 and an unqualified audit report was issued on 8 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	9 266	10 050	10 630	10 836	11 348
Grants	1 870	1 631	3 011	2 012	2 150
Other operating revenue	796	710	743	756	800
Non-operating revenue	2 529	366	1 459	466	158
Total Revenue	14 461	12 757	15 843	14 070	14 456
Borrowing costs	240	232	224	215	202
Depreciation	3 119	3 188	3 255	3 201	3 374
Other operating expenses	8 121	8 825	9 047	9 555	9 855
Non-operating expenses	176	436	539	136	69
Total Expenses	11 656	12 681	13 065	13 107	13 500
Result from Ordinary Activities	2 805	76	2 778	963	956

Comment

Revenue from Rates, fees and charges has gradually increased from \$9.266m in 1998-99 to \$11.348m in 2002-03. 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 1998-99, \$2.529m, includes the recognition of subdivision assets amounting to \$1.092m and an extraordinary item of \$1.424m. The latter item relates to a claim made by Council during 1997-98 that the transfer of assets on the formation of Esk Water failed to correctly allocate all assets. The amount of the claim was recorded as accrued income at 30 June 1999. Council received the payment in settlement of the claim in July 1999.

Council has recorded surpluses from ordinary activities in all five years under review, totalling \$7.578m.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 096	4 202	5 829	5 777	5 713
Receivables	1 340	1 347	1 184	909	940
Inventories	130	108	110	126	124
Other	1 471	59	306	209	128
Total Current Assets	5 037	5 716	7 429	7 021	6 905
Property, plant & equipment	91 371	91 055	91 241	92 324	92 782
Investments	12 889	12 889	13 822	13 822	13 860
Other	66	61	53	44	37
Total Non-Current Assets	104 326	104 005	105 116	106 190	106 679
Payables	453	511	698	688	515
Borrowings	583	741	759	809	836
Provisions	403	543	572	655	773
Other	84	76	70	52	42
Total Current Liabilities	1 523	1 871	2 099	2 204	2 166
Borrowings	3 459	3 406	3 235	2 827	2 291
Provisions	194	181	169	175	209
Total Non-Current Liabilities	3 653	3 587	3 404	3 002	2 500
Net Assets	104 187	104 263	107 042	108 005	108 918
Reserves	58 909	58 909	58 909	58 909	58 945
Retained surpluses	45 278	45 354	48 133	49 096	49 973
Total Equity	104 187	104 263	107 042	108 005	108 918

Comment

Council's interest in Esk Water was recognised in 1997-98 and is represented by the balance of non-current investments in 1998-99 and 1999-00 of \$12.889m. This balance was increased by \$0.933m in 2000-01 and \$0.036m in 2002-03 to reflect the increase in Council's share of the net assets of Esk Water.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	9 641	11 872	11 768	12 179	12 607
Payments to suppliers and employees	(8 121)	(8 616)	(9 653)	(10 111)	(10 677)
Interest received	169	289	346	370	349
Borrowing costs	(240)	(232)	(224)	(215)	(203)
Cash from operations	1 449	3 313	2 237	2 223	2 076
Proceeds from investments	0	134	1 873	0	0
Payments for investments	(1 007)	(2 105)	(1 627)	(746)	(960)
Payments for P, P & Equipment	(2 397)	(2 920)	(3 602)	(4 204)	(3 914)
Proceeds from sale of P, P & E	127	409	238	271	145
Cash used in investing activities	(3 277)	(4 482)	(3 118)	(4 679)	(4 729)
Proceeds from borrowings	300	300	500	400	300
Repayment of borrowings	(513)	(628)	(757)	(754)	(819)
Cash from financing activities	(213)	(328)	(257)	(354)	(519)
Cash Flows from Government	1 870	1 631	3 011	2 012	2 150
Net increase/(decrease) in cash	(171)	134	1 873	(798)	(1 022)
Cash at the beginning of the period	172	1	135	2 008	1 210
	1	135	2 008	1 210	188

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 Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		452	146	1 858	633	867
Operating margin	>1.0	1.04	1.01	1.15	1.05	1.06
Financial Management						
Current ratio	>1	3.31	3.06	3.54	3.19	3.19
Cost of debt	7.5%	5.9%	5.6%	5.6%	6.4%	6.4%
Debt collection	30 days	53	49	41	31	30
Creditor turnover	30 days	20	16	27	17	15
Other information						
Staff numbers FTEs		75	76	79	80	83
Average staff costs (\$'000s)		41	44	43	46	46

Comment

The financial performance ratios show that Council has recorded operating surpluses in the past five years. The total result from operations for the period under review is \$3.956m.

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 decreased from 53 days in 1998-99 to 30 days in 2002-03. 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 \$3.956m.

The 2002-03 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 \$5.000m and less than \$8.000m.

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	7 755	6 159	5 286	6 029	5 970	6 630	6 875	5 494
Grants	2 258	2 179	3 959	1 510	1 274	4 513	2 487	6 119
Other operating revenue	402	345	248	232	471	1 318	886	225
Non-operating revenue	420	170	325	36	545	0	203	167
Total Revenue	10 835	8 853	9 818	7 807	8 260	12 461	10 451	12 005
Borrowing Costs	426	206	49	369	106	0	236	212
Depreciation	1 853	1 746	2 831	1 510	1 690	3 215	3 878	1 526
Other operating expenses	8 084	7 117	6 604	5 405	5 468	7 260	7 198	7 744
Non-operating expenses	1 559	0	269	0	418	482	698	132
Total Expenses	11 922	9 069	9 753	7 284	7 682	10 957	12 010	9 614
Result from Ordinary Activities	(1 087)	(216)	65	523	578	1 504	(1 559)	2 391

Comment

Revenue from Rates, fees and charges ranged from \$5.286m (Dorset Council) to \$7.755m (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 64% of total operating revenue for the eight councils for 2002-03.

Government grants and subsidies represent 31% 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 52%.

On average, borrowing costs represented 2.2% of total operating expenditure for 2002-03. 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 5.1%. However, under an agreement relating to its wastewater treatment plant, Council is reimbursed for principal and interest repayments made in relation to its largest debenture loan.

On average, depreciation accounted for 24% of total operating expenditure. While the percentages for large councils were fairly consistent, the percentages for medium councils ranged from 16.1% (West Coast Council) to 34.3% (Sorell Council).

Brighton Council recorded Non-operating expenses of \$1.559m, which includes a revaluation decrement of \$1.420m relating to its equity interest in Hobart Water.

Five of the eight councils recorded surpluses from Ordinary Activities, with the largest surplus being recorded by West Coast Council, \$2.391m. This surplus is attributable to the receipt of \$2.500m 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	996	(218)	734	436	714	290	206	185
Receivables	918	710	863	1 254	262	974	676	1 403
Investments	0	650	4 100	0	1 102	9 854	2 873	604
Inventories	159	54	124	0	6	21	32	15
Other	161	37	41	234	119	70	203	16
Total Current Assets	2 234	1 233	5 862	1 924	2 203	11 209	3 990	2 223
Property, Plant And Equipment	73 070	36 646	97 894	32 964	46 316	140 786	80 482	49 942
Investments	5 453	5 269		8 485	3 501	0	2 439	0
Other	95	83	62	211	0	32	710	0
Total Non-Current Assets	78 618	41 998	97 956	41 660	49 817	140 818	83 631	49 942
Payables	3	325	1 108	468	436	438	400	630
Borrowings	478	438	136	1 431	264	0	652	402
Provisions	415	754	521	299	322	560	768	559
Other	784	269	172	76	134	139	347	262
Total Current Liabilities	1 680	1 786	1 937	2 274	1 156	1 137	2 167	1 853
Borrowings	5 251	2 386	873	2 940	1 586	0	2 419	2 908
Provisions	89	56	80	66	64	134	67	128
Other	0	0	0	51	492	0	0	0
Total Non-Current Liabilities	5 340	2 442	953	3 057	2 142	134	2 486	3 036
Net Assets	73 832	39 003	100 928	38 253	48 722	150 756	82 968	47 276
Capital								
Reserves	21 119	16 681	27 890	1 706	8 880	40 213	45 411	3 701
Retained Surpluses	52 713	22 322	73 038	36 547	39 842	110 543	37 557	43 575
Total Equity	73 832	39 003	100 928	38 253	48 722	150 756	82 968	47 276

Comment

Six of the eight councils had positive working capital, with Derwent Valley and George Town Councils recording current ratios of 0.69 and 0.85 respectively. The proportion of debt to equity was less than 8% for all councils, except for George Town Council whose borrowings represented 11% of total equity. As noted previously, Council has an offsetting receivable in relation to its largest loan.

The balance of net assets ranged from \$38.253m (George Town Council) to \$150.756m (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	Derwent	Dorset	George	Latrobe	Northern	Sorell	West
	Valley	Town	Midlands	Coast				
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 376	6 296	5 687	6 869	6 645	8 057	7 198	5 618
Payments to suppliers and employees	(8 405)	(6 938)	(6 467)	(6 365)	(5 829)	(8 280)	(5 675)	(8 245)
Interest received	108	143	237	57	128	670	186	84
Borrowing costs	(426)	(211)	(48)	(379)	(106)	0	(1 666)	(181)
Cash from operations	(347)	(710)	(591)	182	838	447	43	(2 724)
Proceeds from investments	0	350	100	0	160	2 273	0	699
Payments for investments	(1 500)	0	0	0	(139)	0	0	0
Payments for P, P & Equipment	220	(1 959)	(3 143)	(1 547)	(2 538)	(7 022)	(2 623)	(5 741)
Proceeds from sale of P, P & E	129	266	228	103	322	103	203	165
Cash used in investing activities	(1 151)	(1 343)	(2 815)	(1 444)	(2 195)	(4 646)	(2 420)	(4 877)
Proceeds from borrowings	0	0	300	0	200	0	529	500
Repayment of borrowings	(457)	(410)	(107)	(1 186)	(209)	0	(502)	(392)
Cash from financing activities	(457)	(410)	193	(1 186)	(9)	0	27	108
Cash flows from Government	2 258	2 179	3 959	1 541	1 239	4 225	2 361	6 693
Net increase/(decrease) in cash	303	(284)	746	(907)	(127)	26	11	(800)
Cash at the beginning of the period	693	66	(13)	1 034	841	264	3 068	983
Cash at end of the period	996	(218)	733	127	714	290	3 079	183

Comment

Four of the eight councils had net decreases in cash balances, with George Town and West Coast Councils recording the largest decreases of \$0.907m and \$0.800m respectively.

FINANCIAL ANALYSIS

	Bench	Brighton	Derwent	Dorset	George	Latrobe	Northern	Sorell	West
	Mark	Valley	Town	Midlands	Coast				
Financial Performance									
Result from operations (\$'000s)		52	(386)	9	487	451	1 986	(1 064)	2 356
Operating margin	>1.0	1.01	0.96	1.00	1.07	1.06	1.19	0.91	1.25
Financial Management									
Current ratio	>1	1.33	0.69	3.03	0.85	1.91	9.86	1.84	1.20
Cost of debt	7.5%	7.4%	7.3%	5.8%	7.5%	6.3%	-	7.7%	6.3%
Debt collection	30 days	42	42	60	40	16	33	35	93
Creditor turnover	30 days	-	17	55	25	22	14	35	62
Other information									
Staff numbers		41	65	49	41	45	64	59	86
Average staff costs (\$'000s)		52	41	48	42	41	44	54	48

Comment

On average, the councils had a positive operating margin and six of the eight councils had a positive working capital at 30 June 2003.

The average cost of debt for the medium councils was 6.9%. In calculating this average, Northern Midlands Council was excluded, as it had no borrowings at 30 June 2003.

The average debt collection period was 45 days, while the average creditor turnover was 29 days. The debt collection period is affected by the high ratio recorded by West Coast Council (93 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 \$0.046m.

OVERALL COMMENT

Overall, the eight councils recorded a surplus from Ordinary Activities with six councils recording a positive result from operating activities. Six 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 2002-03 FINANCIAL STATEMENTS

An unqualified audit report was issued on 17 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	6 527	6 802	7 074	7 157	7 755
Grants	1 874	2 495	1 900	2 061	2 258
Other operating revenue	282	275	322	336	402
Non-operating revenue	7 929	462	1 914	670	420
Total Revenue	16 612	10 034	11 210	10 224	10 835
Borrowing costs	493	493	491	460	426
Depreciation	2 225	2 301	2 006	1 775	1 853
Other operating expenses	6 834	7 515	7 756	7 779	8 084
Non-operating expenses	145	1 625	113	31	1 559
Total Expenses	9 697	11 934	10 366	10 045	11 922
Result from Ordinary Activities	6 915	(1 900)	844	179	(1 087)

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 have a residual value estimated to be forty-five percent of the carrying value. Council's Notes to its financial statements identify 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.

Council had not revalued its equity interest in Hobart Water for a number of years and the incorporation of a current valuation for its 4.3% interest lead to a significant expense of \$1.420m in 2002-03. This is ironic since in part, this reflects Council's success relative to other southern councils in moving to a user pays system of charging thus reducing its relative share of water consumption on which the equity share is calculated. This component of expense should be discounted in evaluating the current performance of the Council.

Over the 5 year period, Council recorded a positive increment to its equity base. However, ignoring the impact of Non-operating income and expenditure, Council recorded operating deficits in the first four of these years. Depreciation on road assets is a probable major contributing factor. 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. Road depreciation has now stabilised at around this level despite a further reassessment in 2002-03 of road component lives and road condition. Provided that the current engineering estimates prove

accurate, Council now has total revenue and expense in approximate balance.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	679	437	322	693	996
Receivables	1 068	1 100	1 082	957	918
Inventories	0	0	190	177	159
Other	218	349	162	95	161
Total Current Assets	1 965	1 886	1 756	1 922	2 234
Property, plant & equipment	54 364	58 303	68 963	68 596	73 070
Investments	6 873	6 873	6 873	6 873	5 453
Other	136	126	115	104	95
Total Non-Current Assets	61 373	65 302	75 951	75 573	78 618
Payables	157	96	42	71	3
Borrowings	327	386	414	446	478
Provisions	389	340	402	376	415
Other	1 018	753	633	631	784
Total Current Liabilities	1 891	1 575	1 491	1 524	1 680
Borrowings	6 278	6 588	6 175	5 728	5 251
Provisions	23	44	67	89	89
Total Non-Current Liabilities	6 301	6 632	6 242	5 817	5 340
Net Assets	55 146	58 981	69 974	70 154	73 832
Reserves	485	6 204	16 353	16 353	21 119
Retained surpluses	54 661	52 777	53 621	53 801	52 713
Total Equity	55 146	58 981	69 974	70 154	73 832

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. A revaluation of roads in 2002-03 increased the road asset by \$4.556m. The revaluation based on a consultant's report concluded that the replacement cost of the road network was substantially less than previously estimated but that the condition of the road network was much better than indicated by the amount set aside for accumulated depreciation.

Total Receivables at 30 June 2003 totalled \$0.918m which included rate receivables of \$0.488m and \$0.249m in relation to water consumption. These outstanding amounts are fully secured over the properties concerned.

As noted above, the non-current item of investments has decreased in 2002-03 due to the revaluation of Council's interest in Hobart Water.

Total equity has increased over the 5 year period 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 474	6 696	7 337	7 930	8 376
Payments to suppliers and employees	(6 563)	(7 792)	(7 582)	(8 181)	(8 405)
Interest received	70	79	68	83	108
Borrowing costs	(579)	(581)	(604)	(468)	(426)
Cash from operations	(598)	(1 598)	(781)	(636)	(347)
Payments for P, P & Equipment	(1 185)	(1 787)	(836)	(789)	(1 500)
Proceeds from sale of P, P & E	238	130	138	34	220
Other				127	129
Cash used in investing activities	(947)	(1 657)	(698)	(628)	(1 151)
Proceeds from borrowings	250	850	0	0	0
Repayment of borrowings	(290)	(332)	(536)	(425)	(457)
Cash from financing activities	(40)	518	(536)	(425)	(457)
Cash Flows from Government	1 874	2 495	1 900	2 060	2 258
Net increase/(decrease) in cash	289	(242)	(115)	371	303
Cash at the beginning of the period	390	679	437	322	693
Cash at end of the period	679	437	322	693	996

Comment

Council has maintained cash and investment balances at an average of \$0.625m over the 5-year period. At the same time, borrowings have been reduced. Borrowing costs have reduced in line with the decline in borrowings.

Government grants constituted 20.8% of revenue in 2002-03 and that cash inflow has more than offset the net cash outflows from operations (\$0.347m), investing in property plant and equipment (\$1.151m) and repayments of borrowings.

FINANCIAL ANALYSIS

	Bench	1998-99	1999-00	2000-01	2001-02	2002-03
	Mark					
Financial Performance						
Result from operations (\$'000s)		(869)	(737)	(957)	(460)	52
Operating margin	>1.0	0.91	0.93	0.91	0.95	1.01
Financial Management						
Current ratio	>1	1.04	1.20	1.18	1.26	1.33
Cost of debt	7.5%	7.5%	7.1%	7.5%	7.5%	7.4%
Debt collection	30 days	60	59	56	49	42
Creditor turnover	30 days	17	6	3	5	0
Other information						
Staff numbers FTEs		41	42	40	41	41
Average staff costs (\$'000s)		51	45	50	49	52

Comment

Over much of the last 5 years Council's operating result has been in deficit. However the trend has shown constant improvement and is now positive.

I commented earlier in this segment of the Report that depreciation on road assets is the major contributing factor as annual roads depreciation had averaged \$1.148m annually in the three financial years 1998-99 to 2000-01. Roads depreciation in 2000-01 reduced to \$0.874m, principally as a result of a reassessment of useful lives, with a further reduction in 2002-03 to \$0.676m due to Council's change in accounting policy with regard to useful lives.

Cost of debt reflects market rates.

Over the five years, Debt collection statistics have remained consistently high and now stand at 42 days representing a reduction over that of prior years. The major components of receivables are outstanding rates and water charges, which account for 74% of the total amount outstanding.

Creditor turnover is not representative of normal payment terms due to payments made immediately prior to the end of each financial year and the cut-off policy for recognising creditors.

Staff numbers have remained stable.

OVERALL COMMENT

The audit was completed with no outstanding issues.

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 2002-03 FINANCIAL STATEMENTS

The financial statements of the Derwent Valley Council, signed by the General Manager, were received on 5 September 2003 and the final phase of the audit is currently being undertaken at the time of completing this report. No opinion has at present been issued. The figures in the following tables are unaudited for 2002-03 and therefore only limited commentary in respect of 2002-03 has been provided.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 751	5 749	5 851	5 877	6 159
Grants	1 344	1 416	2 027	2 038	2 179
Other operating revenue	241	201	473	416	345
Non-operating revenue	177	326	215	190	170
Total Revenue	7 513	7 692	8 566	8 521	8 853
Borrowing costs	287	286	263	234	206
Depreciation	1 969	2 069	1 646	1 703	1 746
Other operating expenses	5 424	5 800	6 011	6 113	7 117
Non-operating expenses	753	271	221	0	0
Total Expenses	8 433	8 426	8 141	8 050	9 069
Result from Ordinary Activities	(920)	(734)	425	471	(216)

Comment

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.

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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	579	8	(83)	66	(218)
Receivables	500	532	529	470	710
Investments	400	600	850	1 000	650
Inventories	104	98	84	66	54
Other	52	139	68	84	37
Total Current Assets	1 635	1 377	1 448	1 686	1 233
Property, plant & equipment	22 898	22 069	37 716	37 571	36 646
Investments	4 688	5 122	5 412	5 308	5 269
Other	145	122	100	75	83
Total Non-Current Assets	27 731	27 313	43 228	42 954	41 998
Payables	291	220	244	209	325
Borrowings	338	360	385	410	438
Provisions	675	648	701	702	754
Other	290	466	392	310	269
Total Current Liabilities	1 594	1 694	1 722	1 631	1 786
Borrowings	3 979	3 619	3 234	2 824	2 386
Provisions	62	32	39	52	56
Other	92	61	31	0	0
Total Non-Current Liabilities	4 133	3 712	3 304	2 876	2 442
Net Assets	23 639	23 284	39 650	40 133	39 003
Reserves	2 425	3 249	19 480	20 395	16 681
Retained surpluses	21 214	20 035	20 170	19 738	22 322
Total Equity	23 639	23 284	39 650	40 133	39 003

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.

The Non-current asset balances represent Council's share of the net assets in Hobart Water.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 925	5 750	6 268	6 210	6 296
Payments to suppliers and employees	(5 258)	(5 834)	(6 043)	(6 192)	(6 938)
Interest received	104	104	124	125	143
Borrowing costs	(314)	(260)	(268)	(240)	(211)
Cash from operations	457	(240)	81	(97)	(710)
Payments for investments	(102)	(200)	(250)	(150)	350
Payments for P, P & Equipment	(1 299)	(1 503)	(1 802)	(1 991)	(1 959)
Proceeds from sale of P, P & E	177	295	213	734	266
Cash used in investing activities	(1 224)	(1 408)	(1 839)	(1 407)	(1 343)
Proceeds from borrowings	538	0	0	0	0
Repayment of borrowings	(736)	(338)	(360)	(385)	(410)
Cash from financing activities	(198)	(338)	(360)	(385)	(410)
Cash Flows from Government	1 347	1 416	2 027	2 038	2 179
Net increase/(decrease) in cash	382	(570)	(91)	149	(284)
Cash at the beginning of the period	196	578	8	(83)	66
Cash at end of the period	578	8	(83)	66	(218)

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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(344)	(789)	431	281	(386)
Operating margin	>1.0	0.96	0.90	1.05	1.03	0.96
Financial Management						
Current ratio	>1	1.03	0.81	0.84	1.03	0.69
Cost of debt	7.5%	6.6%	7.2%	7.3%	7.2%	7.3%
Debt collection	30 days	32	34	33	29	42
Creditor turnover	30 days	36	27	27	22	17
Other information						
Staff numbers FTEs		56	53	54	63	65
Average staff costs (\$'000s)		44	52	49	41	41

Comment

The reversal of the trend for losses in 2000-01 and 2001-02 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. The audit of the accounts for 2002-03 is nearing finalisation.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2003 and an unqualified audit report was issued on 24 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	3 835	4 073	4 400	4 547	5 286
Grants	2 014	2 209	2 663	3 189	3 959
Other operating revenue	221	248	269	261	248
Non-operating revenue	351	408	253	192	325
Total Revenue	6 421	6 938	7 585	8 189	9 818
Borrowing costs	36	17	14	30	49
Depreciation	2 107	2 590	2 684	2 758	2 831
Other operating expenses	4 163	4 271	4 416	5 113	6 604
Non-operating expenses	428	506	297	183	269
Total Expenses	6 734	7 384	7 411	8 084	9 753
Result from Ordinary Activities	(313)	(446)	174	105	65

Comment

Revenue from rates, fees and charges has increased from \$3.835m in 1998-99 to \$5.286m in 2002-03 representing a total increase of \$1.451m. The implementation of Council's waste management strategy resulted in a number of variable charges replacing the fixed garbage rate. 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 2002-03 includes Networking the Nation, \$0.687m, Roads to Recovery, \$0.411m and Regional Health Services funding, \$0.200m.

Other operating expenses have increased in 2002-03 by \$1.491m over the previous year. The majority of the increase relates to Community Development and Services, which includes expenses associated with Networking the Nation of \$0.697m and 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 and contributions. In 1999-00 the expense item included a revaluation decrement of \$0.213m on land and buildings.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	11	315	327	9	734
Receivables	378	553	545	561	863
Investments	3 600	2 900	3 500	4 200	4 100
Inventories	119	161	124	107	124
Other	55	46	86	99	41
Total Current Assets	4 163	3 975	4 582	4 976	5 862
Property, plant & equipment	70 936	70 360	70 215	70 468	97 894
Other	175	141	106	62	62
Total Non-Current Assets	71 111	70 501	70 321	70 530	97 956
Payables	158	228	318	256	1 108
Borrowings	344	186	53	129	136
Provisions	406	384	404	461	521
Other	218	192	224	247	172
Total Current Liabilities	1 126	990	999	1 093	1 937
Borrowings	187	1	247	709	873
Provisions	38	46	80	60	80
Other	112	74	38	0	0
Total Non-Current Liabilities	337	121	365	769	953
Net Assets	73 811	73 365	73 539	73 644	100 928
Reserves	618	618	618	618	27 890
Retained surpluses	73 193	72 747	72 921	73 026	73 038
Total Equity	73 811	73 365	73 539	73 644	100 928

Comment

Bank overdrafts were reported during 1998-99 and 2001-02 and included in the Current Liability item Borrowings. The overdrafts are both the result of timing differences relating to outstanding cheques at year end. Cash reported at 30 June 2003 is greater due to the late June receipt of Networking the Nation funding and the corresponding outflow of cash not being made until after 30 June.

The increase in payables for the 2002-03 year, (\$0.852m), is predominantly due to the inclusion of the Networking the Nation creditor of \$0.766m (including GST).

Both current and non-current borrowings have increased during the last two years under review as Council took out new loans of \$0.570m during 2001-02 and \$0.300m during 2002-03.

Independent revaluations of road and bridge infrastructure were undertaken at 30 June 2003. The revaluations resulted in a net increment of \$27.272m to both the asset revaluation reserve and non-current assets.

In my Report No 2 for 2001-02 (Volume 3, page 99), it was noted that Council did not separately disclose the components that make up a road asset within its asset register. This approach was 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'. This has been addressed with the detailed road valuation undertaken in the 2002-03 financial year.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 824	4 004	4 924	5 160	5 687
Payments to suppliers and employees	(4 122)	(4 242)	(4 724)	(5 674)	(6 467)
Interest received	194	190	216	176	237
Borrowing costs	(36)	(17)	(16)	(16)	(48)
Cash from operations	(140)	(65)	400	(354)	(591)
Proceeds from investments	100	700	0	0	100
Payments for investments	0	0	(600)	(700)	0
Payments for P, P & Equipment	(2 608)	(2 483)	(2 798)	(3 150)	(3 143)
Proceeds from sale of P, P & E	319	286	233	158	228
Cash used in investing activities	(2 189)	(1 497)	(3 165)	(3 692)	(2 815)
Proceeds from borrowings	0	0	300	570	300
Repayment of borrowings	(151)	(164)	(186)	(53)	(107)
Cash from financing activities	(151)	(164)	114	517	193
Cash Flows from Government	2 014	2 209	2 663	3 189	3 959
Net increase/(decrease) in cash	(466)	483	12	(340)	746
Cash at the beginning of the period	298	(168)	315	327	(13)
	(168)	315	327	(13)	733

Comment

Receipts from customers and Payments to suppliers and employees have both increased steadily over the past five years. Borrowing costs were gradually decreasing as Council experienced a reduction in the level of borrowings outstanding for the first three years under review. The timing of the new loans for 2001-02 and 2002-03 resulted in small cash flow increases in borrowing expenses for those years, and an increase in 2002-03 as these loans begin to be repaid.

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 been relatively consistent for the five years under review as Council continues to maintain capital expenditure on road and bridge assets and the purchase of major road plant and computer equipment. Major capital programs completed during the 2002-03 year include the Bridport effluent re-use scheme, Scottsdale water treatment plant upgrade and the construction of waste transfer stations throughout the municipality.

FINANCIAL ANALYSIS

	Bench	1998-99	1999-00	2000-01	2001-02	2002-03
	Mark					
Financial Performance						
Result from operations (\$'000s)		(236)	(348)	218	96	9
Operating margin	>1.0	0.96	0.95	1.03	1.01	1.00
Financial Management						
Current ratio	>1	3.70	4.02	4.59	4.55	3.03
Cost of debt	7.5%	6.8%	9.1%	5.9%	6.2%	5.8%
Debt collection	30 days	36	50	45	45	60
Creditor turnover	30 days	11	17	25	17	55
Other information						
Staff numbers FTEs		45	47	49	49	49
Average staff costs (\$'000s)		37	40	42	46	48

Comment

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

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

Decreased interest rates over the last few years have assisted Council to keep the cost of debt lower than the benchmark as the only debts outstanding are loans taken out during the last three financial years.

The debt collection ratio has been consistently above the benchmark of 30 days. The increase in 2002-03 is due to an increase in rate debtors of \$0.068m and increases in other debtors of \$0.234m. A large user charge and quarterly water usage charges for the Scottsdale and Bridport townships were raised in June and were not yet due for payment at 30 June. The majority of these debts have since been paid. Council is taking action under the provisions of the *Local Government Act 1993 (as amended)* to recover outstanding rate debts.

The creditor turnover ratio is consistently within benchmark except for the 2002-03 year. The increased result of 55 days for 2002-03 was due to an increase in the amount of payables at 30 June 2003, \$0.852m, which included \$0.766m for the construction of CDMA towers under the Networking the Nation program.

OVERALL COMMENT

In the five years under review, Council recorded a total operating deficit (excluding non-operating items) of \$0.261m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 2002-03 FINANCIAL STATEMENTS

Initial signed financial statements were received on 28 September 2003, with amended statements received on 4 November 2003. An unqualified audit report was issued on 6 November 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 304	5 244	5 605	5 683	6 029
Grants	1 058	1 063	1 434	1 618	1 510
Other operating revenue	149	165	167	210	232
Non-operating revenue	315	62	0	0	36
Total Revenue	6 826	6 534	7 206	7 511	7 807
Borrowing costs	679	608	546	467	369
Depreciation	1 092	1 093	1 226	1 419	1 510
Other operating expenses	4 417	4 400	4 520	5 317	5 405
Non-operating expenses	15	85	16	10	0
Total Expenses	6 203	6 186	6 308	7 213	7 284
Result from Ordinary Activities	623	348	898	298	523

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. Grant revenue in 2001-02 of \$1.618m includes \$0.306m under the Roads to Recovery Programme.

Non-operating revenue and expenditure usually relates to the profit/loss on disposal of non-current assets. However, in 1998-99 and 1999-00, the non-operating revenue related to the recognition of non-current assets.

Borrowing costs have decreased over the five years 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	37	31	801	1 085	436
Receivables	1 234	1 022	1 110	1 107	1 254
Investments	700	470	0	0	0
Other	4	23	217	57	234
Total Current Assets	1 975	1 546	2 128	2 249	1 924
Property, plant & equipment	32 333	32 492	32 738	32 979	32 964
Investments	8 485	8 485	8 485	8 485	8 485
Other	2 233	1 786	1 336	781	211
Total Non-Current Assets	43 051	42 763	42 559	42 245	41 660
Payables	577	407	615	1 003	468
Borrowings	1 046	963	1 009	1 137	1 431
Provisions	184	203	262	303	299
Other	2	2	17	14	76
Total Current Liabilities	1 809	1 575	1 903	2 457	2 274
Borrowings	6 895	6 072	5 211	4 163	2 940
Provisions	66	58	29	44	66
Other	35	35	77	65	51
Total Non-Current Liabilities	6 996	6 165	5 317	4 272	3 057
Net Assets	36 221	36 569	37 467	37 765	38 253
Reserves	738	967	1 279	1 683	1 706
Retained surpluses	35 483	35 602	36 188	36 082	36 547
Total Equity	36 221	36 569	37 467	37 765	38 253

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 balance of Other non-current assets is mostly comprised of the non-current portion of the TEMCO loan receivable.

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.

The balance of current Borrowings at 30 June 2003 includes a bank overdraft of \$0.308m.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 096	6 002	6 307	6 766	6 869
Payments to suppliers and employees	(4 482)	(4 563)	(4 639)	(5 179)	(6 365)
Interest received	40	50	60	56	57
Borrowing costs	(721)	(606)	(570)	(467)	(379)
Cash from operations	933	883	1 158	1 176	182
Payments for P, P & Equipment	(1 267)	(1 380)	(1 320)	(1 656)	(1 547)
Proceeds from sale of P, P & E	89	171	40	99	103
Cash used in investing activities	(1 178)	(1 209)	(1 280)	(1 557)	(1 444)
Repayment of borrowings	(738)	(810)	(936)	(1 018)	(1 186)
Cash from financing activities	(738)	(810)	(936)	(1 018)	(1 186)
Cash Flows from Government	1 104	1 063	1 445	1 632	1 541
Net increase/(decrease) in cash	121	(73)	387	233	(907)
Cash at the beginning of the period	366	487	414	801	1 034
Cash at end of the period	487	414	801	1 034	127

Comment

The net Cash from operations decreased significantly in 2002-03 due to an increase in payments to suppliers and employees of \$1.186m. The increase in payments is primarily due to the impact of the payables outstanding at 30 June 2002 of \$1.003m.

Repayments of borrowings for the 5-year period under review total \$4.688m and has resulted in reduced borrowing costs paid each year.

Payments for property, plant and equipment amounted to \$7.170m 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 Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		323	371	914	308	487
Operating margin	>1.0	1.05	1.06	1.15	1.04	1.07
Financial Management						
Current ratio	>1	1.09	0.98	1.12	0.92	0.85
Cost of debt	7.5%	8.6%	8.6%	8.3%	8.3%	7.5%
Debt collection	30 days	57	40	40	36	40
Creditor turnover	30 days	18	10	27	57	25
Other information						
Staff numbers FTEs		35	32	35	38	41
Average staff costs (\$'000s)		45	49	45	43	42

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 \$2.403m. 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 gradually reduced during 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 improved from 57 days in 1998-99 to 40 days in 2002-03.

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 \$2.690m.

The 2002-03 audit was completed with no major issues outstanding.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 16 September 2003 and an unqualified audit report was issued on 1 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 217	5 359	5 672	5 752	5 970
Grants	1 492	1 362	1 886	1 028	1 274
Other operating revenue	274	380	406	402	471
Non-operating revenue	2	3 197	72	134	545
Total Revenue	6 985	10 298	8 036	7 316	8 260
Borrowing costs	89	81	87	91	106
Depreciation	1 113	1 196	1 284	1 585	1 690
Other operating expenses	4 236	4 831	5 036	5 262	5 468
Non-operating expenses	0	128	937	365	418
Total Expenses	5 438	6 236	7 344	7 303	7 682
Result from Ordinary Activities	1 547	4 062	692	13	578

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 Cradle Coast Water. Non-operating revenue in 2002-03 of \$0.545m includes \$0.223m relating to the increase in Council's investment to reflect Cradle Coast Water's equity balance as at 30 June 2002.

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.

Non-operating expenses in 2000-01 of \$0.937m includes a loss on revaluation of assets of \$0.852m.

Council has recorded surpluses in the five years under review totalling \$6.892m. The surplus 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 274	1 095	1 073	841	714
Receivables	406	254	235	223	262
Investments	250	250	517	1 046	1 102
Inventories	52	0	0	5	6
Other	57	89	262	72	119
Total Current Assets	2 039	1 688	2 087	2 187	2 203
Property, plant & equipment	36 305	37 487	44 585	45 557	46 316
Investments	1 368	4 415	4 532	3 278	3 501
Other	170	143	0	0	0
Total Non-Current Assets	37 843	42 045	49 117	48 835	49 817
Payables	560	481	643	405	436
Borrowings	129	139	156	175	264
Provisions	262	176	191	302	322
Other	90	46	141	87	134
Total Current Liabilities	1 041	842	1 131	969	1 156
Borrowings	1 212	1 273	1 316	1 342	1 586
Provisions	51	31	33	34	64
Other	716	663	535	475	492
Total Non-Current Liabilities	1 979	1 967	1 884	1 851	2 142
Net Assets	36 862	40 924	48 189	48 202	48 722
Reserves	2 306	2 306	8 880	8 880	8 880
Retained surpluses	34 556	38 618	39 309	39 322	39 842
Total Equity	36 862	40 924	48 189	48 202	48 722

Comment

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 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.

Non-current borrowings increased by \$0.244m in 2002-03 due to the acquisition of two items of major plant under finance leases. The balance of the finance lease liability at 30 June 2003 amounted to \$0.308m.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 473	5 606	6 195	6 455	6 645
Payments to suppliers and employees	(4 124)	(4 887)	(5 359)	(5 818)	(5 829)
Interest received	72	90	145	120	128
Borrowing costs	(89)	(81)	(87)	(91)	(106)
Cash from operations	1 332	728	894	666	838
Proceeds from investments	124	83	88	580	160
Payments for investments	(250)	(100)	(303)	(554)	(139)
Payments for P, P & Equipment	(1 836)	(2 362)	(2 720)	(2 130)	(2 538)
Proceeds from sale of P, P & E	0	37	72	134	322
Cash used in investing activities	(1 962)	(2 342)	(2 863)	(1 970)	(2 195)
Proceeds from borrowings	0	200	200	200	200
Repayment of borrowings	(124)	(129)	(139)	(156)	(209)
Cash from financing activities	(124)	71	61	44	(9)
Cash Flows from Government	1 492	1 364	1 886	1 028	1 239
Net increase/(decrease) in cash	738	(179)	(22)	(232)	(127)
Cash at the beginning of the period	536	1 274	1 095	1 073	841
	1 274	1 095	1 073	841	714

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. The funding 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	1998-99	1999-00	2000-01	2001-02	2002-03
	Mark					
Financial Performance						
Result from operations (\$'000s)		1 545	993	1 557	244	451
Operating margin	>1.0	1.28	1.16	1.24	1.04	1.06
Financial Management						
Current ratio	>1	1.96	2.00	1.85	2.26	1.91
Cost of debt	7.5%	6.6%	6.3%	6.4%	6.4%	6.3%
Debt collection	30 days	28	17	15	14	16
Creditor turnover	30 days	32	19	29	18	22
Other information						
Staff numbers FTEs		2	9	19	46	45
Average staff costs (\$'000s)		28	57	49	36	41

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 has remained fairly consistent throughout the five-year period.

The debt collection ratio has been below the benchmark of 30 days for the past five years. The creditor turnover figure was greater than 30 days in 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 \$4.790m.

The 2002-03 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 2002-03 FINANCIAL STATEMENTS

Initial signed financial statements were received on 29 September 2003, with amended statements received on 27 October 2003. An unqualified audit report was issued on 31 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	5 673	5 959	6 183	6 312	6 630
Grants	2 849	3 874	5 344	4 202	4 513
Other operating revenue	1 178	1 066	1 061	1 209	1 318
Non-operating revenue	1 826	78	0	0	0
Total Revenue	11 526	10 977	12 588	11 723	12 461
Borrowing costs	59	33	0	0	0
Depreciation	3 708	3 753	3 731	3 205	3 215
Other operating expenses	5 006	5 548	6 685	6 995	7 260
Non-operating expenses	808	224	472	1 258	482
Total Expenses	9 581	9 558	10 888	11 458	10 957
Result from Ordinary Activities	1 945	1 419	1 700	265	1 504

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. Grant revenue in 2002-03, \$4.513m, includes \$0.500m for water treatment and \$0.351m for the Longford Flood Mitigation Project.

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 since 1999-00 due to the repayment of borrowings in that year. The increase in other operating expenses from 1999-00 to 2001-02, \$1.447m, is partly attributable to expenditure on government-funded projects such as Woolmers Estate and the Midlands Bushweb project.

In 2001-02, non-operating expenses included a loss on disposal of assets of \$0.551m, an initial recognition adjustment to asset values of \$0.512m and a revaluation decrement of \$0.195m.

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 \$6.833m.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	437	1 276	327	264	290
Receivables	724	718	888	647	974
Investments	5 507	6 508	10 513	12 127	9 854
Inventories	32	17	28	32	21
Other	29	40	32	32	70
Total Current Assets	6 729	8 559	11 788	13 102	11 209
Property, plant & equipment	99 286	99 109	98 251	137 392	140 786
Other	966	778	446	64	32
Total Non-Current Assets	100 252	99 887	98 697	137 456	140 818
Payables	210	701	307	585	438
Provisions	450	456	481	520	560
Other	157	142	119	147	139
Total Current Liabilities	1 257	1 299	907	1 252	1 137
Borrowings	0	0	0	0	0
Provisions	44	48	83	92	134
Total Non-Current Liabilities	44	48	83	92	134
Net Assets	105 680	107 099	109 495	149 214	150 756
Reserves	25	25	721	40 174	40 213
Retained surpluses	105 655	107 074	108 774	109 040	110 543
Total Equity	105 680	107 099	109 495	149 214	150 756

Comment

The increase in Receivables in 2002-03 of \$0.327m is due to an amount outstanding at 30 June 2003 of \$0.321m relating to the receipt of grant funds for the Longford Flood Mitigation Project.

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. The decrease in investments during 2002-03 of \$2.273m is attributable to significant capital works, including the Longford water treatment project, upgrades of wastewater treatment plants and the reconstruction of Barton Road bridge.

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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 385	6 775	7 041	7 813	8 057
Payments to suppliers and employees	(4 883)	(4 931)	(6 952)	(7 215)	(8 280)
Interest received	479	474	722	627	670
Borrowing costs	(69)	(48)	0	0	0
Cash from operations	1 912	2 270	811	1 225	447
Proceeds from investments	222	0	0	0	2 273
Payments for investments	0	(1 001)	(4 005)	(1 614)	0
Payments for P, P & Equipment	(4 718)	(4 100)	(3 405)	(4 090)	(7 022)
Proceeds from sale of P, P & E	344	236	290	194	103
Cash used in investing activities	(4 152)	(4 865)	(7 120)	(5 510)	(4 646)
Repayment of borrowings	(292)	(440)	0	0	0
Cash from financing activities	(292)	(440)	0	0	0
Cash Flows from Government	2 849	3 874	5 360	4 222	4 225
Net increase/(decrease) in cash	317	839	(949)	(63)	26
Cash at the beginning of the period	120	437	1 276	327	264
	437	1 276	327	264	290

Comment

The significant expenditure on capital works is reflected in the Cash Flow Statement for 2002-03, which shows payments for property, plant and equipment of \$7.022m. The Cash Flow Statement also shows the proceeds from investments of \$2.273m, which were used to fund the capital works.

FINANCIAL ANALYSIS

	Bench	1998-99	1999-00	2000-01	2001-02	2002-03
	Mark					
Financial Performance						
Result from operations (\$'000s)		927	1 565	2 172	1 523	1 986
Operating margin	>1.0	1.11	1.17	1.21	1.15	1.19
Financial Management						
Current ratio	>1	5.35	6.59	13.00	10.46	9.86
Cost of debt	7.5%	10.1%	-	-	-	-
Debt collection	30 days	26	19	32	34	33
Creditor turnover	30 days	10	34	15	25	14
Other information						
Staff numbers FTEs		52	53	65	64	64
Average staff costs (\$'000s)		41	41	38	40	44

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 \$8.173m.

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 has been above the benchmark of 30 days for the past three years 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 \$8.173m.

The 2002-03 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 2002-03 FINANCIAL STATEMENTS

The financial statements of the Sorell Council, signed by the Acting General Manager, were received on 11 November 2003 and the final phase of the audit is currently being undertaken at the time of completing this report. No opinion has at present been issued. The figures within the following tables are unaudited for 2002-03 and therefore only limited commentary in respect of 2002-03 has been provided.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	6 715	6 760	7 046	6 736	6 875
Grants	2 494	1 758	1 948	2 308	2 487
Other operating revenue	322	316	313	398	886
Non-operating revenue	3 823	188	324	410	203
Total Revenue	13 354	9 022	9 631	9 852	10 451
Borrowing costs	258	204	231	269	236
Depreciation	1 825	1 875	2 032	2 062	3 878
Other operating expenses	5 956	6 304	7 053	6 989	7 198
Non-operating expenses	102	78	291	291	698
Total Expenses	8 141	8 461	9 607	9 611	12 010
Result from Ordinary Activities	5 213	561	24	241	(1 559)

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 Orielson Lagoon projects.

Non-operating expenses generally reflect the carrying value of plant and equipment disposals.

Other operating income significantly increased in the 2002-03 financial year due to major increases in Water consumption charges and revenue received from investment income.

Depreciation of non current assets increased in 2002-03 due to the revaluation of roads in particular, which contributed majority to the increase of the depreciation expense.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	202	28	336	16	206
Receivables	789	1 101	973	739	676
Investments	3 000	2 823	3 230	3 052	2 873
Inventories	6	6	6	0	32
Other	59	77	63	150	203
Total Current Assets	4 056	4 035	4 608	3 957	3 990
Property, plant & equipment	38 548	39 314	45 159	45 035	80 482
Investments	2 978	2 978	2 978	2 978	2 439
Other	421	371	328	433	710
Total Non-Current Assets	41 947	42 663	48 465	48 446	83 631
Payables	115	22	1 267	465	400
Borrowings	582	509	512	518	652
Provisions	346	449	444	672	768
Other	193	509	174	442	347
Total Current Liabilities	1 236	1 489	2 397	2 097	2 167
Borrowings	3 091	3 067	2 970	2 556	2 419
Provisions	159	100	97	67	67
Other	108	72	36	0	0
Total Non-Current Liabilities	3 358	3 239	3 103	2 623	2 486
Net Assets	41 409	41 970	47 573	47 683	82 968
Reserves	4 025	3 831	8 957	8 885	45 411
Retained surpluses	37 384	38 139	38 616	38 798	37 557
Total Equity	41 409	41 970	47 573	47 683	82 968

Comment

The average amount for receivables across the four-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 was at its lowest point 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 remaining valuation on the outstanding land, and buildings with asset additions of roads and water reticulation systems in 2002-03 resulted in a significant increase in the value of Property, Plant & Equipment. 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 and is referred to earlier in this segment of the Report. During 2002-03 the councils interest in Hobart Water declined \$0.5m due to market valuations.

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.

The decreasing amounts of non current interest bearing liabilities is in line with Council's commitment to the repayment schedules of all borrowing contracts.

Council Reserves consist primarily of the Asset Revaluation reserve which arose due to the revaluation of Non-Current Assets.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 689	6 461	8 022	7 277	7 198
Payments to suppliers and employees	(6 263)	(6 468)	(6 469)	(7 093)	(5 675)
Interest received	326	334	298	151	186
Borrowing costs	(256)	(203)	(210)	(269)	(1 666)
Cash from operations	496	124	1 641	66	43
Payments for P, P & Equipment	(2 962)	(2 754)	(2 698)	(3 152)	(2 623)
Proceeds from sale of P, P & E	133	188	324	410	203
Cash used in investing activities	(2 829)	(2 566)	(2 374)	(2 742)	(2 420)
Proceeds from borrowings	308	513	511	538	529
Repayment of borrowings	(570)	(597)	(594)	(908)	(502)
Cash from financing activities	(262)	(84)	(83)	(370)	27
Cash Flows from Government	2 494	1 758	1 949	2 547	2 361
Net increase/(decrease) in cash	(101)	(768)	1 133	(499)	11
Cash at the beginning of the period	3 303	3 202	2 434	3 567	3 068
Cash at end of the period	3 202	2 434	3 567	3 068	3 079

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 1998-99 was due to the increased expenditure for plant replacement, whilst the 1999-00 results were due to increased expenditure on the Orierton Lagoon project.

During the 2002-03 financial year, there was a significant decrease in payments to suppliers and employees. This was a result of a significant amount of staff resigning, retiring or council terminating their employment in the prior year.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		1 492	451	(9)	122	(1 064)
Operating margin	>1.0	1.19	1.05	1.00	1.01	0.91
Financial Management						
Current ratio	>1	3.28	2.71	1.92	1.89	1.84
Cost of debt	7.5%	7.0%	5.7%	6.6%	8.8%	7.7%
Debt collection	30 days	43	59	50	40	35
Creditor turnover	30 days	14	2	121	38	35
Other information						
Staff numbers FTEs		58	64	61	70	59
Average staff costs (\$'000s)		38	36	41	40	54

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, is now showing a decreasing trend. 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.

OVERALL COMMENT

The audit of the accounts for the 2001-02 year was completed with satisfactory results. The audit of the 2002-03 accounts is nearing finalisation.

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 5 515 people.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 4 November 2003. An unqualified audit report was issued on 7 November 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	4 581	4 378	4 658	5 291	5 494
Grants	2 455	2 605	3 136	3 933	6 119
Other operating revenue	476	392	408	252	225
Non-operating revenue	361	686	133	137	167
Total Revenue	7 873	8 061	8 335	9 613	12 005
Borrowing costs	144	116	152	175	212
Depreciation	1 382	1 448	1 476	1 439	1 526
Other operating expenses	6 851	6 220	6 639	7 066	7 744
Non-operating expenses	604	502	45	154	132
Total Expenses	8 981	8 286	8 312	8 834	9 614
Result from Ordinary Activities	(1 108)	(225)	23	779	2 391

Comment

Revenue from Rates, fees and charges has increased by \$0.913m over the five-year period under review. This represents an average annual increase of approximately 4.5%.

In the period from 1998-99 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.

Grant income in 2002-03 increased by \$2.186m primarily due to a State Government grant of \$2.5m to assist in the completion of the 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 from 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.

Other operating expenses have increased by \$0.893m during the five-year period and correspond to the general increase in Rates, fees and charges.

In the first two years under review, the Council incurred material losses. In particular, a loss of \$1.108m was recorded in 1998-99. Excepting for a loss on the disposal of asset, \$0.277m, 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 surplus for 2002-03 of \$2.391m is again attributable to funding for the upgrade of Strahan sewerage scheme, totalling \$2.5m. The expenditure of the funding, which is of a capital nature, is not reflected in the operating result for either 2001-02 or 2002-03.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	127	964	1 554	983	185
Receivables	707	809	1 044	1 365	1 403
Investments	88	224	564	1 304	604
Inventories	0	25	16	16	15
Other	311	51	39	37	16
Total Current Assets	1 233	2 073	3 217	3 705	2 223
Property, plant & equipment	45 217	44 977	44 929	45 617	49 942
Investments	57	28	0	0	0
Total Non-Current Assets	45 274	45 005	44 929	45 617	49 942
Payables	271	266	493	369	630
Borrowings	241	369	480	390	402
Provisions	409	401	400	471	559
Other	265	175	282	222	262
Total Current Liabilities	1 186	1 211	1 655	1 452	1 853
Borrowings	1 215	1 567	2 204	2 813	2 908
Provisions	65	88	81	72	128
Other	96	29	0	0	0
Total Non-Current Liabilities	1 376	1 684	2 285	2 885	3 036
Net Assets	43 945	44 183	44 206	44 985	47 276
Reserves	3 238	3 701	3 701	3 701	3 701
Retained surpluses	40 707	40 482	40 505	41 284	43 575
Total Equity	43 945	44 183	44 206	44 985	47 276

Comment

The balance of receivables increased by \$0.321m in 2001-02, due to increased rate debtors. The balance has remained constant in 2002-03. 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 Property, plant and equipment remained fairly constant over the four-year period to 2001-02. The balance increased by \$4.325m in 2002-03 primarily due to capital additions of \$5.869m less the annual depreciation expense of \$1.526m. The major item of capital expenditure relates to the Strahan sewerage scheme, totalling \$5.441m. The upgrade was commissioned in December 2002 and was funded through grant funding and loan borrowings.

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. Similarly, the increase of \$0.261m in the creditors balance for 2002-03 represents \$0.249m in capital creditors. In particular, \$0.096m relating to works on the Wilsdon Street bridge and \$0.049m in road 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 over the periods under review. 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 were used on the Strahan wastewater treatment upgrade. In 2002-03, Council borrowed a further \$0.500m to complete the Strahan wastewater treatment upgrade.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 774	4 756	5 068	5 563	5 618
Payments to suppliers and employees	(6 869)	(6 205)	(6 621)	(7 675)	(8 245)
Interest received	23	62	76	94	84
Borrowing costs	(144)	(130)	(140)	(162)	(181)
Cash from operations	(2 216)	(1 517)	(1 617)	(2 180)	(2 724)
Proceeds from investments	115	0	0	0	699
Payments for investments	0	0	(340)	(740)	0
Payments for P, P & Equipment	(552)	(1 240)	(1 469)	(2 281)	(5 741)
Proceeds from sale of P, P & E	328	664	49	119	165
Cash used in investing activities	(109)	(576)	(1 760)	(2 902)	(4 877)
Proceeds from borrowings	0	695	1 058	1 000	500
Repayment of borrowings	(271)	(291)	(351)	(422)	(392)
Cash from financing activities	(271)	404	707	578	108
Cash Flows from Government	2 517	2 526	3 260	3 933	6 693
Net increase/(decrease) in cash	(79)	837	590	(571)	(800)
Cash at the beginning of the period	206	127	964	1 554	983
	127	964	1 554	983	183

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. A further increase in Payments to suppliers and employees in 2002-03 of \$0.570m is attributable to increased payroll costs of \$0.381m. The WCH&CS employed five new staff to conduct Primary Care functions, which include social work, mental health care and youth work. The additional expenditure was funded by increased grants.

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.

In 2002-03, the \$5.741m paid for property, plant and equipment is primarily attributable to the costs of completing the Strahan sewerage scheme upgrade, \$4.607m and general road pavement and bridges capital works, totalling \$0.505m.

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 four years under review. Descriptions of the new borrowings are detailed in the Financial Position section referred to earlier in this segment of the Report.

Cash flows from Government reflect the general movement in the Grants revenue over the five-year period. Council has required the receipts from Government to fund cash deficits from operation in each of the years under review.

Council's cash position has decreased significantly in 2001-02 and 2002-03, primarily as a result of the abovementioned outflows on property, plant and equipment.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(865)	(409)	(65)	796	2 356
Operating margin	>1.0	0.90	0.95	0.99	1.09	1.25
Financial Management						
Current ratio	>1	1.04	1.71	1.94	2.55	1.20
Cost of debt	7.5%	9.9%	6.0%	7.1%	6.9%	6.3%
Debt collection	30 days	56	67	82	94	93
Creditor turnover	30 days	23	21	35	23	62
Other information						
Staff numbers FTEs		76	75	75	78	86
Average staff costs (\$'000s)		41	39	39	44	48

Comment

Council has been below the Operating benchmark for the initial three years under review due to recording a deficit in each of those periods. The losses cannot be attributed to any particular events, but reflect Council's failure to fully fund the depreciation expense in relation to its infrastructure assets. The results of the 2001-02 and 2002-03 financial periods indicate surpluses, however, in both 2001-02 and 2002-03, Council's operating surpluses were assisted by capital grant funding recorded as revenue. The corresponding expenditure, which is of a capital nature, was not reflected in the operating results.

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 three of the five years under review. The 2000-01 and 2002-03 ratios

reflect material capital creditors, which were outstanding at each balance date.

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

OVERALL COMMENT

The 2002-03 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 \$5.000m.

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	4 543	1 996	771	4 643	2 606	2 444	3 154	1 694
Grants	2 972	3 356	2 685	4 724	1 923	1 620	3 108	3 442
Other operating revenue	236	256	646	1 351	256	423	275	349
Non-operating revenue	69	116	12	0	2	58	284	133
Total Revenue	7 820	5 724	4 114	10 718	4 787	4 545	6 821	5 618
Borrowing Costs	121	0	0	194	44	6	97	52
Depreciation	1 968	3 051	1 386	1 474	1 316	1 191	2 595	588
Other operating expenses	4 802	3 560	3 593	7 121	3 152	4 378	4 351	3 690
Non-operating expenses	0	177	0	5	0	25	1 736	140
Total Expenses	6 891	6 788	4 979	8 794	4 512	5 600	8 779	4 470
Result from Ordinary Activities	929	(1 064)	(865)	1 924	275	(1 055)	(1 958)	1 148

Comment

Revenue from Rates, fees and charges ranged from \$0.771m (Flinders Council) to \$4.643m (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 44% of total operating revenue for the eight Councils for 2002-03.

Government grants and subsidies represent 48% of total operating revenue recorded by the eight councils. All of the councils derived over 35% of their operating revenue for 2002-03 from government sources, with Flinders and Tasman Councils recording the highest percentages with 65% and 63% respectively. King Island Council recorded the lowest proportion, with 36% of revenue being derived from government sources.

On average, borrowing costs represent 1.1% of total operating expenditure, whilst depreciation accounts for 28% of total operating expenditure. Both Flinders Council and Central Highlands Council had no borrowing costs during 2002-03.

Southern Midlands Council recorded Non-operating expenses of \$1.736m, which included \$0.670m relating to the transfer of the operations of the Midlands Multi-Purpose Health Centre back to the Department of Health and Human Services, and \$0.432m for a loss on revaluation of land and buildings during the year.

Four of the eight 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	3 417	2 542	138	1 250	3 220	248	386	813
Receivables	342	191	166	303	149	427	560	284
Investments	2	0	5 533	0	0	1 954	1 670	0
Inventories	103	38	159	0	0	312	216	0
Other	256	114	40	0	25	77	27	0
Total Current Assets	4 120	2 885	6 036	1 553	3 394	3 018	2 859	1 097
Property, Plant And Equipment	49 963	61 916	37 181	46 067	27 240	19 354	65 948	11 843
Investments	0	0	0	0	900	0	0	0
Other	90	30	54	22	81	0	184	10
Total Non-Current Assets	50 053	61 946	37 235	46 089	28 221	19 354	66 132	11 853
Payables	398	82	164	519	288	124	215	568
Borrowings	150	14	82	252	52	75	205	102
Provisions	412	485	134	385	88	497	331	222
Other	0	37	1 635	20	13	269	89	118
Total Current Liabilities	960	618	2 015	1 176	441	965	840	1 010
Borrowings	1 292	43	0	2 696	447	269	1 587	849
Provisions	17	43	106	133	54	27	64	23
Other	90	0	0	353	0	0	73	0
Total Non-Current Liabilities	1 399	86	106	3 182	501	296	1 724	872
Net Assets	51 814	64 127	41 150	43 284	30 673	21 111	66 427	11 068
Reserves	53 146	33 652	4 657	12 979	31 900	1 679	32 081	1
Retained Surpluses	(1 332)	30 475	36 493	30 305	(1 227)	19 432	34 346	11 067
Total Equity	51 814	64 127	41 150	43 284	30 673	21 111	66 427	11 068

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 2003 being less than 5% for all Councils except Glamorgan-Spring-Bay and Tasman Councils whose debts represent 7% and 9% of total equity, respectively.

The balance of net assets ranged from \$11.068m (Tasman Council) to \$66.427m (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	Central Highlands	Flinders	Glamorgan- Spring Bay	Kentish	King Island	Southern Midlands	Tasman
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 268	2 847	1 373	6 331	3 015	2 937	3 625	2 383
Payments to suppliers and employees	(5 153)	(4 125)	(2 071)	(7 890)	(3 176)	(4 509)	(4 895)	(3 985)
Interest received	169	129	190	159	127	173	112	36
Borrowing costs	(123)	0	0	(194)	(44)	(7)	(97)	(52)
Cash from operations	161	(1 149)	(508)	(1 594)	(78)	(1 406)	(1 255)	(1 618)
Proceeds from investments	0	4	0	0	0	497	4	0
Payments for investments	0	0	(1 870)	0	0	0	0	0
Payments for P, P & Equipment	(1 348)	(1 647)	(422)	(4 612)	(590)	(1 322)	(2 592)	(2 036)
Proceeds from sale of P, P & E	184	116	20	32	23	264	284	133
Cash used in investing activities	(1 164)	(1 527)	(2 272)	(4 580)	(567)	(561)	(2 304)	(1 903)
Proceeds from borrowings	0	0	0	0	0	300	570	230
Repayment of borrowings	(221)	(13)	0	(280)	(91)	(39)	(174)	(74)
Cash from financing activities	(221)	(13)	0	(280)	(91)	261	396	156
Cash flows from Government	2 972	3 175	2 685	4 802	1 923	1 636	3 108	3 442
Net increase/(decrease) in cash	1 748	486	(95)	(1 652)	1 187	(70)	(55)	77
Cash at the beginning of the period	1 669	2 056	151	2 902	2 033	318	441	736
Cash at end of the period	3 417	2 542	56	1 250	3 220	248	386	813

Comment

Four of the eight councils had net increases in cash balances. Three of the eight councils (King Island, Southern Midlands and Tasman 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)		860	(1 003)	(877)	1 929	273	(1 088)	(506)	1 155
Operating margin	>1.0	1.12	0.85	0.82	1.22	1.06	0.80	0.93	1.27
Financial Management									
Current ratio	>1	4.29	4.67	3.00	1.32	7.70	3.13	3.40	1.09
Cost of debt	7.5%	7.1%	-	-	6.8%	7.9%	5.3%	6.5%	6.3%
Debt collection	30 days	27	32	53	24	21	64	65	85
Creditor turnover	30 days	21	8	20	20	37	10	15	73
Other information									
Staff numbers		45	35	18	61	19	29	45	36
Average staff costs (\$'000s)		43	45	42	53	45	48	37	53

Comment

Overall, the Councils recorded a surplus from operations of \$0.743m. All councils had a positive current ratio at 30 June 2003, indicating that they are able to meet all short-term liabilities.

The average cost of debt for the small Councils was 6.7%. In calculating this average, Flinders and Central Highlands Councils were excluded, as they had no cost of debt for 2002-03.

The average debt collection period was 46 days. This is primarily a reflection of the high level of outstanding rate debtors held by most councils. The average creditor turnover was 25 days.

The average staff costs ranged from \$0.037m (Southern Midlands Council) to \$0.053m (Glamorgan/Spring Bay and Tasman Councils) for the eight councils, with an overall average of \$0.046m.

OVERALL COMMENT

Four of the eight councils recorded a deficit from operating activities, with the same four councils recording a negative Result from Ordinary Activities. All councils had positive working capital and low debt to equity ratios at 30 June 2003.

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 2002-03 FINANCIAL STATEMENTS

Initial signed financial statements were received on 19 August 2003, with amended statements received on 27 August 2003. An unqualified audit report was issued on 22 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	3 596	3 736	3 797	4 038	4 543
Grants	1 785	1 603	2 058	2 378	2 972
Other operating revenue	257	231	237	259	236
Non-operating revenue	0	0	10	0	69
Total Revenue	5 638	5 570	6 102	6 675	7 820
Borrowing costs	226	185	117	101	121
Depreciation	1 615	1 664	1 631	1 852	1 968
Other operating expenses	3 978	4 139	4 299	4 855	4 802
Non-operating expenses	9	24	0	46	0
Total Expenses	5 828	6 012	6 047	6 854	6 891
Result from Ordinary Activities	(190)	(442)	55	(179)	929

Comment

The increase in grant revenue from 2001-02 to 2002-03 of \$0.594m is mainly attributable to funding of \$0.360m under the Clean Quality Water Program and \$0.185m in funding from the Tasmanian Community Fund for the St Helens History Room. The increase in rates, fees and charges revenue from 2001-02 to 2002-03 of \$0.505m is mainly due to increased revenue from water-by-measure charges and planning and building fees. Non-operating revenue in 2000-01 and 2002-03 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. 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 three of the five years under review. The Council recorded a surplus of \$0.929m in 2002-03, which was mainly attributable to the increased revenue from government funding and increased revenue from fees and charges.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	113	379	1 006	1 669	3 417
Receivables	505	611	602	541	342
Investments	1 102	352	2	2	2
Inventories	91	168	99	91	103
Other	457	389	756	275	256
Total Current Assets	2 268	1 899	2 465	2 578	4 120
Property, plant & equipment	51 015	50 561	49 822	50 687	49 963
Investments	7	4	0	0	0
Other	0	0	0	126	90
Total Non-Current Assets	51 022	50 565	49 822	50 813	50 053
Payables	149	183	326	395	398
Borrowings	373	288	233	214	150
Provisions	365	405	338	317	412
Total Current Liabilities	887	876	897	926	960
Borrowings	2 148	1 840	1 586	1 355	1 292
Provisions	79	14	15	37	17
Other	0	0	0	126	90
Total Non-Current Liabilities	2 227	1 854	1 601	1 518	1 399
Net Assets	50 176	49 734	49 789	50 947	51 814
Reserves	49 246	49 164	49 129	50 007	53 146
Retained surpluses	930	570	660	940	(1 332)
Total Equity	50 176	49 734	49 789	50 947	51 814

Comment

The balance of cash assets increased from \$1.669m at 30 June 2002 to \$3.417m at 30 June 2003. The majority of the increase is attributable to increased revenue from government grants and fees and charges.

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, with no new borrowings over the five-year period.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 676	3 781	3 996	4 820	5 268
Payments to suppliers and employees	(3 997)	(4 232)	(4 483)	(5 122)	(5 153)
Interest received	70	74	67	85	169
Borrowing costs	(222)	(177)	(148)	(117)	(123)
Cash from operations	(473)	(554)	(568)	(334)	161
Proceeds from investments	0	750	350	0	0
Payments for P, P & Equipment	(1 497)	(1 385)	(1 155)	(1 382)	(1 348)
Proceeds from sale of P, P & E	221	216	294	222	184
Cash used in investing activities	(1 276)	(419)	(511)	(1 160)	(1 164)
Repayment of borrowings	(298)	(364)	(270)	(303)	(221)
Cash from financing activities	(298)	(364)	(270)	(303)	(221)
Cash Flows from Government	1 785	1 603	1 976	2 460	2 972
Net increase/(decrease) in cash	(262)	266	627	663	1 748
Cash at the beginning of the period	375	113	379	1 006	1 669
	113	379	1 006	1 669	3 417

Comment

The Council recorded a cash surplus from operations in 2002-03 of \$0.161m, compared with deficits totalling \$1.929m in the previous four years.

Payments for property, plant and equipment and proceeds from the sale of property, plant and equipment have remained fairly stable over the past five years. No new loans have been drawn down in the five years under review.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(181)	(418)	45	(133)	860
Operating margin	>1.0	0.97	0.93	1.01	0.98	1.12
Financial Management						
Current ratio	>1	2.56	2.17	2.75	2.78	4.29
Cost of debt	7.5%	9.0%	8.7%	8.3%	7.6%	7.1%
Debt collection	30 days	51	60	58	49	27
Creditor turnover	30 days	5	5	16	19	21
Other information						
Staff numbers FTEs		45	48	47	46	45
Average staff costs (\$'000s)		37	34	38	42	43

Comment

The financial performance ratios show that Council has incurred operating losses in three of the five years under review. As previously noted, a profit was recorded in 2002-03, \$0.929m, of which \$0.069m related to gains on the sale of property, plant and equipment.

Council's current ratio has increased from 2.78 at 30 June 2002 to 4.29 at 30 June 2003 due to Council's increased cash balance. The ratio indicates that the Council is able to meet all short-term liabilities.

The cost of debt has gradually reduced from 9% in 1998-99 to 7.1% in 2002-03.

The debt collection ratio has reduced significantly in 2002-03 due to a concerted effort by Council to recover long outstanding rate debts.

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

OVERALL COMMENT

In the five years to 30 June 2003, Council recorded a total operating surplus (excluding non-operating items) of \$0.173m.

The 2002-03 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 2 600 people.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The financial statements of the Central Highlands Council, signed by the General Manager, were received on 29 September 2003 and an unqualified audit report was issued on 22 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	1 769	1 844	1 949	1 988	1 996
Grants	1 638	1 476	1 790	2 071	3 356
Other operating revenue	319	276	249	298	256
Non-operating revenue	1 461	488	273	273	116
Total Revenue	5 187	4 084	4 261	4 630	5 724
Borrowing costs	1	1	1	0	0
Depreciation	2 342	2 363	2 376	2 369	3 051
Other operating expenses	2 933	3 078	3 358	3 341	3 560
Non-operating expenses	405	298	289	362	177
Total Expenses	5 681	5 740	6 024	6 072	6 788
Result from Ordinary Activities	(494)	(1 656)	(1 763)	(1 442)	(1 064)

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 2002-03 to \$3.134m, an increase of \$1.285m from 2001-02. Capital grants for the construction of water and sewerage assets totalling \$0.578m and \$0.435m for Networking the Nation funding was received during the year.

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.

Depreciation expense increased during 2003 by \$0.682m predominantly due to the revaluation of roads, bridges, drainage, sewerage, water, footpath, kerb and gutter assets including a reassessment of useful lives.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 537	967	1 910	2 056	2 542
Receivables	175	317	290	353	191
Investments	400	923	0	0	0
Inventories	40	49	52	39	38
Other	26	48	94	79	114
Total Current Assets	2 178	2 304	2 346	2 527	2 885
Property, plant & equipment	37 020	35 270	33 451	32 099	61 916
Other	139	93	43	37	30
Total Non-Current Assets	37 159	35 363	33 494	32 136	61 946
Payables	70	85	52	203	82
Borrowings	0	0	0	14	14
Provisions	432	470	471	513	485
Other	78	52	29	23	37
Total Current Liabilities	580	607	552	753	618
Borrowings	14	11	0	58	43
Provisions	28	30	32	38	43
Other	40	0	0	0	0
Total Non-Current Liabilities	82	41	32	96	86
Net Assets	38 675	37 019	35 256	33 814	64 127
Reserves	2 268	2 265	2 457	2 301	33 652
Retained surpluses	36 407	34 754	32 799	31 513	30 475
Total Equity	38 675	37 019	35 256	33 814	64 127

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 \$0.175m in 1998-99 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. The decrease in 2002-03 is largely as a result of Council actively pursuing rate debtors resulting in a decrease in this category of receivables of \$0.144m.

Property, plant and equipment increased by \$29.817m during 2002-03 predominantly as the result of a revaluation of roads, bridges, drainage, sewerage, water, footpath, kerb and gutter assets.

In my Report No 2 for 2001-02 (Volume 3, page 139), it was noted that Council did not separately disclose the components that make up a road asset within its asset register. This approach was not consistent with the Australian Accounting Standards Board's Urgent Issues Group Consensus View UIG 30 'Depreciation of Long-Lived Physical Assets'. This has been addressed with the detailed road valuation undertaken in the 2002-03 financial year.

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 two 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.

Reserves have increased by \$31.351m during 2002-03. Asset revaluations during the period totalled \$31.394m. The remainder of the movement was due to transfers between reserves and accumulated surplus.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 159	2 055	2 512	2 593	2 847
Payments to suppliers and employees	(2 925)	(3 100)	(3 739)	(3 453)	(4 125)
Interest received	128	117	128	146	129
Borrowing costs	(1)	(1)	(1)	0	0
Cash from operations	(639)	(929)	(1 100)	(714)	(1 149)
Proceeds from investments	0	0	2	4	4
Payments for investments	(19)	0	0	0	0
Payments for P, P & Equipment	(1 135)	(613)	(542)	(1 307)	(1 647)
Proceeds from sale of P, P & E	19	21	73	273	116
Cash used in investing activities	(1 135)	(592)	(467)	(1 030)	(1 527)
Repayment of borrowings	(5)	(2)	(13)	0	(13)
Cash from financing activities	(5)	(2)	(13)	0	(13)
Cash Flows from Government	1 638	1 476	1 600	1 890	3 175
Net increase/(decrease) in cash	(141)	(47)	20	146	486
Cash at the beginning of the period	2 078	1 937	1 890	1 910	2 056
	1 937	1 890	1 910	2 056	2 542

Comment

The payment for investments in 1998-99 is a consequence of Council's decision to extend a loan to the Great Lake Community Centre committee.

Cash flows from Government increased by \$1.285m during the 2002-03 year. This was due to National Heritage Trust funding of \$0.578m for water and sewerage works and \$0.435m for Networking the Nation funding.

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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(1 550)	(1 846)	(1 747)	(1 353)	(1 003)
Operating margin	>1.0	0.71	0.66	0.70	0.76	0.85
Financial Management						
Current ratio	>1	3.76	3.80	4.25	3.36	4.67
Cost of debt	7.5%	7.1%	9.1%	-	-	-
Debt collection	30 days	36	63	54	62	32
Creditor turnover	30 days	9	13	7	23	8
Other information						
Staff numbers FTEs		33	35	34	34	35
Average staff costs (\$'000s)		38	37	39	42	45

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 the 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 ratio has decreased significantly in the 2002-03 year due to the collection of substantial rate debts.

The creditor turnover ratio is higher for 2001-02 due to the higher level of creditors outstanding at 30 June, \$0.069m of which were capital creditors.

OVERALL COMMENT

In the five years under review, Council recorded total operating deficits (excluding non-operating items) of \$7.499m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 16 September 2003. An unqualified audit report was issued on 10 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	685	711	703	755	771
Grants	858	1 220	957	1 177	2 685
Other operating revenue	440	390	429	513	646
Non-operating revenue	0	31	0	47	12
Total Revenue	1 983	2 352	2 089	2 492	4 114
Borrowing costs	2	0	0	0	0
Depreciation	921	883	1 039	1 433	1 386
Other operating expenses	1 352	1 497	1 547	1 777	3 593
Non-operating expenses	0	0	13	0	0
Total Expenses	2 275	2 380	2 599	3 210	4 979
Result from Ordinary Activities	(292)	(28)	(510)	(718)	(865)

Comment

The increase in grant revenue in 1999-00 is due mainly to \$0.300m in government funding for the sealing of the Runway 05/23. The increase in 2002-03 is due to the receipt of a Networking the Nation

grant of \$1.590m. 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 four financial years, as loans were repaid during 1998-99.

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.

Other operating expenses increased by \$1.816m during 2002-03 predominantly due to a payment to Telstra for the construction of four mobile base facilities under the Networking the Nation program totalling \$1.600m.

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 \$2.413m, which equates to an average loss of \$0.483m per annum.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	26	44	145	151	138
Receivables	91	226	147	101	166
Investments	2 623	2 823	2 958	3 663	5 533
Inventories	389	286	232	190	159
Other	36	37	52	71	40
Total Current Assets	3 165	3 416	3 534	4 176	6 036
Property, plant & equipment	38 819	38 713	39 485	38 258	37 181
Other	43	39	30	21	54
Total Non-Current Assets	38 862	38 752	39 515	38 279	37 235
Payables	102	56	84	206	164
Borrowings	79	281	0	0	82
Provisions	94	99	97	109	134
Other	46	45	59	39	1 635
Total Current Liabilities	321	481	240	354	2 015
Borrowings	0	0	0	0	0
Provisions	45	53	62	72	106
Total Non-Current Liabilities	45	53	62	72	106
Net Assets	41 661	41 634	42 747	42 029	41 150
Reserves	2 643	2 843	4 467	4 679	4 657
Retained surpluses	39 018	38 791	38 280	37 350	36 493
Total Equity	41 661	41 634	42 747	42 029	41 150

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 Runway 05/23.

Higher investment funds were held at 30 June 2003 due to the receipt of Networking the Nation funds. The corresponding payment to Telstra was not paid until after the end of the financial year. As a result, an accrued expense liability of \$1.600m was included in other current liabilities as at 30 June 2003.

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 borrowings at 30 June 1999 and 2000 and 2003 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	936	843	1 032	1 256	1 373
Payments to suppliers and employees	(1 316)	(1 369)	(1 557)	(1 847)	(2 071)
Interest received	108	149	169	143	190
Borrowing costs	(2)	0	0	0	0
Cash from operations	(274)	(377)	(356)	(448)	(508)
Proceeds from investments	0	0	0	0	0
Payments for investments	(625)	(200)	(135)	(705)	(1 870)
Payments for P, P & Equipment	(131)	(837)	(271)	(69)	(422)
Proceeds from sale of P, P & E	0	104	77	50	20
Cash used in investing activities	(756)	(933)	(329)	(724)	(2 272)
Repayment of borrowings	(25)	0	0	0	0
Cash from financing activities	(25)	0	0	0	0
Cash Flows from Government	859	1 125	1 067	1 178	2 685
Net increase/(decrease) in cash	(196)	(185)	382	6	(95)
Cash at the beginning of the period	144	(52)	(237)	145	151
	(52)	(237)	145	151	56

Comment

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.

Payments for investments have increased during 2002-03 due to the higher investment balance held at 30 June 2003 as a result of the receipt of Networking the Nation funds.

The increase in cash flows from Government in 1999-00 is mainly attributable to the receipt of \$0.200m from the Federal Government for the sealing of Runway 05/23. A further \$0.100m was received for the runway from the State Government in 2000-01. The Networking the Nation payment of \$1.590m increased cash flows from government for 2002-03.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(292)	(59)	(497)	(765)	(877)
Operating margin	>1.0	0.87	0.98	0.81	0.76	0.82
Financial Management						
Current ratio	>1	9.86	7.10	14.73	11.80	3.00
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	48	65	76	49	53
Creditor turnover	30 days	42	20	23	71	20
Other information						
Staff numbers FTEs		17	17	17	18	18
Average staff costs (\$'000s)		36	36	36	41	42

Comment

The financial performance ratios show that Council has incurred operating losses for the five years to 30 June 2003. The total losses

for this period amount to \$2.490m. As a result, the operating margin is below the benchmark for each of the years in the analysis.

Council's current ratio is 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 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, which resulted in settlement of significant rate arrears.

The creditor turnover figure has been greater than the 30-day benchmark in 1998-99 (42 days) and 2001-02 (71 days). Turnover for 2001-02 was affected by an outstanding invoice at year-end relating to the purchase of a major plant item.

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 \$2.490m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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.

The transactions and balances provided in the tables below include the May Shaw Nursing Centre Authority, which was established as a single authority on 3 October 2001. Separate financial statements are prepared by the Authority and 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 2002-03 FINANCIAL STATEMENTS

Initial signed financial statements for 2002-03 were received on 30 September 2003 with amended signed statements received on 28 October 2003. An unqualified audit report was issued on 31 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	3 507	3 719	4 008	4 229	4 643
Grants	2 055	2 641	3 009	3 006	4 724
Other operating revenue	385	444	700	749	1 351
Non-operating revenue	41	88	45	76	0
Total Revenue	5 988	6 892	7 762	8 060	10 718
Borrowing costs	147	125	112	158	194
Depreciation	1 968	1 942	1 409	1 446	1 474
Other operating expenses	4 755	5 341	5 982	6 990	7 121
Non-operating expenses	40	92	13 778	100	5
Total Expenses	6 910	7 500	21 281	8 694	8 794
Result from Ordinary Activities	(922)	(608)	(13 519)	(634)	1 924

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. Grant revenue increased by \$1.718m in 2002-03, which was mainly attributable to the receipt of \$1.302m by the May Shaw Nursing Centre Authority for capital works and \$0.450m received by Council under the Clean Quality Water Program.

The increase in Other operating revenue in 2002-03 of \$0.602m is primarily due to the recognition of land and buildings valued at \$0.230m which were transferred to the May Shaw Nursing Centre Authority, a contribution of \$0.085m for the Triabunna sewage reuse scheme and increased donations for both the Council and the May Shaw Nursing Centre.

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. 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.

The decrease in depreciation in 2000-01 of \$0.533m, is due principally to a reduction of \$0.940m in depreciation of road assets caused by a revaluation decrement and an increase of \$0.392m in depreciation of infrastructure assets caused by a revaluation increment.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(4)	17	67	2 902	1 250
Receivables	420	286	446	346	303
Investments	1 481	2 439	2 336	0	0
Other	74	0	0	0	0
Total Current Assets	1 971	2 742	2 849	3 248	1 553
Property, plant & equipment	43 898	42 960	41 676	42 716	46 067
Other	5	81	60	42	22
Total Non-Current Assets	43 903	43 041	41 736	42 758	46 089
Payables	114	363	438	519	519
Borrowings	204	206	228	277	252
Provisions	325	394	307	388	385
Other	119	197	131	20	20
Total Current Liabilities	762	1 160	1 104	1 204	1 176
Borrowings	1 320	1 358	1 528	2 951	2 696
Provisions	21	43	94	127	133
Other	0	59	162	296	353
Total Non-Current Liabilities	1 341	1 460	1 784	3 374	3 182
Net Assets	43 771	43 163	41 697	41 428	43 284
Reserves	2 701	868	12 849	12 979	12 979
Retained surpluses	41 070	42 295	28 848	28 449	30 305
Total Equity	43 771	43 163	41 697	41 428	43 284

Comment

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 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. Property, plant and equipment increased by \$3.351m in 2002-03 due mainly to the capital works undertaken by the May Shaw Nursing Centre Authority. The Stage 1A construction works amounted to \$1.778m and the Authority also received land and buildings from the State Government valued at \$0.230m. In addition, Council had work-in-progress balances relating to the Bicheno, Orford, Swansea and Triabunna sewage reuse schemes of \$1.878m at 30 June 2003.

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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 096	4 163	4 590	5 480	6 331
Payments to suppliers and employees	(5 275)	(5 041)	(6 023)	(7 312)	(7 890)
Interest received	78	134	144	139	159
Borrowing costs	(147)	(125)	(112)	(158)	(194)
Cash from operations	(1 248)	(869)	(1 401)	(1 851)	(1 594)
Payments for P, P & Equipment	(817)	(1 073)	(1 925)	(2 202)	(4 612)
Proceeds from sale of P, P & E	24	88	91	76	32
Cash used in investing activities	(793)	(985)	(1 834)	(2 126)	(4 580)
Proceeds from borrowings	0	223	400	1 699	0
Repayment of borrowings	(179)	(183)	(227)	(228)	(280)
Cash from financing activities	(179)	40	173	1 471	(280)
Cash Flows from Government	1 999	2 793	3 009	3 005	4 802
Net increase/(decrease) in cash	(221)	979	(53)	499	(1 652)
Cash at the beginning of the period	1 698	1 477	2 456	2 403	2 902
Cash at the end of the period	1 477	2 456	2 403	2 902	1 250

Comment

Payments for Property, plant and equipment totalling \$2.202m in 2001-02 include almost \$1.000m relating to the Triabunna call centre. Payments in 2002-03 of \$4.612m include the May Shaw Nursing Centre Stage 1A construction works of \$1.778m and \$1.400m relating to the sewage reuse schemes.

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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(923)	(604)	214	(610)	1 929
Operating margin	>1.0	0.87	0.92	1.03	0.93	1.22
Financial Management						
Current ratio	>1	2.59	2.36	2.58	2.70	1.32
Cost of debt	7.5%	9.6%	8.7%	8.7%	7.1%	6.8%
Debt collection	30 days	44	28	41	30	24
Creditor turnover	30 days	13	35	30	24	20
Other information						
Staff numbers FTEs		54	55	56	62	61
Average staff costs (\$'000s)		46	48	47	51	53

Comment

Council has incurred operating losses in three of the five years under review, the exceptions being an operating surplus of \$0.214m in 2000-01 and \$1.929m in 2002-03. The increased operating surplus in 2002-03 is due mainly to the receipt of \$1.302m in capital funding by the May Shaw Nursing Centre Authority.

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

Council's debt collection ratio has been equal to or below the benchmark of 30 days for three of the five years under review. Council's creditor turnover figure was slightly above 30 days in 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 and was capitalised and depreciated in 2002-03. 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.

During the conduct of the 2002-03 audit, the Office sought comments from the Glamorgan/Spring Bay Council regarding the tender procedures relating to specific capital projects. The Office queried the structure of the contract agreements and the fees incurred by Council in terms of compliance with Section 346 of the Local Government Act 1993. Section 346 requires a council to invite tenders for any contract valued at or above \$50 000.

Subsequent advice from the Council indicated that a project manager was employed for discrete elements of the project to ensure that the work was completed within time. Council advised that the alternative standard tendering process would have resulted in the withdrawal of Commonwealth funding due to the additional elapsed time. Council believed that the capital work was of an urgent nature, and as such, amounted to an emergency as referred to in sub-section 346(6). According to Council, verbal advice was sought from the Local Government Office regarding the approach adopted.

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.

In my Report No 2 for 2001-02, (Volume 3, page 150), I noted that the Premier dismissed the Councillors of the Kentish Council on 21 August 2002 and appointed an Administrator until 21 August 2003.

A plebiscite was held during April 2003 to assess the ratepayers' intentions relating to the future of the Council. The result of the plebiscite was to keep Kentish Council as a separate municipality.

Elections were held under the Local Government (Kentish Council Election) Order 2003 in June 2003 and ten councillors were appointed under the Certificate of Election issued 25 June 2003.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2003. An unqualified audit report was issued on 29 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	1 870	1 983	2 118	2 386	2 606
Grants	1 295	1 593	2 239	1 974	1 923
Other operating revenue	125	107	161	162	256
Non-operating revenue	0	900	0	1	2
Total Revenue	3 290	4 583	4 518	4 523	4 787
Borrowing costs	67	69	61	60	44
Depreciation	731	719	1 115	1 277	1 316
Other operating expenses	2 639	2 684	2 860	3 235	3 152
Non-operating expenses	1 713	1	5	36	0
Total Expenses	5 150	3 473	4 041	4 608	4 512
Result from Ordinary Activities	(1 860)	1 110	477	(85)	275

Comment

Revenue from Rates, fees and charges has increased from \$1.870m in 1998-99 to \$2.606m in 2002-03, 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 included Natural Heritage Trust funding for the Sheffield Waste Water Treatment Plant project of \$0.095m and \$0.160m for the Clean Water Quality Program. In 2000-01 the item includes Commonwealth Roads to Recovery funding totalling \$0.789m, with a further amount of \$0.313m received for this purpose in 2001-02. Grant revenue during 2002-03 included \$0.360m in National Heritage Trust funding for the Railton Sewerage upgrade.

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 that 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 financial 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 1998-99 non-operating expenses included two 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	428	709	1 264	2 033	3 220
Receivables	75	128	235	229	149
Investments	37	37	0	0	0
Inventories	27	0	0	0	0
Other	26	0	70	39	25
Total Current Assets	593	874	1 569	2 301	3 394
Property, plant & equipment	22 714	22 553	22 575	27 987	27 240
Investments	912	1 737	1 737	900	900
Other	68	86	83	81	81
Total Non-Current Assets	23 694	24 376	24 395	28 968	28 221
Payables	305	156	281	181	288
Borrowings	128	144	81	88	52
Provisions	83	10	16	49	88
Other	30	1	1	11	13
Total Current Liabilities	546	311	379	329	441
Borrowings	587	670	589	501	447
Provisions	32	37	33	31	54
Total Non-Current Liabilities	619	707	622	532	501
Net Assets	23 122	24 232	24 963	30 408	30 673
Reserves	26 091	26 091	26 291	31 900	31 900
Retained surpluses	(2 969)	(1 859)	(1 328)	(1 492)	(1 227)
Total Equity	23 122	24 232	24 963	30 408	30 673

Comment

The increase in the cash balances 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. At 30 June 2003 Council still held significant unspent grant funding, including \$0.338m of Roads to Recovery funding.

The balance of other current assets from the 2000-01 year represents amounts owing to Council in relation to the GST.

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's Consulting Engineers. The net movement in the revaluation, \$5.530m, 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 was 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 2001-02 year.

The remaining non-current investment represents Council's share of Cradle Coast Water.

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.

The total borrowings balance has been steadily decreasing over the period under review. The increase in the current repayment balances for the two years 1998-99 and 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 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 032	2 002	2 175	2 791	3 015
Payments to suppliers and employees	(2 700)	(2 826)	(3 105)	(3 404)	(3 176)
Interest received	26	35	63	78	127
Borrowing costs	(67)	(69)	(61)	(55)	(44)
Cash from operations	(709)	(858)	(928)	(590)	(78)
Proceeds from investments	0	0	0	389	0
Payments for investments	0	0	0	0	0
Payments for P, P & Equipment	(537)	(569)	(669)	(960)	(590)
Proceeds from sale of P, P & E	0	16	19	37	23
Cash used in investing activities	(537)	(553)	(650)	(534)	(567)
Proceeds from borrowings	100	240	0	0	0
Repayment of borrowings	(105)	(141)	(143)	(81)	(91)
Cash from financing activities	(5)	99	(143)	(81)	(91)
Cash Flows from Government	1 295	1 593	2 239	1 974	1 923
Net increase in cash	44	281	518	769	1 187
Cash at the beginning of the period	421	465	746	1 264	2 033
	465	746	1 264	2 033	3 220

Comment

Council has consistently incurred a deficit of Cash from operations during the period under review, although there was a marked improvement noted in the 2002-03 financial year, with the deficit being \$0.078m. Cash Flows from Government provide additional funding for both the operating and capital works program.

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 Joint Authority.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(147)	211	482	(50)	273
Operating margin	>1.0	0.96	1.06	1.12	0.99	1.06
Financial Management						
Current ratio	>1	1.09	2.81	4.14	6.99	7.70
Cost of debt	7.5%	9.4%	8.5%	8.6%	8.2%	7.9%
Debt collection	30 days	15	24	40	35	21
Creditor turnover	30 days	35	18	33	20	37
Other information						
Staff numbers FTEs		-	9	8	16	19
Average staff costs (\$'000s)		-	18	55	43	45

Comment

The financial performance of the Council over the five-year period has resulted in accumulated losses totalling \$0.083m. However the accumulated profits from operations, which exclude non-operating transactions, totalled \$0.769m. As a result, for the five years under review, Council's operating margin of has been around the benchmark value of one.

Council has been above the benchmark current ratio in all five years under review. The increase in cash balances held between 1999-00 and 2002-03 has significantly improved Council's liquidity position.

Due to increased rate debtors being held at 30 June 2001 and 30 June 2002, the debt collection ratio for these periods is above the benchmark. However, Council took action to recover the outstanding debtors, and in the 2002-03 year, the debt collection ratio is again below the benchmark.

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 1998-99 year. Consequently, the analysis on average staff costs was not prepared for that year.

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 2002-03 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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2003. An unqualified audit report was issued on 1 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	2 103	2 147	2 182	2 332	2 444
Grants	1 087	3 347	1 915	1 924	1 620
Other operating revenue	197	274	360	362	423
Non-operating revenue	939	0	1	8	58
Total Revenue	4 326	5 768	4 458	4 626	4 545
Borrowing costs	24	15	11	6	6
Depreciation	1 106	1 102	1 138	1 169	1 191
Other operating expenses	2 480	2 673	4 861	3 440	4 378
Non-operating expenses	9	30	47	41	25
Total Expenses	3 619	3 820	6 057	4 656	5 600
Result from Ordinary Activities	707	1 948	(1 599)	(30)	(1 055)

Comment

Revenue from rates, fees and charges has steadily increased during the five years to 30 June 2003.

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 the Grassy Township during the reporting period, and the recognition of Millers Bay Road.

Borrowing costs have decreased from \$0.024m in 1998-99 to \$0.006m in 2002-03, and is attributable to regular repayments of loan borrowings, with no additional new borrowings until June 2003, 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.

Results from operations have fluctuated over the period. The surplus in 1999-00, \$1.948m and the subsequent deficit of \$1.599m in 2000-01 were the result of the receipt and distribution of the Networking the Nation grant.

The deficit of \$1.055m in 2002-03 is the result of the King Island Natural Resource Group taking full control of its operations from Council. Grants held by Council as restricted funds at 30 June 2002 totalling \$0.725m were partially expended during 2002-03, with the balance of \$0.488m paid to the Group. The additional expenditure is reflected in the \$0.938 increase in Other operating expenses.

In addition, Council expended \$0.289m on repainting the Currie Lighthouse. The costs were partially offset by a grant of \$0.122m in the 2002-03 year. The balance of the cost was funded from a grant received in 2001-02 of \$0.330m, with the transfer of the lighthouse. Other operating expenses also include a final payment of \$0.400m for the upgrading of the initial work undertaken on the Networking the Nation project. This payment was offset by interest revenue earned by the Council when holding the initial grant, a further grant of \$0.191m and a contribution from CDMA Telstra of \$0.055m.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	160	80	754	318	248
Receivables	246	388	318	425	427
Investments	1 196	3 228	3 150	2 490	1 954
Inventories	299	404	399	367	312
Other	57	59	32	35	77
Total Current Assets	1 958	4 159	4 653	3 635	3 018
Property, plant & equipment	20 238	19 965	19 510	19 440	19 354
Investments	600	486	486	0	0
Other	42	28	14	0	0
Total Non-Current Assets	20 880	20 479	20 010	19 440	19 354
Payables	49	135	1 767	109	124
Borrowings	152	35	36	39	75
Provisions	349	299	314	369	497
Other	139	116	147	253	269
Total Current Liabilities	689	585	2 264	770	965
Borrowings	163	128	92	45	269
Provisions	34	39	34	31	27
Other	42	28	14	0	0
Total Non-Current Liabilities	239	195	140	76	296
Net Assets	21 910	23 858	22 259	22 229	21 111
Reserves	1 780	1 522	1 700	1 803	1 679
Retained surpluses	20 130	22 336	20 559	20 426	19 432
Total Equity	21 910	23 858	22 259	22 229	21 111

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. The balance of cash and investments at 30 June 2003 reduced by a further \$0.606m due to the distribution and

transfer of funds, totalling \$0.725m relating to the King Island Natural Resource Management Group.

Receivables have 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 first four-year period under review from \$0.315m at 30 June 1998 to \$0.084m at 30 June 2002. However, Council borrowed \$0.300m during 2002-03, which increased the balance to \$0.344m at 30 June 2003.

Other current liabilities include monies held in trust. At 30 June 2003, council held \$0.191m to be expended for a number of specific purposes.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 117	2 201	2 593	2 808	2 937
Payments to suppliers and employees	(2 522)	(2 851)	(3 481)	(5 436)	(4 509)
Interest received	90	108	227	124	173
Borrowing costs	(29)	(19)	(11)	(6)	(7)
Cash from operations	(344)	(561)	(672)	(2 510)	(1 406)
Proceeds from investments	0	0	148	1 256	497
Payments for investments	(190)	(1 955)	0	0	0
Payments for P, P & Equipment	(578)	(898)	(849)	(1 337)	(1 322)
Proceeds from sale of P, P & E	56	134	163	239	264
Cash used in investing activities	(712)	(2 719)	(538)	158	(561)
Proceeds from borrowings	0	0	0	0	300
Repayment of borrowings	(138)	(147)	(35)	(28)	(39)
Cash from financing activities	(138)	(147)	(35)	(28)	261
Cash Flows from Government	1 087	3 347	1 919	1 944	1 636
Net increase/(decrease) in cash	(107)	(80)	674	(436)	(70)
Cash at the beginning of the period	267	160	80	754	318
	160	80	754	318	248

Comment

Cash from operations has remained fairly stable over the initial three years under review. In 2001-02, cash from operations outflow increased by \$1.838m, to a deficit of \$2.510m, 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.

The deficit of \$1.406m in the net cash from operations outflow in 2002-03 relates to Council distributing the balance of restricted funds held for the King Island Natural Resource Management Group, \$0.725m, expenditure totalling \$0.289m on repainting the Currie Lighthouse and a final payment of \$0.400m for the Networking the Nation project.

Payments for property, plant and equipment remained fairly consistent over the initial three 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.

The payments in 2002-03 for Property, plant and equipment include the purchase of a new track loader for \$0.462m, capital expenditure on the Currie Sewerage Wetlands project \$0.195m and various road works (including bridges) of \$0.327m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(223)	1 978	(1 553)	3	(1 088)
Operating margin	>1.0	0.94	1.52	0.74	1.00	0.80
Financial Management						
Current ratio	>1	2.84	7.11	2.06	4.72	3.13
Cost of debt	7.5%	6.6%	6.5%	6.5%	6.5%	5.3%
Debt collection	30 days	43	66	53	67	64
Creditor turnover	30 days	9	21	142	11	10
Other information						
Staff numbers FTEs		29	28	26	28	29
Average staff costs (\$'000s)		40	43	45	46	48

Comment

Council's results from operations have varied across the five years under analysis. This is reflected by the movement in the Operating margin ratio. An operating surplus of \$1.978m 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 deficit of \$1.553m.

Another significant deficit was recorded for 2002-03 as a result of Council distributing grants held for the King Island Natural Resource Management Group, as restricted funds at 30 June 2002, which totalled \$0.725m.

In addition, Council expended \$0.289m on repainting the Currie Lighthouse and \$0.400m to finalise the upgrading of the initial work

undertaken on the Networking the Nation project. These costs were partially offset by a grant of \$0.122m, interest revenue earned by the Council when holding the initial RTIF grant, a further grant of \$0.191m and a contribution from CDMA Telstra of \$0.055m.

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 cost of debt ratio is in line with the benchmark, with the average interest rate on borrowings reflecting current market rates.

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.

Staff costs have been fairly stable over the five-year period under review, increasing in line with Enterprise Bargaining Agreements previously implemented by the Council

OVERALL COMMENT

In the five years under review Council recorded a total operating deficit of \$0.029m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 people.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The financial statements of the Council, signed by the General Manager, were received on 29 September 2003 and an unqualified audit report was issued on 31 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	2 909	3 092	3 160	3 012	3 154
Grants	3 426	3 964	4 111	3 798	3 108
Other operating revenue	166	228	189	131	275
Non-operating revenue	287	606	157	481	284
Total Revenue	6 788	7 890	7 617	7 422	6 821
Borrowing costs	139	124	107	105	97
Depreciation	1 938	1 794	2 497	2 485	2 595
Other operating expenses	5 029	5 312	5 213	4 995	4 351
Non-operating expenses	357	689	251	775	1 736
Total Expenses	7 463	7 919	8 068	8 360	8 779
Result from Ordinary Activities	(675)	(29)	(451)	(938)	(1 958)

Comment

Grant revenue reduced for the 2001-02 year, due mainly to the transfer of operations of the Midlands Multi-Purpose Health Centre (MMPHC) back to the Department of Health and Human Services (DHHS) on 1 December 2001, resulting in the Council only receiving grant funding for five months of operations. A further reduction occurred during 2002-03 as the MMPHC did not operate under Council control for any part of the year.

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. For the 2001-02 year both Non-operating revenue and expenses increased due to a significant number of plant and equipment sales and replacement. The 2002-03 Non-operating expenses of \$1.736m included \$1.304m for the carrying amount of assets disposed, with the main item being \$0.670m for the MMPHC, and \$0.432m for a loss on revaluation of land and buildings during the year.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	456	561	451	441	386
Receivables	459	598	731	500	560
Investments	1 500	1 750	2 535	1 674	1 670
Inventories	118	163	159	193	216
Other	14	10	49	51	27
Total Current Assets	2 547	3 082	3 925	2 859	2 859
Property, plant & equipment	39 383	38 846	67 878	67 654	65 948
Other	44	29	15	0	184
Total Non-Current Assets	39 427	38 875	67 893	67 654	66 132
Payables	325	368	404	308	215
Borrowings	153	168	181	174	205
Provisions	240	192	220	241	331
Other	182	253	229	126	89
Total Current Liabilities	900	981	1 034	849	840
Borrowings	1 435	1 382	1 400	1 222	1 587
Provisions	30	14	32	28	64
Other	0	0	0	0	73
Total Non-Current Liabilities	1 465	1 396	1 432	1 250	1 724
Net Assets	39 609	39 580	69 352	68 414	66 427
Reserves	2 095	2 262	32 775	32 247	32 081
Retained surpluses	37 514	37 318	36 577	36 167	34 346
Total Equity	39 609	39 580	69 352	68 414	66 427

Comment

The receivables balance as at 30 June 2002 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, 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 was 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.

Property, plant and equipment reduced by \$1.706m during the 2002-03 year. The decrement resulting from the revaluation of land and buildings of \$0.432m and the disposal of the MMPHC, \$0.670m, account for the majority of the reduction.

Both Current and Non-current Borrowings increased during 2002-03 as a result of new borrowings amounting to \$0.570m.

Other non-current liabilities represent the deferred expenditure portion of the Municipal Property Valuation carried out by the Valuer-General with an effective date of 1 July 2002.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 939	3 024	3 295	3 749	3 625
Payments to suppliers and employees	(5 268)	(4 969)	(5 445)	(5 525)	(4 895)
Interest received	85	113	162	110	112
Borrowing costs	(143)	(134)	(110)	(107)	(97)
Cash from operations	(2 387)	(1 966)	(2 098)	(1 773)	(1 255)
Proceeds from investments	0	0	0	861	4
Payments for investments	(500)	(250)	(785)	0	0
Payments for P, P & Equipment	(976)	(1 887)	(1 542)	(3 022)	(2 592)
Proceeds from sale of P, P & E	287	606	157	481	284
Cash used in investing activities	(1 189)	(1 531)	(2 170)	(1 680)	(2 304)
Proceeds from borrowings	150	160	200	0	570
Repayment of borrowings	(178)	(198)	(169)	(185)	(174)
Cash from financing activities	(28)	(38)	31	(185)	396
Cash Flows from Government	3 426	3 640	4 127	3 628	3 108
Net increase/(decrease) in cash	(178)	105	(110)	(10)	(55)
Cash at the beginning of the period	634	456	561	451	441
Cash at end of the period	456	561	451	441	386

Comment

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. Due to the timing of the new borrowings taken out during 2002-03 there has been minimal impact on the borrowing costs for the current year.

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	1998-99	1999-00	2000-01	2001-02	2002-03
	Mark					
Financial Performance						
Result from operations (\$'000s)		(605)	54	(357)	(644)	(506)
Operating margin	>1.0	0.91	1.01	0.95	0.92	0.93
Financial Management						
Current ratio	>1	2.83	3.14	3.80	3.37	3.40
Cost of debt	7.5%	8.8%	8.0%	7.0%	7.0%	6.5%
Debt collection	30 days	58	71	84	61	65
Creditor turnover	30 days	25	23	29	18	15
Other information						
Staff numbers FTEs		36	37	43	49	45
Average staff costs (\$'000s)		35	35	36	35	37

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

In the five years under review Council recorded a total deficit result from operations of \$2.058m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 7 November 2003 and the final phase of the audit is currently being undertaken at the time of completing this report. The figures within the following tables are unaudited for 2002-03 and therefore only limited commentary in respect of 2002-03 has been provided.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	1 456	1 478	1 627	1 676	1 694
Grants	1 428	1 700	2 011	2 647	3 442
Other operating revenue	35	114	182	297	349
Non-operating revenue	94	179	142	145	133
Total Revenue	3 013	3 471	3 962	4 765	5 618
Borrowing costs	19	29	30	39	52
Depreciation	971	1 009	1 231	571	588
Other operating expenses	2 775	3 021	3 206	3 421	3 690
Non-operating expenses	90	76	113	7 173	140
Total Expenses	3 855	4 135	4 580	11 204	4 470
Result from Ordinary Activities	(842)	(664)	(618)	(6 439)	1 148
Adjustment due to adoption of New Accounting Standards	0	0	0	0	27
Total Changes in Equity	(842)	(664)	(618)	(6 439)	1 175

Comment

During the period 1998-99 to 2000-01 Council returned a total deficit from Ordinary Activities of \$2.124m, or an annual average deficit of \$0.714m. 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, was 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 resulted 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.

Additional grant revenues received in 2002-03 was due to the capital works for the Nubeena Sewerage Treatment Plant (\$0.376m) and the Tasman Multipurpose Services Centre.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	223	523	725	235	284
Receivables	214	240	296	390	284
Investments	771	495	412	501	529
Other	0	30	0	5	0
Total Current Assets	1 208	1 288	1 433	1 131	1 097
Property, plant & equipment	17 331	16 797	16 239	10 589	11 843
Other	0	0	31	21	10
Total Non-Current Assets	17 331	16 797	16 270	10 610	11 853
Payables	5	177	295	657	568
Borrowings	33	35	52	74	102
Provisions	289	315	259	261	222
Other	15	47	55	55	118
Total Current Liabilities	342	574	661	1 047	1 010
Borrowings	433	399	546	722	849
Provisions	37	43	48	42	23
Other	86	92	83	10	0
Total Non-Current Liabilities	556	534	677	774	872
Net Assets	17 641	16 977	16 365	9 920	11 068
Reserves	37	37	1	1	1
Retained surpluses	17 604	16 940	16 364	9 919	11 067
Total Equity	17 641	16 977	16 365	9 920	11 068

Comment

The large decrease in the value of Property, plant and equipment for 2001-02, \$5.560m, resulted 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 was 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	1 549	1 584	1 919	2 096	2 383
Payments to suppliers and employees	(3 020)	(2 798)	(3 323)	(3 449)	(3 985)
Interest received	32	50	45	31	36
Borrowing costs	(19)	(26)	(31)	(39)	(52)
Cash from operations	(1 458)	(1 190)	(1 390)	(1 361)	(1 618)
Payments for P, P & Equipment	(338)	(500)	(818)	(2 021)	(2 036)
Proceeds from sale of P, P & E	0	127	142	145	133
Cash used in investing activities	(338)	(373)	(676)	(1 876)	(1 903)
Proceeds from borrowings	200	0	200	250	230
Repayment of borrowings	(17)	(32)	(35)	(52)	(74)
Cash from financing activities	183	(32)	165	198	156
Cash Flows from Government	1 694	1 619	2 011	2 647	3 442
Net increase/(decrease) in cash	81	24	110	(392)	77
Cash at the beginning of the period	913	994	1 018	1 128	736
Cash at end of the period	994	1 018	1 128	736	813

Comment

The significant increase in payments for Property, plant and equipment for 2001-02 was 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.

During the 2002-03 financial year, there was a significant increase in payments to suppliers and employees. This was a result of a

significant amount of staff resigning, retiring or council terminating their employment.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(846)	(767)	(647)	589	1 155
Operating margin	>1.0	0.78	0.81	0.86	1.15	1.27
Financial Management						
Current ratio	>1	3.53	2.24	2.17	1.08	1.09
Cost of debt	7.5%	4.1%	6.7%	5.0%	6.5%	6.3%
Debt collection	30 days	43	44	36	74	52
Creditor turnover	30 days	18	39	29	129	73
Other information						
Staff numbers FTEs		37	38	34	36	36
Average staff costs (\$'000s)		95	92	112	53	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 1.08 for 2001-02, 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. The audit of the 2002-03 financial statements is nearing finalisation.

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.

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 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 2002-03 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	8 091	9 337	20 591
Non-operating revenue	0	1	309
Total Revenue	8 091	9 338	20 900
Borrowing costs	1 351	548	2 177
Depreciation	1 240	2 201	4 697
Other operating expenses	4 289	3 659	10 531
Non-operating expenses	21	4	75
Total Expenses	6 901	6 412	17 480
Result from ordinary activities	1 190	2 926	3 420
Income tax expense	(39)	(914)	(407)
Result after taxation	1 151	2 012	3 013

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	Esk Water Authority	Hobart Regional Water Authority
	\$'000s	\$'000s	\$'000s
Cash	43	6 331	1 956
Receivables	369	229	5 199
Investments	1 588	0	0
Inventories	124	200	1 062
Other	393	778	0
Total Current Assets	2 517	7 538	8 217
Property, plant & equipment	60 463	92 377	159 984
Investments	0	0	0
Other	1 056	448	1 226
Total Non-Current Assets	61 519	92 825	161 210
Payables	487	65	2 274
Borrowings	711	5 000	10 000
Provisions	447	364	1 339
Other	1 074	632	0
Total Current Liabilities	2 719	6 061	13 613
Borrowings	20 656	2 000	23 198
Provisions	495	4 537	5 684
Total Non-Current Liabilities	21 151	6 537	28 882
Net Assets	40 166	87 765	126 932
Capital	0	83 102	5 974
Reserves	31 387	3 302	109 801
Retained profits	8 779	1 361	11 157
Total Equity	40 166	87 765	126 932

Comment

The receivables balance for Hobart Regional Water Authority is considerably greater than the other two Authorities. This is due to the balance of \$5.199m representing a full quarter's water sales to each member council. The delay in processing invoices is a result of the timing of meter readings.

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.

Other non-current assets include deferred tax assets, 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.

The Hobart Regional Water Authority's payables balance of \$2.274m includes accrued interest of \$0.728m. Cradle Coast Water had accrued interest payable at 30 June 2003 of \$0.460m, which has been recorded under other liabilities.

The Hobart Regional Water Authority's balance of current loan debt totals \$10.000m due to the Authority's portfolio management activities designed to minimise interest costs. The Esk Water Authority's current loan debt of \$5.000m reflects principal loans maturing in 2003-04.

Current provision balances reflect amounts relating to employee entitlements. The balance for the Hobart Regional Water Authority, \$1.339m is considerably larger than the other two Authorities due to it having a greater number of employees.

Non-current provision balances for the Esk Water Authority and the Hobart Regional Water Authority include deferred taxation equivalent liabilities of \$3.433m and \$2.844m, respectively. The liabilities relate to timing differences that occur under the tax equivalent regime applied to the Authorities.

CASH POSITION

	Cradle Coast Water	Esk Water Authority	Hobart Regional Water Authority
	\$'000s	\$'000s	\$'000s
Receipts from customers	8 109	9 817	22 160
Payments to suppliers and employees	(4 118)	(3 711)	(11 980)
Interest received	55	234	2 906
Borrowing costs	(1 366)	(519)	(4 838)
Cash from operations	2 680	5 821	8 248
Payments for P, P & Equipment	(1 739)	(534)	(6 257)
Proceeds from sale of P, P & E	113	81	102
Cash used in investing activities	(1 626)	(453)	(6 155)
Proceeds from borrowings	0	0	58 300
Repayment of borrowings	(667)	(1 000)	(58 300)
Dividends paid	(428)	(2 011)	(2 100)
Cash from financing activities	(1 095)	(3 011)	(2 100)
Net increase/(decrease) in cash	(41)	2 357	(7)
Cash at the beginning of the period	1 672	3 974	1 963
Cash at end of the period	1 631	6 331	1 956

Comment

All three Authorities had positive cash flows from operations. Only the Esk Water Authority recorded a net increase in cash, with the other two Authorities recording minor decreases in their cash balances. However, both the Hobart Regional Water Authority and Cradle Coast Water expended significantly more on 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 \$58.300m in proceeds from borrowings and the same amount in repayments during 2002-03.

FINANCIAL ANALYSIS

	Bench Mark	Cradle Coast Water	Esk Water Authority	Hobart Regional Water Authority
Financial Performance				
Result from operations (\$'000s)		1 211	2 929	3 186
EBIT (\$'000s)		2 541	3 474	5 597
Operating margin	>1.0	1.18	1.46	1.18
Return on assets		4.1%	3.4%	3.3%
Return on equity		3.0%	2.3%	2.4%
Financial Management				
Debt to equity		53.2%	8.0%	26.2%
Debt to total assets		33.4%	7.0%	19.6%
Interest cover	>3	1.9	6.3	2.6
Current ratio	>1	0.93	1.24	0.60
Cost of debt	7.5%	6.2%	6.90%	6.40%
Debt collection	30 days	17	9	82
Creditor turnover	30 days	39	15	31
Returns to Shareholders				
Dividends paid or payable (\$'000s)		595	2 012	3 000
Dividend payout ratio	50%	51.7%	100.0%	99.6%
Dividend to equity ratio		1.5%	2.3%	2.4%
Income tax paid or payable (\$'000s)		0	0	0
Effective tax rate	30%	-	-	-
Total return to the State (\$'000s)		595	2 012	3 000
Total return to equity ratio		1.5%	2.3%	2.4%
Other information				
Staff numbers FTEs		25	26	65
Average staff costs (\$'000s)		58	59	56

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 53.2% and debt to total assets ratio of 33.4% are considerably higher than the other Authorities. The cost of debt for all the three Authorities was consistent and below the benchmark.

The Hobart Regional Water Authority's current ratio at 30 June 2003 was 0.60 and was significantly below the benchmark of 1. As noted previously this is the result of the significant current borrowings balance, totalling \$10.000m.

The Hobart Regional Water Authority had a debt collection period of 82 days due to the receivables balance including three months of water sales for each constituent council.

The three Authorities had dividend payout ratios above the benchmark of 50%. Both the Esk Water Authority and the Hobart Regional Water Authority are returning the majority of their operating surpluses to the constituent councils. Due to changes in Australian accounting standards, no provision is included for dividends payable in relation to 2002-03 because the dividends were not declared prior to 30 June.

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 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 2002-03 FINANCIAL STATEMENTS

Signed financial statements of Cradle Coast Water were received on 7 October 2003. An unqualified audit report was issued on 21 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	7 448	7 835	8 011	7 744	8 091
Non-operating revenue	154	17	0	0	0
Total Revenue	7 602	7 852	8 011	7 744	8 091
Borrowing costs	1 663	1 468	1 451	1 393	1 351
Depreciation	1 204	1 225	1 227	1 270	1 240
Other operating expenses	3 106	3 838	3 916	4 203	4 289
Non-operating expenses	9	4	27	22	21
Total Expenses	5 982	6 535	6 621	6 888	6 901
Result from ordinary activities	1 620	1 317	1 390	856	1 190
Income tax expense/(benefit)	(1 100)	206	104	49	39
Result after taxation	2 720	1 111	1 286	807	1 151

Comment

The majority of the entity's revenue is derived from bulk water sales to municipal consumers.

Cradle Coast Water recorded a taxation equivalent benefit during 1998-99 of \$1.100m. During 1997-98, the entity entered into a liability Assumption Agreement with Tascorp to consolidate and restructure its debt. This resulted in a net loss on defeasance of debt amounting to \$2.747m being expensed during this year. 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, resulting in the net taxation benefit.

The borrowings costs have gradually decreased over the period under review, as a result of ongoing reductions in total loan debt.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	0	0	0	0	43
Receivables	50	62	475	395	369
Investments	1 900	1 708	2 374	1 700	1 588
Inventories	36	112	112	129	124
Other	114	427	227	358	393
Total Current Assets	2 100	2 309	3 188	2 582	2 517
Property, plant & equipment	57 030	55 865	56 796	57 402	60 463
Other	1 455	1 249	1 144	1 095	1 056
Total Non-Current Assets	58 485	57 114	57 940	58 497	61 519
Payables	175	179	332	307	487
Borrowings	552	622	662	695	711
Provisions	1 693	894	881	791	447
Other	710	870	751	846	1 074
Total Current Liabilities	3 130	2 565	2 626	2 639	2 719
Borrowings	23 246	22 659	22 034	21 367	20 656
Provisions	276	136	416	451	495
Total Non-Current Liabilities	23 522	22 795	22 450	21 818	21 151
Net Assets	33 933	34 063	36 052	36 622	40 166
Reserves	27 889	27 529	28 746	28 937	31 387
Retained profits	6 044	6 534	7 306	7 685	8 779
Total Equity	33 933	34 063	36 052	36 622	40 166

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 2003, councils supplied by the entity owed \$0.313m.

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 are future income tax equivalent benefits, representing net timing differences, to be obtained by the entity.

Total borrowings balance has decreased by \$2.431m, from \$23.798m in 1998-99 to \$21.367m in 2002-03. 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.

The application of revised Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" has been applied from 1 July 2002. As a result of this application no provision for dividend was included in the Statement of Financial Position at 30 June 2003, resulting in the decrease in current provisions at this date.

Other current liabilities represent accrued expenses at the end of the reporting period. At 30 June 2003 this included \$0.461m for accrued interest on loan borrowings (2002 \$0.475m).

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 360	7 408	7 961	7 726	8 109
Payments to suppliers and employees	(3 051)	(5 375)	(4 126)	(4 249)	(4 118)
Interest received	73	85	100	84	55
Borrowing costs	(1 664)	(1 304)	(1 400)	(1 418)	(1 366)
Cash from operations	2 718	814	2 535	2 143	2 680
Payments for P, P & Equipment	(561)	(612)	(1 065)	(1 809)	(1 739)
Proceeds from sale of P, P & E	94	123	126	141	113
Cash used in investing activities	(467)	(489)	(939)	(1 668)	(1 626)
Proceeds from borrowings	1 400	0	0	0	0
Repayment of borrowings	(2 420)	(551)	(587)	(626)	(667)
Dividends paid	(673)	0	(345)	(514)	(428)
Cash from financing activities	(1 693)	(551)	(932)	(1 140)	(1 095)
Net increase/(decrease) in cash	558	(226)	664	(665)	(41)
Cash at the beginning of the period	1 341	1 899	1 673	2 337	1 672
Cash at end of the period	1 899	1 673	2 337	1 672	1 631

Comment

Receipts from customers have remained fairly stable over the 5-year period. Payments to suppliers and employees have increased from \$3.051m in 1998-99 to \$4.118m in 2002-03. In 1999-00 payments were unusually high due to the payment of RBF entitlements to employees who elected to leave the scheme, \$1.712m.

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 2000-01 included the roofing of reservoirs, a program that was continued during 2001-02 and 2002-03 and accounted for the majority of the expenditure on property, plant and equipment in both those years.

Dividends paid for the five year period under review total \$1.960m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		1 475	1 304	1 417	878	1 211
EBIT (\$'000s)		3 292	2 785	2 841	2 249	2 541
Operating margin	>1.0	1.25	1.20	1.21	1.13	1.18
Return on assets		5.4%	4.6%	4.7%	3.7%	4.1%
Return on equity		8.2%	3.3%	3.7%	2.2%	3.0%
Financial Management						
Debt to equity		70.1%	68.3%	63.0%	60.2%	53.2%
Debt to total assets		39.3%	39.2%	37.1%	36.1%	33.4%
Interest cover	>3	2.0	1.9	2.0	1.6	1.9
Current ratio	>1	0.67	0.90	1.21	0.98	0.93
Cost of debt	7.5%	6.8%	6.2%	6.3%	6.2%	6.2%
Debt collection	30 days	2	3	22	19	17
Creditor turnover	30 days	26	20	33	24	39
Returns to Shareholders						
Dividends paid or payable (\$'000s)		673	345	514	428	595
Dividend payout ratio	50%	24.7%	31.1%	40.0%	53.0%	51.7%
Dividend to equity ratio		2.0%	1.0%	1.5%	1.2%	1.5%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		673	345	514	428	595
Total return to equity ratio		2.0%	1.0%	1.5%	1.2%	1.5%
Other information						
Staff numbers FTEs		23	23	24	24	25
Average staff costs (\$'000s)		54	55	54	53	58

Comment

The result from operations is positive in all years. The return on equity 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 \$23.798m in 1998-99 to \$21.367m in 2002-03.

The current ratio has remained below benchmark in all the years under review, excepting the 2000-01 year. However, management is confident in being able to meet all 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 last three years under review are due to the increased debt owed by local councils.

The creditor turnover ratio has been around the benchmark for all years except 2002-03. 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.

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

In the five years under review Cradle Coast Water recorded a total operating surplus before tax \$6.373m, (after tax \$7.075m).

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

5.2 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.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Further to my Report No 2 for 2001-02 (Volume 3, page 179), the signed financial statements for 2001-02 were received by my Office on 8 November 2002. An unqualified audit report was issued on 20 December 2002.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The Authority has provided financial statements in draft form. The audit of the accounts is currently in progress.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	1 118	1 150	1 315	1 296	1 457
Total Revenue	1 118	1 150	1 315	1 296	1 457
Borrowing costs	105	73	65	66	52
Depreciation	69	74	128	87	75
Other operating expenses	704	988	984	1 145	1 232
Total Expenses	878	1 135	1 177	1 298	1 359
Result from ordinary activities	240	15	138	(2)	98
Income tax expense	0	0	25	0	1
Result after taxation	240	15	113	(2)	97

Comment

Operating revenue has increased steadily 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 1998-99 to \$0.052m in 2002-03 due to a change in the interest rate attaching to the loans provided by the member 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	284	138	127	211	0
Receivables	212	247	345	284	395
Total Current Assets	496	385	472	495	395
Property, plant & equipment	1 296	1 414	1 308	1 418	1 515
Other			1		
Total Non-Current Assets	1 296	1 414	1 309	1 418	1 515
Payables	44	96	23	169	32
Other	62	2	7	9	37
Total Current Liabilities	106	98	30	178	69
Borrowings	1 046	1 046	1 046	1 046	1 046
Other	0	0	35	32	5
Total Non-Current Liabilities	1 046	1 046	1 081	1 078	1 051
Net Assets	640	655	670	657	790
Reserves	559	677	572	682	778
Retained profits	81	(22)	98	(25)	12
Total Equity	640	655	670	657	790

Comment

The Authority's cash balance decreased by \$0.212m in 2002-03, resulting in an overdraft of \$1 000 recorded in Other current liabilities. Details of the cash movement are provided in the Cash Position section below.

Property, plant and equipment increased by \$0.970m in 2002-03 to \$1.515m. Included in this balance is Work in progress totalling \$0.091m. This balance includes initial costs relating to a Biosolids/Composting development currently receiving planning approval. It is anticipated the works will be completed at a cost of \$0.320m.

The Payables balance in 2001-02 was considerably greater than other periods under review. This was the result of two large invoices being outstanding for landfill operations and reimbursement of wages.

The balance of borrowings in the statement of financial position is comprised of the loan funds provided to the Authority by the member 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.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	1 055	1 108	1 220	1 351	1 343
Payments to suppliers and employees	(623)	(996)	(1 171)	(998)	(1 371)
Interest received	15	7	6	5	3
Borrowing costs	(105)	(73)	(65)	(66)	(52)
Cash from operations	342	46	(10)	292	(77)
Payments for P, P & Equipment	(398)	(192)	(1)	(208)	(135)
Cash used in investing activities	(398)	(192)	(1)	(208)	(135)
Net increase/(decrease) in cash	(56)	(146)	(11)	84	(212)
Cash at the beginning of the period	340	284	138	127	211
Cash at end of the period	284	138	127	211	(1)

Comment

As noted previously, the Authority's cash position has decreased by \$0.212m during 2002-03. A factor in the decrease is an increase of \$0.111m in the receivables balance. A number of cash receipts were banked in early July 2003, which has assisted the current cash position.

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 Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		240	15	138	(2)	98
EBIT (\$'000s)		345	88	203	64	150
Operating margin	>1.0	1.27	1.01	1.12	1.00	1.07
Return on assets		21.1%	4.9%	11.3%	3.5%	7.8%
Return on equity	12%	45.8%	2.3%	17.1%	-0.3%	13.4%
Financial Management						
Debt to equity		163.4%	159.7%	156.1%	159.2%	132.4%
Debt to total assets		58.4%	58.1%	58.7%	54.7%	54.8%
Interest cover	>3	3.3	1.2	3.1	1.0	2.9
Current ratio	>1	5	4	16	3	6
Cost of debt	7.5%	10.0%	7.0%	6.2%	6.3%	5.0%
Debt collection	30 days	69	78	104	80	99
Creditor turnover	30 days	15	30	9	46	9
Other information						
Staff numbers FTEs		n/a	n/a	n/a	n/a	n/a
Average staff costs (\$'000s)		n/a	n/a	n/a	n/a	n/a

Comment

The Authority has produced positive operating margins over the five-year period under review. However, the fees and charges for the use of the waste management site are not geared to generate significant profits because the member councils are major customers.

The debt to equity and asset ratios are relatively high as the Authority was established on the basis that the member 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

further decrease in the cost of debt reflects the general decrease in interest rates over the periods.

The debt collection ratio has been consistently above the benchmark of 30 days. The calculation of the ratio is affected by the timing of issuing invoices, resulting in delays in collection.

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 \$0.489m. The figures for 2002-03 are draft only as the Authority is currently finalising the financial statements for that year.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements of Esk Water Authority were received on 26 August 2003 and an unqualified audit report was issued on 11 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	7 047	7 546	8 140	8 780	9 337
Non-operating revenue	0	10	9	8	1
Total Revenue	7 047	7 556	8 149	8 788	9 338
Borrowing costs	891	851	606	552	548
Depreciation	2 054	2 081	2 106	2 194	2 201
Other operating expenses	3 278	3 399	3 448	3 482	3 659
Non-operating expenses	1 424	16	39	14	4
Total Expenses	7 647	6 347	6 199	6 242	6 412
Result from ordinary activities	(600)	1 209	1 950	2 546	2 926
Income tax expense	339	345	613	875	914
Result after taxation	(939)	864	1 337	1 671	2 012

Comment

The majority of the Authority's revenue is derived from bulk water sales to municipal, industrial and wayside consumers. During 1998-99 municipal revenue was \$5.765m and has been steadily increasing in later years to the 2002-03 level of \$7.902m. Two-part water pricing was introduced during the 2001-02 year, along with a continuing move towards more uniform pricing which is programmed to occur in the 2004-05 year.

The level of borrowings reduced from \$13.000m at 1 July 1998 to \$7.000m at 30 June 2003. During the 2002-03 year \$1.000m of borrowings was repaid and a further \$5.000m is due to be repaid during the 2003-04 year and has been transferred to a current liability. Borrowing costs have correspondingly reduced each year, with a decrease between the 1998-99 and 2002-03 financial years of \$0.343m.

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

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	4 468	2 936	2 042	3 974	6 331
Receivables	408	42	384	634	229
Inventories	74	168	180	186	200
Other	648	596	638	978	778
Total Current Assets	5 598	3 742	3 244	5 772	7 538
Property, plant & equipment	96 301	96 256	98 179	96 576	92 377
Other	562	339	376	400	448
Total Non-Current Assets	96 863	96 595	98 555	96 976	92 825
Payables	107	117	93	43	65
Borrowings	1 000	3 000	0	1 000	5 000
Provisions	436	854	1 182	1 411	364
Other	1 670	527	572	362	632
Total Current Liabilities	3 213	4 498	1 847	2 816	6 061
Borrowings	12 000	8 000	8 000	7 000	2 000
Provisions	1 614	1 779	2 546	3 498	4 537
Total Non-Current Liabilities	13 614	9 779	10 546	10 498	6 537
Net Assets	85 634	86 060	89 406	89 434	87 765
Capital	83 102	83 102	83 102	83 102	83 102
Reserves	2 532	2 688	6 034	6 062	3 302
Retained profits	0	270	270	270	1 361
Total Equity	85 634	86 060	89 406	89 434	87 765

Comment

The cash balance held at 30 June 2003 totalled \$6.331m. Borrowings of \$5.000m are due to be repaid during June 2004.

Receivables for 1999-00 are lower than usual due to the early payment of May 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 1998-99 and 1999-00 years to the later years. The inventories balance for the 1998-99 year comprises pipe and equipment and sundry spares. The 1999-00 balance includes the previously mentioned items as well as chemicals on hand. 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 three years to include water and chemicals 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 \$0.442m for 2003), 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 \$3.433m at 30 June 2003. Movement in the deferred tax liability, \$0.951m, accounts for most of the movement in this category for 2002-03. The deferred tax equivalent liabilities have been reduced by future income tax equivalent benefits attributable to tax losses.

A net decrement of \$2.760m was processed to the asset revaluation reserve during 2002-03 following a full revaluation of all assets by the Australian Valuation Office. The revaluation decrement primarily relates to the down-sizing of a major pipeline in accordance with deprival valuation methodology.

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 two years with all annual operating profits returned to shareholders as dividend payments. Due to the adoption of AASB 1044 at 1 July 2002, a provision for dividend has not been made for the final dividend payment for 2002-03. The amount of the unrecognised final dividend recommended by the Board of Esk Water Authority is \$1.115m.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 889	7 544	7 879	8 283	9 817
Payments to suppliers and employees	(3 386)	(4 648)	(3 371)	(3 855)	(3 711)
Interest received	221	230	108	136	234
Borrowing costs	(929)	(885)	(579)	(552)	(519)
Cash from operations	2 795	2 241	4 037	4 012	5 821
Payments for P, P & Equipment	(1 571)	(1 591)	(987)	(661)	(534)
Proceeds from sale of P, P & E	5	16	72	65	81
Cash used in investing activities	(1 566)	(1 575)	(915)	(596)	(453)
Repayment of borrowings	(121)	(2 000)	(3 000)	0	(1 000)
Dividends paid	(351)	(198)	(1 016)	(1 484)	(2 011)
Cash from financing activities	(472)	(2 198)	(4 016)	(1 484)	(3 011)
Net increase/(decrease) in cash	757	(1 532)	(894)	1 932	2 357
Cash at the beginning of the period	3 711	4 468	2 936	2 042	3 974
Cash at end of the period	4 468	2 936	2 042	3 974	6 331

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 3 years under review, \$5.121m. 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 2002-03 are comparable with the prior year.

Dividends paid for the 5-year period total \$5.060m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		824	1 215	1 980	2 552	2 929
EBIT (\$'000s)		1 715	2 060	2 556	3 098	3 474
Operating margin	>1.0	1.13	1.19	1.32	1.41	1.46
Return on assets		1.7%	2.0%	2.5%	3.0%	3.4%
Return on equity		0.6%	1.0%	1.5%	1.9%	2.3%
Financial Management						
Debt to equity		15.2%	12.8%	8.9%	8.9%	8.0%
Debt to total assets		12.7%	11.0%	7.9%	7.8%	7.0%
Interest cover	>3	1.9	2.4	4.2	5.6	6.3
Current ratio	>1	1.74	0.83	1.76	2.05	1.24
Cost of debt	7.5%	6.8%	7.1%	6.9%	6.9%	6.9%
Debt collection	30 days	21	2	17	26	9
Creditor turnover	30 days	24	26	22	11	15
Returns to Shareholders						
Dividends paid or payable (\$'000s)		198	594	1 337	1 683	2 012
Dividend payout ratio	50%	40.8%	68.8%	100.0%	100.7%	100.0%
Dividend to equity ratio		0.2%	0.7%	1.5%	1.9%	2.3%
Income tax paid or payable (\$'000s)		-	-	-	-	-
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		198	594	1 337	1 683	2 012
Total return to equity ratio		0.2%	0.7%	1.5%	1.9%	2.3%
Other information						
Staff numbers FTEs		26	26	27	26	26
Average staff costs (\$'000s)		49	52	53	57	59

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 2002-03 year are reduced due to the \$1.000m loan repayment during the 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

In the five years under review Esk Water Authority recorded a total operating surplus before tax \$8.031m, (after tax \$4.945m).

The 2002-03 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 Minister Assisting the Premier.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements of the Hobart Regional Water Authority were received on 16 September 2003 and an unqualified audit report was issued on 6 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	17 366	19 048	19 223	18 485	20 591
Non-operating revenue	312	220	583	384	309
Total Revenue	17 678	19 268	19 806	18 869	20 900
Borrowing costs	1 790	2 107	2 187	1 939	2 177
Depreciation	4 526	4 421	4 547	4 568	4 697
Other operating expenses	8 256	9 944	10 243	9 024	10 531
Non-operating expenses	244	39	294	65	75
Total Expenses	14 816	16 511	17 271	15 596	17 480
Result from ordinary activities	2 862	2 757	2 535	3 273	3 420
Income tax expense	(533)	944	675	892	407
Result after taxation	3 395	1 813	1 860	2 381	3 013

Comment

Bulk water sales to constituent councils represents approximately 98% of normal operating revenue for each year under review. Greater demand was experienced from 2001-02 to 2002-03 due to prolonged dry periods around the summer months.

Non-operating revenue in 2000-01 and 2002-03 excludes interest received on derivative trading undertaken as part of the Authority's debt management activity and swap gains/losses. In 2002-03 interest received from this activity amounted to \$2.291m (\$2.100m 2001-02) and swap gains in 2002-03 were \$0.401m (\$0.478m 2001-02). The net fair value of unrecognised swaps at 30 June 2003 was a net balance of \$1.327m loss (\$0.941m loss as at 30 June 2002).

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 shown in the table include the interest payment expense on loans, swap interest expense and debt management costs less swap interest revenue and any swap gains. On this basis, borrowing costs since 1999-00 have averaged \$2.1m with

substantial savings made in 2001 resulting from the outcome on derivatives.

Other operating expenditure in each year is correlated with employee costs and the level of water sales as it includes the direct costs of power and chemicals used in treatment.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	19	36	1 014	1 964	1 956
Receivables	4 113	4 581	4 644	5 670	5 199
Investments	2 250	2 200	0	0	0
Inventories	781	751	817	1 089	1 062
Total Current Assets	7 163	7 568	6 475	8 723	8 217
Property, plant & equipment	162 801	162 314	161 686	161 046	159 984
Other	1 387	1 263	1 254	1 244	1 226
Total Non-Current Assets	164 188	163 577	162 940	162 290	161 210
Payables	2 263	2 433	1 814	2 572	2 274
Borrowings	8 398	16 000	9 900	10 900	10 000
Provisions	3 013	3 569	3 894	3 445	1 339
Total Current Liabilities	13 674	22 002	15 608	16 917	13 613
Borrowings	27 000	18 298	23 298	22 298	23 198
Provisions	3 074	4 118	4 313	5 320	5 684
Total Non-Current Liabilities	30 074	22 416	27 611	27 618	28 882
Net Assets	127 603	126 727	126 196	126 478	126 932
Capital	5 974	5 974	5 974	5 974	5 974
Reserves	112 548	112 359	112 368	112 359	109 801
Retained profits	9 081	8 394	7 854	8 144	11 157
Total Equity	127 603	126 727	126 196	126 477	126 932

Comment

Cash in 2000-01 and subsequent years 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.

2002-03 Receivables comprises normal bulk water accounts to the Joint Authority members, \$4.538m, accrued interest, \$0.318m, and other receivables, \$0.097m.

The Inventories item increased in 2001-02 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 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.

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 decreased between 1998-99 and 2000-01. No reduction to debt was made in 2001-02 or 2002-03.

Non-current provisions include employee entitlements, superannuation and a provision for deferred income tax liability.

Due to changes in Australian accounting standards, no provision is included for dividends payable in relation to 2002-03 because the dividend had not been declared prior to 30 June.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	17 498	18 405	19 524	19 017	22 161
Payments to suppliers and employees	(6 941)	(9 907)	(10 633)	(10 416)	(11 980)
Interest received	122	200	556	2 578	2 906
Borrowing costs	(2 349)	(2 081)	(2 583)	(3 998)	(4 838)
Cash from operations	8 330	6 617	6 864	7 181	8 249
Payments for P, P & Equipment	(3 348)	(3 570)	(4 791)	(3 993)	(6 257)
Proceeds from sale of P, P & E	312	220	305	161	102
Cash used in investing activities	(3 036)	(3 350)	(4 486)	(3 832)	(6 155)
Proceeds from borrowings	136 492	48 977	15 000	11 900	58 300
Repayment of borrowings	(141 022)	(50 077)	(16 100)	(11 900)	(58 300)
Dividends paid	(2 000)	(2 200)	(2 500)	(2 400)	(2 100)
Cash from financing activities	(6 530)	(3 300)	(3 600)	(2 400)	(2 100)
Net increase/(decrease) in cash	(1 236)	(33)	(1 222)	949	(6)
Cash at the beginning of the period	3 505	2 269	2 236	1 014	1 963
Cash at end of the period	2 269	2 236	1 014	1 963	1 957

Comment

Movements in receipts from customers and payments to suppliers and employees are consistent with variations noted in operating revenues and expenses. The tabulated amount for payments to suppliers and employees includes the payments to the State Government for the water royalty (\$1.136m in 2002-03).

Interest received in the table, includes swap interest and has therefore increased since 2000-01 as Hobart Water expands its activities in relation to derivatives designed to minimise net borrowing costs.

Borrowing costs in the table have been similarly grossed up for interest paid on swaps. Debt was restructured in the early part of 1998-99 and as a result of this restructure, proceeds from borrowings and repayments were significantly higher during this financial year.

The increase in payments for Property, Plant & Equipment in 2002-03 is predominantly due to major infrastructure replacements and improvements such as sections of the Lake Fenton Pipeline.

Significant dividend payments have been made to member councils over the five-year period.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		2 794	2 576	2 246	2 954	3 186
EBIT (\$'000s)		4 652	4 864	4 340	5 212	5 597
Operating margin	>1.0	1.19	1.16	1.13	1.19	1.18
Return on assets		2.6%	2.8%	2.5%	3.1%	3.3%
Return on equity		2.6%	1.4%	1.5%	1.9%	2.4%
Financial Management						
Debt to equity		27.7%	27.1%	26.3%	26.2%	26.2%
Debt to total assets		20.7%	20.0%	19.6%	19.4%	19.6%
Interest cover	>3	2.6	2.3	2.0	2.5	2.6
Current ratio	>1	0.5	0.3	0.4	0.5	0.6
Cost of debt	7.5%	5.0%	6.0%	5.3%	6.6%	6.4%
Debt collection	30 days	85	86	88	98	82
Creditor turnover	30 days	20	30	22	36	31
Returns to Shareholders						
Dividends paid or payable (\$'000s)		2 200	2 500	2 400	2 100	3 000
Dividend payout ratio	50%	64.8%	137.9%	129.0%	88.2%	99.6%
Dividend to equity ratio		1.7%	2.0%	1.9%	1.7%	2.4%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		2 200	2 500	2 400	2 100	3 000
Total return to equity ratio		1.7%	2.0%	1.9%	1.7%	2.4%
Other information						
Staff numbers FTEs		57	58	62	63	65
Average staff costs (\$'000s)		49	54	56	58	56

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. These results are attributable to the member owner/member customer structure of the organisation.

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 in 2002-03 has remained fairly steady.

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 2002-03 year was completed with satisfactory results, 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.

The transactions and balances of the Authority are consolidated into the Glamorgan/Spring Bay Council's financial statements. The transactions for the prior year represent the period 3 October 2001 to 30 June 2002.

The responsible Minister is the Premier.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 28 October 2003 and an unqualified audit report was issued on 31 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue				1 204	3 329
Total Revenue				1 204	3 329
Depreciation				48	77
Other operating expenses				1 133	1 782
Non-operating expenses				3	5
Total Expenses				1 184	1 864
Result from ordinary activities				20	1 465
Income tax expense					
Result after taxation				20	1 465

Comment

The major item of revenue for the Authority is government grants, which increased from \$0.883m in the nine months to 30 June 2002 to \$2.582m for the twelve months to 30 June 2003. The increase was principally due to the receipt of \$1.302m in funding for capital works.

User charges amounted to \$0.380m in 2002-03. User charges include items such as acute fees, emergency bed day fees, rent and resident fees. Other revenue in 2002-03, \$0.346m, included \$0.230m relating to the transfer of land and buildings from the State Government in August 2002.

The major operating expense is employee costs, which totalled \$0.879m for the nine months to 30 June 2002 and \$1.345m for the twelve months to 30 June 2003.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash				36	19
Receivables				13	15
Investments				0	10
Other				3	5
Total Current Assets				52	49
Property, plant & equipment				1 577	3 752
Investments				426	147
Total Non-Current Assets				2 003	3 899
Payables				80	185
Borrowings				0	209
Provisions				56	98
Other				41	0
Total Current Liabilities				177	492
Provisions				68	63
Other				235	353
Total Non-Current Liabilities				303	416
Net Assets				1 575	3 040
Retained profits				1 575	3 040
Total Equity				1 575	3 040

Comment

The increase in Property, plant and equipment of \$2.175m is primarily due the redevelopment and extensions at the Nursing Centre, comprising Stage 1A of the new aged care facility, which was officially opened in August 2003. The Stage 1A redevelopment works amounted to \$1.778m to 30 June 2003. Other capital additions included the land and buildings transferred from the State Government, \$0.230m, work-in-progress on the construction of independent living units, \$0.061m and the purchase of land in Swansea, \$0.090m.

The decrease in the non-current investment balance of \$0.279m is due to the capital works undertaken during the year. Current borrowings of \$0.209m represent the balance of an overdraft facility.

Other liabilities totalling \$0.353m relate to the balance of accommodation bonds repayable by the Authority.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers				1 194	3 133
Payments to suppliers and employees				(1 097)	(1 720)
Interest received				1	3
Cash from operations				98	1 416
Proceeds from accommodation bonds				194	158
Payments for accommodation bonds				(43)	(41)
Proceeds from investments					278
Payments for investments				(208)	0
Payments for P, P & Equipment				(152)	(2 059)
Proceeds from sale of P, P & E				18	32
Cash used in investing activities				(191)	(1 632)
Net increase/(decrease) in cash				(93)	(216)
Cash at the beginning of the period				129	36
Cash at end of the period				36	(180)

Comment

Receipts from customers in 2002-03, \$3.133m, is mainly comprised of funding from government grants, \$2.661m. As previously mentioned, the payments for property, plant and equipment, \$2.059m, is principally due to the redevelopment and extensions undertaken at the Nursing Home.

The proceeds from accommodation bonds, \$0.158m, include three bond receipts totalling \$0.139m, together with interest and retentions totalling \$0.019m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)					23	1 470
Operating margin	>1.0				1.02	1.79
Financial Management						
Current ratio	>1				0.29	0.10
Cost of debt	7.5%				-	-
Debt collection	30 days				11	7
Creditor turnover	30 days				15	10
Other information						
Staff numbers FTEs					26	25
Average staff costs (\$'000s)					46	53

Comment

The Authority recorded a surplus from operations of \$1.470m in 2002-03 compared with a surplus of \$0.023m in the period to 30 June 2002. As previously mentioned, the increase is principally due to the receipt of funding for capital works totalling \$1.302m.

The current ratio at 30 June 2003 was 0.1, which is well below the benchmark of 1. It is noted that the Authority signed a grant deed of agreement in February 2003 with the Commonwealth Department of Health and Ageing for the provision of funding of \$0.700m towards capital works. No funds had been received prior to 30 June 2003.

The Authority's debt collection and creditor turnover ratios are both below the benchmark of 30 days.

OVERALL COMMENT

The May Shaw Nursing Centre recorded a surplus from ordinary activities for 2002-03 of \$1.465m.

I note that the Authority signed a contract to build Stage 2A of the new aged care facility in June 2003. The construction provides for six new low care beds, a palative care counselling room and three

rooms for respite care. The Authority also signed a contract in March 2003 to build three independent living units.

During June 2003, the Authority applied to create an incorporated association under the Associations Incorporation Act 1964. Incorporation was approved and the May Shaw Health Centre Incorporated was created effective 1 July 2003.

The 2002-03 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 five Directors.

The Responsible Minister is the Premier.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The financial statements of the Company, signed by two Directors, were received on 30 October 2003 and an unqualified audit report was issued on 31 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Fees and charges	215	113	169	239	211
Grants	1 325	1 398	1 565	1 749	1 936
Other operating revenue	129	218	255	182	146
Non-operating revenue	0	1	0	0	16
Total Revenue	1 669	1 730	1 989	2 170	2 309
Depreciation	24	23	23	24	74
Other operating expenses	1 679	1 613	1 931	1 991	2 290
Non-operating expenses	0	4	4	12	0
Total Expenses	1 703	1 640	1 958	2 027	2 364
Result from Ordinary Activities	(34)	90	31	143	(55)

Comment

The majority of the Company's revenue is received through government grants. In the initial years of operation 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 maintained a profit position for the 2000-01 and 2001-02 years.

In 2002-03 a loss of \$0.055m was recorded which is attributable to expenditure in the financial period relating to grant revenue received late in the 2001-02 year. The unexpended grant revenue at 30 June 2002, was recorded as revenue and resulted in the significant profit of \$0.143m.

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.

A further increase in Other operating expenses of \$0.299m was noted in 2002-03. The increase is mainly attributable to increased employee expenses \$0.175m and depreciation expenses \$0.049m. The increase in employee expenses relates to the employment of five employees to conduct Primary Care functions, which include social work, mental health care and youth work. The addition expenditure was funded by increased grants, which increased by \$0.187m.

The increase in depreciation relates to the Company changing its accounting policies and depreciating motor vehicles in 2002-03. In previous financial years, the consideration received on the sale of motor vehicles was not considered materially different from the vehicle cost.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	67	132	318	155	19
Receivables	49	28	70	27	47
Investments	5	6	16	271	343
Inventories	25	25	16	16	15
Other	40	3	23	1	0
Total Current Assets	186	194	443	470	424
Property, plant & equipment	167	150	152	144	141
Total Non-Current Assets	167	150	152	144	141
Payables	59	24	58	35	32
Borrowings	18	0	0	0	0
Provisions	46	39	84	92	132
Other	154	141	303	189	155
Total Current Liabilities	277	204	445	316	319
Borrowings	39	0	0	0	0
Provisions	29	42	20	25	50
Total Non-Current Liabilities	68	42	20	25	50
Net Assets	8	98	130	273	196
Capital	72	72	72	72	72
Retained surpluses	(64)	26	58	201	124
Total Equity	8	98	130	273	196

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 cash balance at 30 June 2003 has significantly reduced from the prior year due to a corresponding increase in investments.

The receivables balance increased by \$0.052m in 2000-01 to \$0.070M. 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 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 Department of Health and Human Services 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 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 \$0.064m in 1998-99 to a retained surplus balance of \$0.124m in 2002-03.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	293	332	378	509	337
Payments to suppliers and employees	(1 648)	(1 583)	(1 814)	(2 301)	(2 512)
Interest received	1	1	1	6	22
Borrowing costs					
Cash from operations	(1 354)	(1 250)	(1 435)	(1 786)	(2 153)
Payments for investments	(1)	0	(10)	(256)	(72)
Payments for P, P & Equipment	(18)	(60)	(63)	(58)	(100)
Proceeds from sale of P, P & E	0	56	33	30	59
Cash used in investing activities	(19)	(4)	(40)	(284)	(113)
Cash from financing activities	0	0	0	0	0
Cash Flows from Government	1 387	1 319	1 661	1 907	2 129
Net increase/(decrease) in cash	14	65	186	(163)	(137)
Cash at the beginning of the period	51	65	130	316	153
Cash at end of the period	65	130	316	153	16

Comment

Cash outflows from operations have increased by \$0.799m from 1998-99 to 2002-03. These increases have been offset by corresponding increases in cash flows from Government grants of \$0.742m over the same period.

The payments for Property, plant and equipment are mainly attributable to 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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations (\$'000s)		(34)	93	35	155	(71)
Operating margin	>1.0	0.98	1.06	1.02	1.08	0.97
Financial Management						
Current ratio	>1	0.67	0.95	1.00	1.49	1.33
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	52	31	60	23	48
Creditor turnover	30 days	26	11	21	14	11
Other information						
Staff numbers FTEs		18	19	20	23	27
Average staff costs (\$'000s)		49	48	50	51	50

Comment

The Company's operating margin has been fairly consistent with the benchmark over the five-year period under review. Additional grant funds and concessions from DHHS have assisted in the general profitability of the Company.

The current ratio improved in 2000-01, with the Company achieving the benchmark ratio. The Company maintained a level above the benchmark for the 2001-02 and 2002-03 years.

The debt collection ratio has been consistently above the benchmark balance of 30 days, except for 2001-02. 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.

Average staff costs have remained consistent over the period.

OVERALL COMMENT

The Company has made an operating profit from operations of \$0.175m for the five-year period to 2002-03. The Company is not

subject to income tax provisions and the West Coast Council is not seeking to obtain any dividend payments.

During 2002-03, the Tasmanian Government commenced a review of all state funded medical and health related organisations in the North-West and Western areas of the state. The review is currently being finalised with results expected shortly.

The Company is unsure of the possible impact of the review, but acknowledges that its continued operations are dependant upon grant funds from both the State and Federal Governments.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.