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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2003-2004

PART B - VOLUME THREE Local Government Authorities

November 2004

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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*.

RESPONSIBLE MINISTER

The responsible Minister is the Minister Assisting the Premier on Local Government.

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 my 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 (2003, 4) were audited by private sector auditors for the year ended 30 June 2004. These Councils were Brighton, Hobart City, Kingborough and Launceston City.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

In the Auditor-General's No. 2 Report of 2003, it was noted that the audits of four Local Government Authorities were outstanding at 11 November 2003.

Those audits were subsequently completed and unqualified audit reports were issued on the dates indicated:

- Derwent Valley Council 4 December 2003

- Huon Valley Council 27 November 2003
- Sorell Council 14 November 2003
- Tasman Council 3 December 2003

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

The following is a summary as at 31 October 2004 of the audit status of the financial statements for the 29 Councils for the 2003-04 year.

The following four Councils had not submitted signed financial statements by 30 September 2004:

Council	Date Received	Comments
Brighton Council	28 October 2004	Drafts received in September
Flinders Council	26 October 2004	Incomplete drafts received in September
Sorell Council	29 October 2004	Drafts received early October
Tasman Council	29 October 2004	Drafts received in September

As at 31 October the audits of four Councils were still in progress:

- Derwent Valley Council;
- Glamorgan Spring Bay Council;
- Sorell Council; and
- Derwent Valley Council.

Results of audits completed:

Audits completed and unqualified audit reports issued 25

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.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Burnie \$'000s	Clarence \$'000s	Devonport \$'000s	Glenorchy \$'000s	Hobart \$'000s	Launceston \$'000s
Rates	17 899	32 384	23 951	32 809	52 868	50 295
User charges	6 665	3 442	2 152	8 768	18 159	13 978
Grants	2 841	3 163	1 909	6 040	3 802	11 052
Other operating revenue	992	7 775	1 705	1 794	3 659	4 503
Non-operating revenue	916	567	1 681	3 254	4 754	20 181
Total Revenue	29 313	47 331	31 398	52 665	83 242	100 009
Employee costs	9 364	9 967	9 772	14 459	28 968	22 994
Borrowing costs	425	1 707	655	1 557	823	516
Depreciation	8 208	9 097	8 198	9 717	21 303	19 320
Other operating expenses	9 578	23 124	13 311	24 249	35 385	33 277
Non-operating expenses	990	1 679	410	1 031	2 603	2 209
Total Expenses	28 565	45 574	32 346	51 013	89 082	78 316
Result from Ordinary Activities	748	1 757	(948)	1 652	(5 840)	21 693

Comment

The City Councils generate the majority of their revenue from rates and user charges. There is a significantly lower reliance on grant funding in comparison to other councils although the Launceston City Council Grant revenue in 2003-04 was above average due to \$1.674m being received for the upgrade of the York Park facility and \$0.749 received for the Roads to Recovery program.

Non-operating revenue for the Launceston City Council was considerably above all other councils. The total for 2003-04 included \$18.190m of infrastructure take-up adjustments.

With the exception of Devonport and Hobart, all the councils have recorded a surplus for the year. Both Devonport and Hobart budgeted for a deficit result. Despite the operating losses, both Councils have generated positive cash flows primarily due to high depreciation charges, which were not fully funded.

FINANCIAL POSITION

	Burnie \$'000s	Clarence \$'000s	Devonport \$'000s	Glenorchy \$'000s	Hobart \$'000s	Launceston \$'000s
Cash	8	17 090	3 847	1 757	1 047	4 350
Receivables	2 221	2 743	1 310	1 689	2 982	5 171
Investments	14 111	8 026	200	5 799	14 214	22 130
Inventories	284	223	250	284	231	925
Other	59	500	175	287	254	359
Total Current Assets	16 683	28 582	5 782	9 816	18 728	32 935
Payables	1 888	4 130	1 166	4 313	3 731	2 193
Borrowings	2 374	2 994	2 143	2 375	1 939	1 824
Provisions	1 257	1 896	1 799	3 527	2 487	5 576
Other	65	0	0	223	1 149	4 622
Total Current Liabilities	5 584	9 020	5 108	10 438	9 306	14 215
Working Capital	11 099	19 562	674	(622)	9 422	18 720
Property, plant and equipment	240 551	350 635	279 288	344 449	601 566	678 595
Investments	209	28 411	15 522	40 598	40 027	64 868
Other	60	204	1 770	934	284	695
Total Non-Current Assets	240 820	379 250	296 580	385 981	641 877	744 158
Borrowings	4 004	23 946	10 377	23 349	9 690	8 311
Provisions	555	467	950	1 132	6 465	926
Other	0	0	0	0	45	1 564
Total Non-Current Liabilities	4 559	24 413	11 327	24 481	16 200	10 801
Net Assets	247 360	374 399	285 927	360 878	635 099	752 077
Reserves	28 294	113 761	117 230	60 330	311 371	125 809
Retained Surpluses/(Deficit)	218 418	260 638	168 697	300 548	323 728	626 268
Outside Equity Interests	648	0	0	0	0	0
Total Equity	247 360	374 399	285 927	360 878	635 099	752 077

Comment

With the exception of Glenorchy, all councils have a positive working capital position. Although Glenorchy are holding strong cash and investment balances, the current liabilities are unusually high because of a Council policy to accelerate the level of loan repayments and a significant increase in current provisions in the 2003-04 year of \$0.572m. This arose from the inclusion of payroll tax as an on-cost against all leave provisions for the first time, in addition to allowing for future pay increases within the leave liability calculations.

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.

The four southern councils have significant non-current investment balances, which reflect their ownership interest in Hobart Regional Water Authority (Hobart Water). In addition, Launceston records its investment in Esk Water as a non-current investment. Burnie independently owns and operates the supply of bulk water within its municipal area.

CASH POSITION

	Burnie \$'000s	Clarence \$'000s	Devonport \$'000s	Glenorchy \$'000s	Hobart \$'000s	Launceston \$'000s
Receipts from customers	26 081	36 316	29 187	43 437	77 676	72 777
Payments to suppliers and employees	(20 259)	(32 702)	(23 617)	(38 282)	(64 918)	(59 732)
Interest received	938	1 782	201	557	861	1 428
Borrowing costs	(443)	(1 707)	(736)	(1 557)	(835)	(523)
Cash from operations	6 317	3 689	5 035	4 155	12 784	13 950
Proceeds from investments	0	9 000	1 477	0	0	293
Payments for investments	(2 311)	(13 026)	0	0	0	(708)
Payments for property, plant and equipment	(7 039)	(12 916)	(5 881)	(10 060)	(14 298)	(26 162)
Proceeds from sale of property, plant and equipment	916	567	726	117	962	1 991
Proceeds from Outside Equity Interest	10	0	0	0	0	0
Cash used in investing activities	(8 424)	(16 375)	(3 678)	(9 943)	(13 336)	(24 586)
Proceeds from borrowings	0	3 000	3 170	2 190	1 100	1 942
Repayment of borrowings	(1 098)	(846)	(3 112)	(2 881)	(1 553)	(1 534)
Cash from financing activities	(1 098)	2 154	58	(691)	(453)	408
Cash flows from Government	2 841	6 752	1 909	7 674	3 582	10 948
Net increase/(decrease) in cash	(364)	(3 780)	3 324	1 195	2 577	720
Cash at the beginning of the period	372	20 870	523	6 361	12 696	25 759
Cash at end of the period	8	17 090	3 847	7 556	15 273	26 479

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 \$14.111m, \$8.026m and \$0.200m respectively that were not included in the balance of cash at year-end.

All the councils generated a cash surplus from operations. These surpluses plus Cash flows from Government allow the councils to undertake significant capital works that are reflected in the Payments for property, plant and equipment.

Clarence was the only council to significantly reduce its cash position during the period. The reduction resulted from significant Payments for property, plant and equipment, in particular \$7.664m for an effluent water treatment plant.

The councils all had solid cash positions.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
Financial Performance							
Result from operations (\$'000s)		822	2 869	(2 219)	(571)	(7 991)	3 721
Operating margin	>1.0	1.03	1.07	0.93	0.99	0.91	1.05
Financial Management							
Current ratio	>1	2.99	3.17	1.13	0.94	2.01	2.32
Cost of debt	7.5%	6.3%	6.3%	6.4%	6.2%	7.2%	5.0%
Debt service ratio		5.4%	5.5%	12.9%	9.0%	3.0%	2.6%
Debt collection	30 days	33	24	18	12	15	28
Creditor turnover	30 days	60	52	22	41	6	24
Capital Exp/Depreciation		86%	142%	72%	104%	67%	135%
Other information							
Employee costs as % of Operating Expenses		34%	23%	31%	29%	33%	30%
Staff numbers		199	224	200	286	576	495
Average staff costs (\$'000s)		47	44	53	51	54	49

Comment

As noted previously, Devonport and Hobart recorded operating deficits, which was reflected in their Operating margin ratios being below the benchmark indicating a failure to budget for all operating expenses including depreciation. Glenorchy recorded a small deficit and was only slightly below the benchmark.

With the exception of Glenorchy, all the councils had a positive current ratio. The reasons for Glenorchy's position were noted previously under the review of financial position.

The creditor turnover ratio for Burnie, Clarence and Glenorchy was above the benchmark. The high turnover related to the level of capital creditors outstanding at 30 June 2004. However, it is the policy of all of these councils to settle payments within a 30-day credit period.

Capital expenditure to depreciation indicates varying level of capital works between the councils. Both Clarence and Launceston have completed significant capital works within the financial year, resulting in their high percentages. While Burnie and Devonport ratios fluctuate from year to year, the ratio for Hobart has been consistently low for the past five years, reflecting its policy of not fully funding depreciation.

In general, employee costs as a percentage of operating expenses were within the expected ratio range. However, Clarence was significantly below the other councils primarily due to its external contracting of a number of operating activities, with the expenditure recorded as a contract payment rather than employee costs.

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 2004, Council's interest was valued at \$0.582m. As Council owns a controlling interest, BAC financial information has been consolidated into Council's financial statements. During 2003-04, Council established a 100% ownership interest in Creative Paper Mills Pty Ltd and Integrated Community Network Unit Trust, which have both been consolidated at 30 June 2004. Although, the financial impact of the consolidation of the subsidiaries on the Statement of Financial Performance and Statement of Financial Position is not considered material, the consolidated position is analysed below.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2004 and an unqualified audit report was issued on 12 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	14 762	15 653	16 632	17 251	17 899
User charges	5 083	4 575	4 875	6 085	6 665
Grants	2 660	2 584	4 508	3 272	2 841
Other operating revenue	763	776	622	765	992
Non-operating revenue	853	791	5 138	10 033	916
Total Revenue	24 121	24 379	31 775	37 406	29 313
Employee costs	8 186	9 489	8 457	8 852	9 364
Borrowing costs	336	307	317	414	425
Depreciation	7 677	7 498	7 379	7 879	8 208
Other operating expenses	8 554	8 380	8 500	10 129	9 578
Non-operating expenses	2 057	1 623	833	1 357	990
Total Expenses	26 810	27 297	25 486	28 631	28 565
Result from Ordinary Activities	(2 689)	(2 918)	6 289	8 775	748

Comment

Revenue from Rates increased steadily during the period under review, resulting in a \$3.137m increase over the five-year period. User charges increased in 2002-03 as a result of the recognition of the first full year's income from the Burnie Airport, totalling \$1.012m. In 2001-02, the Council recorded revenue from the Burnie Airport from February 2002 of \$0.323m.

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.

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 was 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.

Non-operating revenue in 2002-03 of \$10.033m represented additional asset infrastructure adjustments. Council continued its asset review using GIS technology and identified an additional \$7.908m in drainage assets. In addition, Council adopted a policy of recognising 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.

Employee costs increased by \$1.303m in 2000-01 as a result of a significant redundancy program. During 2003-04, employee costs increased by \$0.512m due to a minor increase in staff numbers, several termination payments and general increases in pay.

Other operating expenses increased by \$1.629m in 2002-03 due to an increase of \$0.710m in expenditure relating to the operations of the Burnie Airport and an increase in Council's materials and contract expenditure.

Over the initial two years under review, Council returned an overall negative result from Ordinary Activities totalling \$5.607m, or an average annual deficit of \$2.803m. 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

previously. For the 2003-04 financial year, Council recorded a surplus of \$0.748m without any asset recognition adjustments.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	173	65	191	372	8
Receivables	2 336	1 802	2 075	2 181	2 221
Investments	7 414	5 365	8 100	11 800	14 111
Inventories	401	318	301	327	284
Other	62	29	93	48	59
Total Current Assets	10 386	7 579	10 760	14 728	16 683
Payables	1 805	1 240	1 784	2 037	1 888
Borrowings	757	796	958	877	2 374
Provisions	1 361	1 167	1 247	1 316	1 257
Other	14	105	21	48	65
Total Current Liabilities	3 937	3 308	4 010	4 278	5 584
Working Capital	6 449	4 271	6 750	10 450	11 099
Property, plant and equipment	227 156	225 331	232 099	239 241	240 551
Investments	473	701	708	401	209
Other	0	0	137	107	60
Total Non-Current Assets	227 629	226 032	232 944	239 749	240 820
Borrowings	4 202	3 412	5 977	6 600	4 004
Provisions	356	290	338	523	555
Total Non-Current Liabilities	4 558	3 702	6 315	7 123	4 559
Net Assets	229 520	226 601	233 379	243 076	247 360
Reserves	31 350	29 280	23 915	24 912	28 294
Retained surpluses	198 170	197 321	208 982	217 622	218 418
Outside Equity Interests	0	0	482	542	648
Total Equity	229 520	226 601	233 379	243 076	247 360

Comment

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 and \$2.311m in 2003-04 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 Payables balance fluctuated over the five-year period, with increased balances reflecting material creditor balances relating to capital expenditure at year-end.

In 2001-02 the consolidated borrowings balance increased by \$2.727m to \$6.935m, 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. The increase of

\$1.497m in the 2003-04 current borrowings balance reflected the proposed repayment of the total loan debt of the BAC, totalling \$1.750m.

The balance of Property, plant and equipment 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 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 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 permitted 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.

Council's Reserves decreased by \$5.365m in 2001-02 as a result of Council transferring the general reserve balance to retained surpluses. The \$3.382m increase in the asset revaluation reserve in 2003-04 was due to an independent revaluation of land and buildings at the Burnie Airport.

The balance of Outside Equity Interests reflects the 49% ownership interest not held by the Council in the BAC.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	18 544	21 478	22 381	24 934	26 081
Payments to suppliers and employees	(15 977)	(19 549)	(17 520)	(19 894)	(20 259)
Interest received	678	899	608	752	938
Borrowing costs	(358)	(314)	(354)	(416)	(443)
Cash from operations	2 887	2 514	5 115	5 376	6 317
Proceeds from investments	1 836	2 049	0	0	0
Payments for investments	0	0	(2 735)	(3 700)	(2 311)
Payments for property, plant and equipment	(7 044)	(7 199)	(10 468)	(5 841)	(7 039)
Proceeds from sale of property, plant and equipment	563	695	489	532	916
Proceeds from Outside Equity Interest	0	0	490	0	10
Cash used in investing activities	(4 645)	(4 455)	(12 224)	(9 009)	(8 424)
Proceeds from borrowings	0	0	3 523	1 500	0
Repayment of borrowings	(772)	(750)	(796)	(958)	(1 098)
Cash from financing activities	(772)	(750)	2 727	542	(1 098)
Cash flows from Government	2 660	2 584	4 508	3 272	2 841
Net increase/(decrease) in cash	130	(107)	126	181	(364)
Cash at the beginning of the period	42	172	65	191	372
Cash at the end of the period	172	65	191	372	8

Comment

Cash at the end of 2003-04 equalled \$0.008m, however Council also holds current investments of \$14.111m.

The general increase in Receipts from customers over the five-year period was primarily due to increased receipts from user fees and charges, increases in general rate receipts due to increased rate charges, and the impact of GST receipts from customers. In addition, 2002-03 and 2003-04 included receipts from the operations of the Burnie Airport.

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.

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

As noted previously, Council borrowed \$3.523m during 2001-02, \$1.500m of which was to fund internal capital works and \$2.023m was consolidated as part of BAC's financial activities. Council borrowed a further \$1.500m in 2002-03 to fund internal capital works, in particular, the Roundhill Sewerage Treatment Plant project.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(1 485)	(2 086)	1 984	99	822
Operating margin	>1.0	0.94	0.92	1.08	1.00	1.03
Financial Management						
Current ratio	>1	2.64	2.29	2.68	3.44	2.99
Cost of debt	7.5%	6.8%	7.3%	6.8%	6.3%	6.3%
Debt service ratio		4.9%	4.5%	4.3%	5.0%	5.4%
Debt collection	30 days	38	29	32	34	33
Creditor turnover	30 days	42	27	43	55	60
Capital Exp/Depreciation		92%	96%	142%	74%	86%
Other information						
Employee costs as % of operating expenses		33%	37%	34%	32%	34%
Staff numbers FTEs		201	193	186	193	199
Average staff costs (\$'000s)		41	49	45	46	47

Comment

Over the five-year period under review, Council recorded a deficit from operation of \$0.666m. However, the financial performance ratios show that Council recorded an operating surplus in the past three financial years.

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

The Cost of debt ratio reflected the current market rates and was considered to be appropriate. The Debt service ratio indicated Council has no difficulty in servicing current debt levels.

The Debt collection ratio was consistent with the benchmark in all periods except 1999-00. In 1999-00, the ratio was distorted by the timing for one large receivable 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.

Council continues to fund a reasonable level of capital expenditure on asset replacement.

Employee costs as a percentage of operating expenses and average staff costs have been fairly consistent over the five-year period under review. The peak of 37% and \$0.049m in 2000-01 was the result of \$1.738m paid for a number of redundancies.

OVERALL COMMENT

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2004, with amended statements received on 28 October 2004. An unqualified audit report was issued on 29 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	25 995	26 968	29 009	30 633	32 384
User Charges	2 842	2 881	2 705	2 873	3 442
Grants	1 818	1 948	2 395	9 669	3 163
Other operating revenue	3 966	4 000	4 582	4 683	7 775
Non-operating revenue	657	1 183	6 202	9 849	567
Total Revenue	35 278	36 980	44 893	57 707	47 331
Employee costs	7 529	8 178	8 649	8 960	9 967
Borrowing costs	1 393	1 758	1 460	1 177	1 707
Depreciation	6 631	7 653	11 658	8 840	9 097
Other operating expenses	19 776	19 383	19 964	22 351	23 124
Non-operating expenses	933	115	0	1 430	1 679
Total Expenses	36 262	37 087	41 731	42 758	45 574
Result from Ordinary Activities	(984)	(107)	3 162	14 949	1 757

Comment

Grant revenue in 2002-03 increased by \$7.274m due principally to the receipt of \$7.025m from the Federal Government for the Effluent Re-Use Scheme.

The increase in Other operating revenue in 2003-04, \$3.092m consisted mainly of an increase of \$0.966m for interest revenue and the recognition of an increase of \$1.907m in Council's equity interest in Hobart Water.

The significant increase in Non-operating revenue for 2001-02 was the contribution of \$5.000m for the first stage of the redevelopment at Bellerive Oval. Contributions continued in 2002-03, with a further \$7.800m being recognised. Non-operating revenue in 2002-03 also included \$1.134m for the contribution of subdivision road assets.

Depreciation expense in 2001-02 increased significantly due to the revaluation of road base and seal assets as at 1 July 2001. Depreciation in 2002-03 reduced to \$8.840m after reconsideration of the road asset component useful lives. Although there were no major revaluations of depreciable assets in 2003-04, the current replacement value for most categories of assets was increased by a relevant construction index, resulting in a further increase of \$0.257m in the depreciation charge.

Non-operating expenses represents the carrying amount of assets disposed of each year.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	15 790	14 587	18 275	20 870	17 090
Receivables	2 413	3 130	3 148	3 156	2 743
Investments	2 000	2 000	2 000	4 000	8 026
Inventories	131	153	176	210	223
Other	74	115	767	659	500
Total Current Assets	20 408	19 985	24 366	28 895	28 582
Payables	2 984	2 927	3 022	4 293	4 130
Borrowings	17 347	16 445	16 988	847	2 994
Provisions	1 293	1 294	1 555	1 831	1 896
Total Current Liabilities	21 624	20 666	21 565	6 971	9 020
Working Capital	(1 216)	(681)	2 801	21 924	19 562
Property, plant and equipment	260 735	257 301	304 164	311 004	350 635
Investments	25 954	25 954	25 954	26 376	28 411
Other	433	382	307	243	204
Total Non-Current Assets	287 122	283 637	330 425	337 623	379 250
Borrowings	15 387	15 021	13 353	23 939	23 946
Provisions	337	447	258	457	467
Total Non-Current Liabilities	15 724	15 468	13 611	24 396	24 413
Net Assets	270 182	267 488	319 615	335 151	374 399
Reserves	23 784	22 521	71 906	81 453	113 761
Retained surpluses	246 398	244 967	247 709	253 698	260 638
Total Equity	270 182	267 488	319 615	335 151	374 399

Comment

Although Council's cash levels and current borrowings appear high, the amount in the first three years of analysis was inflated due to overnight

loans being taken out near the end of each financial year. This transaction distorted Council's net working capital position.

From 2002-03 Council no longer required this arrangement, with funds now managed through a long-term borrowing arrangement with an associated interest offset facility. Net working capital exceeded \$20.000m in 2002-03, resulting in a healthy financial position.

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 accounted for the increase in reserves to \$71.906m. The increase in reserves in 2002-03 was due to grants received set aside to fund the Effluent Re-Use Scheme previously mentioned.

The increase in Property, plant and equipment in 2003-04 of \$39.631m was principally due to a net upward revaluation of land and buildings and indexation of roads and other infrastructure asset values based on current construction indices. This revaluation was also the principal reason for the increase in reserves.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	29 164	31 280	32 327	34 246	36 316
Payments to suppliers and employees	(26 681)	(28 570)	(29 071)	(29 429)	(32 702)
Interest received	515	541	539	754	1 782
Borrowing costs	(1 517)	(1 812)	(1 499)	(1 222)	(1 707)
Cash from operations	1 481	1 439	2 296	4 349	3 689
Proceeds from investments	176	1 000	1 000	2 000	9 000
Payments for investments	0	(1 000)	(1 000)	(4 000)	(13 026)
Payments for property, plant and equipment	(5 935)	(6 023)	(4 556)	(7 857)	(12 916)
Proceeds from sale of property, plant and equipment	343	8	0	490	567
Cash used in investing activities	(5 416)	(6 015)	(4 556)	(9 367)	(16 375)
Proceeds from borrowings	16 388	15 694	16 294	12 000	3 000
Repayment of borrowings	(15 438)	(16 962)	(16 428)	(17 555)	(846)
Cash from financing activities	950	(1 268)	(134)	(5 555)	2 154
Cash Flows from Government	4 739	5 117	6 082	13 168	6 752
Net increase/(decrease) in cash	1 754	(727)	3 688	2 595	(3 780)
Cash at the beginning of the period	13 560	15 314	14 587	18 275	20 870
Cash at end of the period	15 314	14 587	18 275	20 870	17 090

Comment

The net increase in cash during 2001-02 was 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 2002-03 net cash rose due to the large grant receipt from the Federal Government whilst it decreased in the current

year as an offset of that receipt and as noted below due to expenditure of the grant on sewerage infrastructure assets.

Expenditure on Council's assets in the past four years 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. In the current year expenditure of \$12.916m, which principally comprised \$7.664m for the effluent water treatment plant, exceeded depreciation of \$9.097m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(708)	(1 175)	(3 040)	6 530	2 869
Operating margin	>1.0	0.98	0.97	0.93	1.16	1.07
Financial Management						
Current ratio	>1	0.94	0.97	1.13	4.15	3.17
Cost of debt	7.5%	4.3%	5.6%	4.8%	4.7%	6.3%
Debt service ratio		49.0%	52.4%	46.3%	39.2%	5.5%
Debt collection	30 days	27	34	32	31	24
Creditor turnover	30 days	34	38	30	58	52
Capital Exp/Depreciation	100%	90%	79%	39%	89%	142%
Other information						
Employee costs as a % of operating expenses		21%	22%	21%	22%	23%
Staff numbers FTEs		214	207	210	225	224
Average staff costs (\$'000s)		35	40	41	40	44

Comment

Although Council incurred a loss from operations for the first three years of analysis, its results are close to the Operating margin benchmark. The losses incurred in 2000-01 and 2001-02 differ from the result from ordinary activities due to 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 whilst 2002-03 included a further contribution of \$7.800m for continued oval redevelopment and \$1.559m for road redevelopment. There were no such contributions received in the current year.

A net surplus of \$4.476m from operations was earned over the five-year period, averaging \$0.895m per annum. This result was particularly influenced by the receipt in 2002-03 of \$7.250m of Federal Government funding for the Effluent Re-Use Scheme, without which there would have been a loss on operations in that year of \$0.720m. These results arose primarily from Council not budgeting annually to cover operating

expenses, including all depreciation. However, depreciation charges over this five-year period totalled \$43.879m, indicating that Council did rate for most of the depreciation expense. Council is committed to moving progressively towards full funding of its depreciation charge.

The Current ratio increased well above the benchmark from 2002-03 onwards due to cessation of the practice of taking out overnight loans at or near to financial year-end. This also resulted in the re-allocation of borrowings to non-current, to more accurately reflect Council's debt position.

The Debt service ratio, which was based upon borrowings cash flows in comparison to revenue, was inflated in the first four years due to Council's practice of overnight borrowings at year-end as mentioned earlier. These borrowings were then repaid on the following day and inflated the debt service ratio in those years. The practice was discontinued in 2003-04 and only \$0.846m was repaid against outstanding principal resulting in a Debt service ratio of 5.5%.

Capital expenditure in comparison to depreciation was below the benchmark in the first four years of the analysis, as noted earlier in this chapter. Capital expenditure in 2003-04 was \$12.916m, which resulted in the positive result for that period. The 2001-02 percentage was lower due to road revaluations that commenced during that year.

OVERALL COMMENT

The 2003-04 audit was completed with satisfactory results.

1.3 DEVONPORT CITY COUNCIL

INTRODUCTION

The Devonport City Council originated 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2004 and an unqualified audit report was issued on 27 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates and utility charges	20 946	21 715	21 641	22 542	23 951
User charges	1 448	1 394	1 615	1 860	2 152
Grants	1 890	2 787	2 615	1 944	1 909
Other operating revenue	1 380	1 618	1 761	1 929	1 705
Non-operating revenue	13 701	887	703	1 346	1 681
Total Revenue	39 365	28 401	28 335	29 621	31 398
Employee costs	7 069	7 640	8 043	9 132	9 772
Borrowing costs	1 170	1 173	1 028	897	655
Depreciation	6 210	6 377	7 529	7 763	8 198
Other operating expenses	10 063	11 221	11 758	12 360	13 311
Non-operating expenses	533	759	274	811	410
Total Expenses	25 045	27 170	28 632	30 963	32 346
Result from Ordinary Activities	14 320	1 231	(297)	(1 342)	(948)

Comment

Revenue from Rates and user charges increased steadily during the period under review, resulting in a \$3.005m increase over the five-year period. User charges were stable over the period under review, however, in 2003-04, rent from Council-owned properties increased. In particular, Council received a full year's rent for the Coles building in Best Street.

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. In 2001-02 Grants included subsidies totalling \$0.415m to eliminate *Public Bodies Assistance Act 1971* loans held by Council, which were fully subsidised by the State Government.

Non-operating revenue in 1999-00, \$13.701m, included \$12.834m relating to the recognition of the Council's interest in Cradle Coast Water. In 2002-03 Non-operating revenue increased by \$0.643m primarily as a result of the recognition of non-monetary assets provided to Council, totalling \$1.088m (\$0.425m, 2001-02). These assets represent subdivision projects completed, with ownership of the infrastructure assets transferring to Council. In 2003-04, Council recognised \$1.384m in completed subdivision projects.

Employee costs increased by \$1.089m in 2002-03 and was mainly attributable 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.

The increase in depreciation expense from 2000-01 to 2001-02, \$1.152m was mainly attributable to the capitalisation of a number of assets, including the Pardoe Treatment Plant and the Mersey Tunnel.

Non-operating expenses increased by \$0.537m to \$0.811m in 2002-03 due to the loss on disposal of assets. The loss was primarily attributable to the replacement of infrastructure assets with the assets replaced disposed of for proceeds less than their carrying values.

Council incurred deficits in each of the last three financial years caused by revenue increases (16% increase in total revenues before non-operating revenues over the four years since 30 June 2000) not keeping pace with increases in costs (30% increase in total expenses before non-operating expenses over the four years since 30 June 2000). Council has recognised this situation, which was addressed in its 2003-04 annual report.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	4 034	3 411	2 783	523	3 847
Receivables	1 855	2 187	1 891	1 677	1 310
Investments	0	500	0	1 500	200
Inventories	260	266	295	278	250
Other	1 675	1 778	1 822	1 815	175
Total Current Assets	7 824	8 142	6 791	5 793	5 782
Payables	1 126	1 122	1 230	1 183	1 166
Borrowings	1 998	2 383	1 583	3 139	2 143
Provisions	1 020	1 164	1 223	1 498	1 799
Other	1 507	1 658	1 557	1 665	0
Total Current Liabilities	5 651	6 327	5 593	7 485	5 108
Working Capital	2 173	1 815	1 198	(1 692)	674
Property, plant & equipment	246 349	265 641	269 595	276 145	279 288
Investments	14 857	14 565	14 745	14 330	15 522
Other	1 585	1 447	1 230	1 821	1 770
Total Non-Current Assets	262 791	281 653	285 570	292 296	296 580
Borrowings	12 745	11 783	10 608	9 325	10 377
Provisions	536	534	539	765	950
Total Non-Current Liabilities	13 281	12 317	11 147	10 090	11 327
Net Assets	251 683	271 151	275 621	280 514	285 927
Reserves	251 683	271 151	275 621	282 725	117 230
Retained surpluses/(deficits)	0	0	0	(2 211)	168 697
Total Equity	251 683	271 151	275 621	280 514	285 927

Comment

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

During 2003-04 Council reviewed its accounting policies and determined that it was no longer appropriate to recognise agreements equally proportionally unperformed. As a result Other current assets and Other current liabilities decreased significantly in 2003-04 due to Council no longer recording an asset and a corresponding liability for purchase commitments for material supplies and equipment.

Property, plant and equipment increased from \$246.349m in 1999-00 to \$279.288m in 2003-04 due mainly to asset revaluation increments. Council revalues the majority of its Property, plant and equipment on an annual basis.

Council considers good stewardship of its resources would be reflected in a nil balance of the accumulated surplus account and it achieved this result in the first three-years under review. However, in 2002-03 an accumulated deficit of \$2.211m existed which was mainly attributable to the deficit from ordinary activities, \$1.342m and an adjustment directly to equity, \$0.278m for the impact of the revised Australian Accounting Standard AASB 1028 "Employee Benefits".

In 2003-04, Council reviewed its retained earnings and reserve allocations and amended its disclosure to no longer record a capital reserve. The capital reserve was transferred back to retained surpluses/(deficits), to reflect Council's equity from the implementation of accrual accounting in 1994 and subsequent operating results. The total equity position increased by \$5.413m from \$280.514m to \$285.927m primarily due to an upward revaluation of assets offset by the deficit for the year.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	23 356	24 332	26 019	27 501	29 187
Payments to suppliers and employees	(16 842)	(19 011)	(20 803)	(22 371)	(23 617)
Interest received	414	492	395	328	201
Borrowing costs	(1 185)	(1 201)	(1 088)	(901)	(736)
Cash from operations	5 743	4 612	4 523	4 557	5 035
Proceeds from investments	0	0	496	0	1 477
Payments for investments	(164)	(146)	0	(857)	0
Payments for property, plant and equipment	(10 004)	(7 637)	(6 731)	(8 861)	(5 881)
Proceeds from sale of property, plant and equipment	1 689	338	444	684	726
Cash used in investing activities	(8 479)	(7 445)	(5 791)	(9 034)	(3 678)
Proceeds from borrowings	1 575	1 418	750	1 800	3 170
Repayment of borrowings	(2 023)	(1 778)	(2 725)	(1 527)	(3 112)
Cash from financing activities	(448)	(360)	(1 975)	273	58
Cash Flows from Government	1 890	2 787	2 615	1 944	1 909
Net increase/(decrease) in cash	(1 294)	(406)	(628)	(2 260)	3 324
Cash at the beginning of the period	5 111	3 817	3 411	2 783	523
Cash at the end of the period	3 817	3 411	2 783	523	3 847

Comment

Over the five years under review, Council consistently recorded strong cash flows from operations and from the Government. The positive cash flows financed significant capital expenditure over the five-year period and a reduction of loan debt between 1999-00 and 2001-02.

In 2002-03, Council's cash position decreased by \$2.260m due to funding general infrastructure works and expending \$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.

In 2003-04, Council improved its cash position by \$3.324m primarily as a result of lower investment in Property, plant and equipment and strong cash flows from operations.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		1 152	1 103	(726)	(1 877)	(2 219)
Operating margin	>1.0	1.05	1.04	0.97	0.94	0.93
Financial Management						
Current ratio	>1	1.38	1.29	1.21	0.77	1.13
Cost of debt	7.5%	7.9%	8.3%	7.8%	7.5%	6.4%
Debt service ratio		12.5%	10.8%	13.8%	8.6%	12.9%
Debt collection	30 days	30	35	30	25	18
Creditor turnover	30 days	20	22	24	20	22
Capital Exp/Depreciation		161%	120%	89%	114%	72%
Other information						
Employee costs as % of operating expenses		29%	29%	28%	30%	31%
Staff numbers FTEs		154	170	170	185	200
Average staff costs (\$'000s)		46	45	47	54	53

Comment

The financial performance ratios show that Council recorded operating surpluses in the first two years under review. However, in the period 2001-02 to 2003-04, Council recorded operating deficits. The total deficit for the five-year period under review amounted to \$2.567m.

Council's Current ratio was consistently above the benchmark in the five-year period and indicates that it was able to meet all short-term liabilities. The current ratio for 2002-03 was well below the benchmark due to the significant decrease in Council's cash position caused by high capital expenditure in that year.

The Cost of debt remained fairly consistent during the first four years under review. The decrease in the rate from 7.5% in 2002-03 to 6.4% in 2003-04 was attributable to Council repaying \$1.500m in sinking fund loans, which had interest rates above 15% and borrowing new funds at 6.04%.

The Debt collection and Creditor turnover ratios were consistently within the benchmark of 30 days.

The Capital expenditure/depreciation ratio indicates that Council invested sufficiently in capital expenditure, to ensure reasonable maintenance of its asset base relative to depreciation charges.

Employee costs as a percentage of operating expenses was consistent over the five-year period under review. This was supported by the average staff costs, which were stable over the initial three years under review. Average staff costs in 2002-03 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 deficit from operations (excluding non-operating items) amounting to \$2.567m, and its net assets increased by 13.6% to \$285.927m. This suggests that the Council was in a reasonably sound financial position, however it should address continuing operating deficits.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 20 September 2004 and an unqualified audit report was issued on 27 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	27 449	28 886	30 292	31 302	32 809
User Charges	5 973	7 014	7 105	7 843	8 768
Grants	4 444	4 297	5 617	5 814	6 040
Other operating revenue	1 837	1 994	2 110	1 958	1 794
Non-operating revenue	1 108	36 272	32 054	35 550	3 254
Total Revenue	40 811	78 463	77 178	82 467	52 665
Employee costs	12 248	12 589	12 331	13 618	14 459
Borrowing costs	1 940	1 854	1 798	1 743	1 557
Depreciation	6 801	8 250	8 989	9 599	9 717
Other operating expenses	24 304	22 103	23 599	25 589	24 249
Non-operating expenses	1 302	681	1 666	10 440	1 031
Total Expenses	46 595	45 477	48 383	60 989	51 013
Result from Ordinary Activities	(5 784)	32 986	28 795	21 478	1 652

Comment

Revenue from rates gradually increased from \$27.449m in 1999-00 to \$32.809m in 2003-04, representing an average increase of \$1.340m per annum. This increase equated to approximately 4.42%, which was consistent with the level of increases in the general rate over that period.

User charges increased by \$1.041m in 2000-01 due to small increases in a number of areas, which included \$0.441m in parent fees and childcare income, \$0.150m in tip site and landfill contribution revenue, \$0.137 in

kerbside recycling and \$0.136m in garbage collection and disposal. In 2003-04, User charges again rose significantly, to a total of \$8.768m. This increase was again due to small increases in most areas, but includes an additional \$0.226m being received in tip site and landfill contribution revenue, an increase of \$0.208m in excess water charges and an additional \$0.148m received from kerbside recycling.

Non-operating revenue in recent years mainly comprised revenue arising from the identification of infrastructure assets owned by the Council that had not been previously recorded. These amounts included:

- \$35.883m for roads and water assets in 2000-01;
- \$31.533m for sewerage infrastructure, land and buildings assets in 2001-02;
- \$35.040m for roads and stormwater assets in 2002-03; and
- \$1.224m for stormwater and drainage and land improvement assets in 2003-04.

The remainder of the items in each of the years generally reflected the value of sub-division infrastructure assets taken over by Council and the proceeds from asset disposals. The 2003-04 balance also included \$1.070m for part of the revaluation of the investment in Hobart Water. This item was recorded as revenue as it reversed a previous valuation decrement recorded as an expense in 2001-02.

Employee expenses increased from \$12.331m in 2001-02 to \$13.618m in 2002-03 due to an increase in full time equivalent staff of 40 people in the 2001-02 financial year. The full effect of this increase was recorded in the following year's expenditure.

Depreciation expenses increased by \$2.798m between 1999-00 and 2002-03 due principally to the recognition of infrastructure assets not previously brought to account as noted above.

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 some 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 reflected the value of accumulated depreciation that should have been included.

Between 1999-00 and 2002-03, operating expenses exceeded operating revenues by a total of \$13.420m, representing an average annual operating deficit of \$3.355m. This resulted 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 \$33.693m, an average of \$8.423m per annum. However, there was a significant improvement in the 2003-04 financial year, when operating expenses exceeded operating revenues by only \$0.571m. The major factor in this improvement was a decrease in maintenance expenditure, which decreased from \$6.595m to \$5.072m, a reduction of \$1.523m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	303	511	591	1 213	1 757
Receivables	2 693	2 348	2 190	1 819	1 689
Investments	2 076	2 243	5 558	5 147	5 799
Inventories	284	285	287	294	284
Other	392	586	508	421	287
Total Current Assets	5 748	5 973	9 134	8 894	9 816
Payables	2 705	3 101	3 291	3 233	4 313
Borrowings	1 543	1 850	2 065	2 879	2 375
Provisions	2 487	2 258	2 469	2 955	3 527
Other	323	257	109	120	223
Total Current Liabilities	7 058	7 466	7 934	9 187	10 438
Working Capital	(1 310)	(1 493)	1 200	(293)	(622)
Property, plant and equipment	226 489	267 218	306 709	342 752	344 449
Investments	39 556	39 231	38 160	38 160	40 598
Other	585	1 183	1 927	2 087	934
Total Non-Current Assets	266 630	307 632	346 796	382 999	385 981
Borrowings	25 043	24 692	24 606	23 726	23 349
Provisions	714	695	883	1 122	1 132
Total Non-Current Liabilities	25 757	25 387	25 489	24 848	24 481
Net Assets	239 563	280 752	322 507	357 858	360 878
Reserves	24 008	30 054	43 497	57 589	60 330
Retained surpluses	215 555	250 698	279 010	300 269	300 548
Total Equity	239 563	280 752	322 507	357 858	360 878

Comment

Receivables decreased from \$2.693m in 1999-00 to \$1.689m in 2003-04, which represented a reduction of \$0.251m per annum. This resulted from the Council improving its monitoring and follow-up procedures for all debtors, but especially with rates debtors, where the majority of the decrease occurred.

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 investment that year.

Payables increased by \$1.080m in the 2003-04 year, due to increased year-end capital works creditors.

There was also a significant increase in current Provisions in the 2003-04 year of \$0.572m. This arose from the inclusion of payroll tax as an on-

cost against all leave provisions for the first time, in addition to allowing for future pay increases within the leave liability calculations.

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

The non-current Investment represented Council's investment in Hobart Water. The value of this investment increased to \$40.598m in 2003-04 due to a revaluation. Part of this revaluation was recognised as revenue, as it reversed a previous revaluation decrement, while the remainder was recorded as an increase to the asset revaluation reserve.

The level of borrowings, \$25.724m, remained the highest of any local government authority, however total borrowings decreased by \$0.862m during the period under review.

Total equity increased over the five-year period by \$121.315m due principally to the recognition of additional assets, \$103.680m referred to earlier, and increases in the asset revaluation reserves on revaluing assets, \$36.478m, offset by the excess of expenses over revenues for the 5-year period, \$18.843m.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	35 563	38 095	39 486	41 304	43 437
Payments to suppliers and employees	(36 695)	(35 477)	(36 348)	(40 273)	(38 282)
Interest received	331	367	379	488	557
Borrowing costs	(1 810)	(1 854)	(1 798)	(1 743)	(1 557)
Cash from operations	(2 611)	1 131	1 719	(224)	4 155
Payments for property, plant and equipment	(2 681)	(6 191)	(5 439)	(7 118)	(10 060)
Proceeds from sale of property, plant and equipment	612	142	104	201	117
Cash used in investing activities	(2 069)	(6 049)	(5 335)	(6 917)	(9 943)
Proceeds from borrowings	1 534	1 594	2 042	2 037	2 190
Repayment of borrowings	(1 377)	(1 603)	(1 871)	(2 066)	(2 881)
Cash from financing activities	157	(9)	171	(29)	(691)
Cash Flows from Government	4 444	5 302	6 840	7 382	7 674
Net increase/(decrease) in cash	(79)	375	3 395	212	1 195
Cash at the beginning of the period	2 458	2 379	2 754	6 149	6 361
Cash at end of the period	2 379	2 754	6 149	6 361	7 556

Comment

The significant increase in Net cash noted at the end of 2001-02 was partly due to the large amounts of grants 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.

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. Similarly, in 2003-04, the Council moved away from a standard costing methodology for capital works, to capitalising the total of the actual expenditure incurred. As a result, capital expenditure increased by \$2.942m to \$10.060m and this also partly explains the decrease in payments to suppliers and employees of \$1.991m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(5 590)	(2 605)	(1 593)	(3 632)	(571)
Operating margin	>1.0	0.88	0.94	0.97	0.93	0.99
Financial Management						
Current ratio	>1	0.81	0.80	1.15	0.97	0.94
Cost of debt	7.5%	7.3%	7.0%	6.7%	6.7%	6.2%
Debt Service Ratio		8.0%	8.2%	8.1%	8.1%	9.0%
Debt collection	30 days	29	21	19	17	12
Creditor turnover	30 days	13	38	37	40	41
Capital Exp/Depreciation		39%	75%	61%	74%	104%
Other information						
Employee Costs as % of Operating Expenses		27%	28%	26%	27%	29%
Staff numbers FTEs		250	257	297	283	286
Average staff costs (\$'000s)		49	49	42	48	51

Comment

Over the five-year period, Council consistently failed to cover operating expenses from operating revenues, returning an accumulated deficit for the period of \$13.991m or an annual average deficit of \$2.798m. However, it should be noted that the Council made significant improvements in the current year, with the deficit from operations amounting to only \$0.571m. This result brought the annual average deficit down from \$4.048m as noted in our Report from last year. Whilst this result is encouraging, it must be tempered by the change in accounting procedures regarding the capitalisation of expenditure.

Over that same period, current liabilities 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 influenced that year's result. Although high cash holdings were also held

at the end of 2002-03 and 2003-04, there were excesses of current liabilities over current assets in each of these years because of unusually high proportions 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 *Public Bodies Assistance Act 1971* loans in 2003-04.

The low level of Creditor turnover in 1999-00 was due to a conscious effort by Council to pay creditors at year-end. As this was no longer deemed as a priority, the levels of creditor turnover have risen above the benchmark level. It should be noted 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.

As noted previously within this analysis, Council increased the level of capital expenditure in 2003-04. This increase meant that for the first time within this period of analysis, capital expenditure exceeded depreciation expense. This was aided by the change in accounting procedures to capitalise, correctly, relevant expenses referred to previously.

OVERALL COMMENT

The average annual deficit over the five years is \$2.798m, significantly influenced by the large deficits in 1999-00 and 2002-03. The improved result in 2003-04 clearly indicates however, that Council is headed in the right direction.

The 2003-04 audit was completed satisfactorily, with no major issues outstanding.

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 2003-04 FINANCIAL STATEMENTS

Financial statements were signed by the General Manager on 21 September 2004 and an unqualified audit report was issued on 28 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	59 658	60 934	63 366	66 667	71 027
Grants	2 785	3 091	3 837	4 207	3 802
Other operating revenue	2 976	3 870	3 577	3 580	3 659
Non-operating revenue	1 727	935	5 604	7 745	4 754
Total Revenue	67 146	68 830	76 384	82 199	83 242
Employee costs	23 645	24 152	26 280	27 481	28 968
Borrowing costs	1 118	909	869	845	823
Depreciation	21 821	19 135	20 152	21 866	21 303
Other operating expenses	28 078	31 309	29 955	33 367	35 385
Non-operating expenses	19 948	3 687	4 512	688	2 603
Total Expenses	94 610	79 192	81 768	84 247	89 082
Result from Ordinary Activities	(27 464)	(10 362)	(5 384)	(2 048)	(5 840)

Comment

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

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

During 2003-04 the increase in rate revenue of \$1.518m was the combined result of a 4.7% rate increase and normal growth in the rate base.

In 2001-02 Non-operating revenue included \$4.658m in insurance recoveries relating to fire damage of the THAC during 2000-01. Total recoveries amounted to \$4.987m. The remainder of the Non-operating revenue generally represented the disposal proceeds of non-current assets and contributions of assets from developers. However, in 2002-03, non-operating revenue included \$5.202m of revaluation increments being reversals of revaluation decrements previously expensed.

In 1999-00, Non-operating expenses included a \$19.271m revaluation decrement principally related 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 THAC, \$1.521m. In 2001-02, this expense item included a further amount of \$2.589m for fire recovery costs with respect to the THAC fire, and a further revaluation decrement for Infrastructure Plant, \$0.782m. Generally, the remainder of the Non-operating expenses represented 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 undertaken on a progressive basis) increased the depreciation expense.

Council budgets for a loss on operations and over the five-year period, operating results before non-operating revenues and expenses have been as follows:

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	65 419	67 895	70 780	74 454	78 488
Operating expenditure	74 662	75 505	77 256	83 559	86 479
Operating result before non operating items	(9 243)	(7 610)	(6 476)	(9 105)	(7 991)

Over this period operating revenues increased by 20% and operating expenditure by 16% resulting in the lower operating deficit in 2004 compared to 2000. Despite these operating deficits, Council generated positive cash flows (see Cash Position section) primarily due to the high depreciation charge, which was therefore not fully funded.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(1 176)	(511)	1 254	565	1 047
Receivables	3 406	3 993	4 285	3 107	2 982
Investments	10 681	9 909	10 309	12 122	14 214
Inventories	251	252	233	249	231
Other	5	14	32	29	254
Total Current Assets	13 167	13 657	16 113	16 072	18 728
Payables	3 545	4 775	4 920	3 921	3 731
Borrowings	1 974	1 852	1 456	1 553	1 939
Provisions	3 141	3 000	2 886	1 836	2 487
Other	270	415	688	826	1 149
Total Current Liabilities	8 930	10 042	9 950	8 136	9 306
Working Capital	4 237	3 615	6 163	7 936	9 422
Property, plant and equipment	555 730	566 819	567 402	579 818	601 566
Investments	38 800	36 520	36 520	36 520	40 027
Other	730	620	461	474	284
Total Non-Current Assets	595 260	603 959	604 383	616 812	641 877
Borrowings	10 789	10 595	10 382	10 529	9 690
Provisions	2 368	2 644	4 065	6 314	6 465
Other	45	45	45	45	45
Total Non-Current Liabilities	13 202	13 284	14 492	16 888	16 200
Net Assets	586 295	594 290	596 054	607 860	635 099
Reserves	232 551	252 146	258 713	273 349	311 371
Retained surpluses	353 744	342 144	337 341	334 511	323 728
Total Equity	586 295	594 290	596 054	607 860	635 099

Comment

Council's net working capital position improved steadily throughout the five-year period. By 30 June 2004 net working capital had more than doubled to \$9.422m due primarily to stronger cash and investment balances whilst at the same time containing amounts due to creditors and employee provisions.

During this period Borrowings were reduced by a total of \$1.134m.

Other current liabilities increased to \$1.149m at 30 June 2004 of which \$0.921m was funds held on trust, deposit or retention (\$0.539 at 30 June 2003).

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 were 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 was to Water assets (pipes, drains and rivulets), \$14.929m.

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

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

Revaluations for 2003-04 related to an increment of \$31.851m for roads and bridges.

All revaluation reserve movements had a corresponding impact on the Property, plant and equipment balances, the carrying values for which increased from \$555.730m at 30 June 2000 to \$601.566m at 30 June 2004.

Non-Current Investments represents Council's interest in Hobart Water. This investment was revalued at 30 June 2001 to \$36.520m, and at 30 June 2004 to \$40.027m, corresponding to its percentage rights based on a 3-year average of water usage.

Despite recording operating deficits for each of the periods under review, Council maintained its strong equity base with Total Equity increasing from \$586.295m at 30 June 2000 to \$635.099m at 30 June 2004, principally due to asset revaluations.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	62 406	66 032	73 327	73 341	77 676
Payments to suppliers and employees	(50 481)	(56 353)	(59 735)	(61 709)	(64 918)
Interest received	707	783	564	671	861
Borrowing costs	(1 168)	(919)	(881)	(857)	(835)
Cash from operations	11 464	9 543	13 275	11 446	12 784
Payments for property, plant and equipment	(12 923)	(13 252)	(14 675)	(15 183)	(14 298)
Proceeds from sale of property, plant and equipment	588	897	508	492	962
Cash used in investing activities	(12 335)	(12 355)	(14 167)	(14 691)	(13 336)
Proceeds from borrowings	1 325	1 658	1 242	1 700	1 100
Repayment of borrowings	(2 085)	(1 974)	(1 851)	(1 456)	(1 553)
Cash from financing activities	(760)	(316)	(609)	244	(453)
Cash Flows from Government	3 225	3 021	3 666	4 134	3 582
Net increase/(decrease) in cash	1 594	(107)	2 165	1 133	2 577
Cash at the beginning of the period	7 911	9 505	9 398	11 563	12 696
Cash at end of the period	9 505	9 398	11 563	12 696	15 273

Comment

Despite recording negative Operating Results and Results from Ordinary Activities over the last five years, Council returned positive cash flows from operations. The cash balance at 30 June 2004 of \$15.273m (prior year - \$12.696m), consisting of cash and current investments, included funds subject to restrictions on use totalling \$2.264m (prior year - \$1.974m).

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(9 243)	(7 610)	(6 476)	(9 105)	(7 991)
Operating margin	>1.0	0.88	0.90	0.92	0.89	0.91
Financial Management						
Current ratio	>1	1.47	1.36	1.62	1.98	2.01
Cost of debt	7.5%	8.8%	7.3%	7.3%	7.2%	7.2%
Debt service ratio		5.0%	4.3%	3.9%	3.1%	3.0%
Debt collection	30 days	24	26	25	17	15
Creditor turnover	30 days	6	23	13	9	6
Capital Exp/Depreciation		59%	69%	73%	69%	67%
Other information						
Employee costs as a % of operating expenses		46%	47%	52%	49%	50%
Staff numbers FTEs		552	541	560	570	576
Average staff costs (\$'000s)		45	48	51	53	54

Comment

Over the five-year period under review Council consistently failed to cover operating expenses with an annual average deficit of \$8.085m. This matter was commented upon previously.

The Cost of debt currently reflects current market rates.

Statistics for Debt collection indicated a satisfactory situation well below the 30-day benchmark. However, the provision for doubtful debts exceeded 50% in 2003-04, and related almost entirely to the recovery of parking fines. Parking fine cash flow 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.

Council's Capital expenditure to depreciation ratio hovered around 70% over the last four years suggesting that, despite investing around \$14.000m per annum in infrastructure, further investment was needed to maintain its asset base.

OVERALL COMMENT

Over the period of review Council has recorded annual deficits but was cash flow positive.

The audit was completed satisfactorily with no issues outstanding.

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 1 410 square kilometres and encompasses the majority of the city of Launceston. The Council services a municipal population of approximately 60 800 people.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

The financial statements were signed by the General Manager on 28 September 2004 and an unqualified audit report was issued on 19 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	55 408	57 686	57 995	61 270	64 273
Grants	8 779	7 884	8 871	7 792	11 052
Other operating revenue	837	3 394	3 461	4 912	4 503
Non-operating revenue	8 325	7 122	13 977	6 931	20 181
Total Revenue	73 349	76 086	84 304	80 905	100 009
Employee costs	19 589	19 631	21 151	22 183	22 994
Borrowing costs	614	599	646	546	516
Depreciation	14 882	15 194	15 544	18 166	19 320
Other operating expenses	23 626	29 778	30 844	31 847	33 277
Non-operating expenses	1 970	1 669	4 878	2 254	2 209
Total Expenses	60 681	66 871	73 063	74 996	78 316
Result from Ordinary Activities	12 668	9 215	11 241	5 909	21 693

Comment

Revenue from Rates, fees and charges increased by 16% from \$55.408m in 1999-00 to \$64.273m in 2003-04. Of these amounts, Rate revenue increased by 13% from \$44.580m to \$50.295m.

Grant revenue varies and was particularly volatile in relation to capital purpose grants. Grant revenue in 2003-04 was above average due to \$3.678m being received for the upgrade of the York Park facility and \$0.749 received for the Roads to Recovery program.

When comparing increases in Rates revenue and Grants revenue for the period under review with the 41% increase in Other operating expenses, it would appear that the operating surpluses for these years were due primarily to the Grants revenue received. If not for the capital grants revenue received in 2003-04, for example, there would have been an operating deficit of \$2.206m.

Totals for Non-operating revenue in 1999-00 reflected the bringing to account of \$6.449m in infrastructure assets not previously recognised under the transitional provisions of Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments." Non-operating revenue for 2000-01 included 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 included new assets amounting to \$10.548m. The total for 2003-04 included \$18.190m of infrastructure take-up adjustments. The remainder of the amounts in each of the years represented the sale proceeds on various assets sold.

While Borrowings increased over the period under review (from \$8.404m in 1999-00 to \$10.135m in 2003-04), Borrowing costs decreased markedly due to lower interest rates.

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

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	4 982	4 545	3 584	2 488	4 350
Receivables	6 278	6 594	5 871	7 012	5 171
Investments	19 658	19 203	19 449	23 271	22 130
Inventories	700	768	759	818	925
Other	258	790	178	210	359
Total Current Assets	31 876	31 900	29 841	33 799	32 935
Payables	2 023	2 946	1 357	3 206	2 193
Borrowings	2 012	2 301	2 122	1 524	1 824
Provisions	3 807	4 045	4 538	4 999	5 576
Other	3 773	2 840	3 883	3 869	4 622
Total Current Liabilities	11 615	12 132	11 900	13 598	14 215
Working Capital	20 261	19 768	17 941	20 201	18 720
Property, plant & equipment	574 845	582 452	653 444	653 737	678 595
Investments	51 323	55 757	57 274	56 949	64 868
Other	1 367	1 286	1 187	902	695
Total Non-Current Assets	627 535	639 495	711 905	711 588	744 158
Borrowings	6 392	8 092	7 969	8 444	8 311
Provisions	682	928	860	1 071	926
Other	340	646	952	1 258	1 564
Total Non-Current Liabilities	7 414	9 666	9 781	10 773	10 801
Net Assets	640 382	649 597	720 065	721 016	752 077
Reserves	44 329	46 669	114 013	111 285	125 809
Retained surpluses	596 053	602 928	606 052	609 731	626 268
Total Equity	640 382	649 597	720 065	721 016	752 077

Comment

The Cash balance remained reasonably constant over the five-year period and reflected funds held to meet day-to-day requirements. Current Investments consist mainly of managed investments. Movements in the cash and investment balances were explained under the Cash Position section of this summary.

The major components of the Receivables balance include rates, water, parking infringements and sundry debtors. The balance in 2003-04 included \$0.064m (2003: \$0.756m) of accrued revenue. Council included a significant provision for doubtful debts within the total provision across all receivables of \$1.237m (2003: \$0.989m) to offset parking infringement debtors of \$1.330m (2003: \$1.188m). All debtors relating to rateable property are ultimately secured on the property and did not require a provision for non-collectability.

Property, plant and equipment increased from 2001-02 due principally to revaluations 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 financial statements 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. In 2003-04 revaluations affected water assets only, bringing to account an increment of \$1.448m.

Non-current Investments represent the Council's interest in the Esk Water Authority. This investment was revalued annually based on Council's entitlement to a share of net assets that was in turn related to water consumption. In addition, changes in Council's share of net assets of the Authority were adjusted in 2003-04 to reflect asset revaluations undertaken by the Authority during the year.

Current liabilities included creditors outstanding at year-end, accrued expenses and employee provisions. Current and non-current liabilities included employee entitlements provisions for accrued rostered days off, annual leave, long service leave and a liability for a retiring allowance.

Other Non-current liabilities represented a provision for rehabilitation of the refuse disposal area. The liability increased by \$0.306m during 2003-04 to reflect the proportion of rehabilitation costs applicable to that part of the site's useful life which had been consumed to date.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	54 102	61 776	64 756	67 789	72 777
Payments to suppliers and employees	(45 031)	(52 271)	(54 314)	(55 917)	(59 732)
Interest received	1 558	1 694	1 144	1 328	1 428
Borrowing costs	(618)	(607)	(645)	(550)	(523)
Cash from operations	10 011	10 592	10 941	12 650	13 950
Proceeds from investments	2 204	1 626	853	163	293
Payments for investments	(2 366)	(932)	(992)	(484)	(708)
Payments for property, plant and equipment	(23 084)	(22 852)	(23 506)	(20 072)	(26 162)
Proceeds from sale of property, plant and equipment	1 876	780	3 291	2 448	1 991
Cash used in investing activities	(21 370)	(21 378)	(20 354)	(17 945)	(24 586)
Proceeds from borrowings	2 082	4 061	2 092	2 289	1 942
Repayment of borrowings	(1 956)	(2 012)	(2 302)	(2 122)	(1 534)
Cash from financing activities	126	2 049	(210)	167	408
Cash Flows from Government	7 860	7 845	8 909	7 853	10 948
Net increase/(decrease) in cash	(3 373)	(892)	(714)	2 725	720
Cash at the beginning of the period	28 013	24 640	23 748	23 034	25 759
Cash at end of the period	24 640	23 748	23 034	25 759	26 479

Comment

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

Overall, Council's cash position decreased by 5% or \$1.534m primarily because net investments in fixed assets (\$105.290m over the five-year period) exceeded net cash from operations (\$58.144m over the period), plus cash from Government (\$43.415m over the period) and net borrowings (\$2.540m over the period).

Payments for property, plant and equipment 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. In 2003-04 this item increased due to expenditure on various projects, including the Margaret Street Detention Basin, wastewater treatment plants, York Park and Churchill Park sporting grounds, and roads and bridges.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		6 313	3 762	2 142	1 232	3 721
Operating margin	>1.0	1.11	1.06	1.03	1.02	1.05
Financial Management						
Current ratio	>1	2.74	2.63	2.51	2.49	2.32
Cost of debt	7.5%	7.3%	6.9%	6.0%	5.4%	5.0%
Debt service ratio		4.0%	3.8%	4.2%	3.6%	2.6%
Debt collection	30 days	34	37	36	37	28
Creditor turnover	30 days	31	36	16	37	24
Capital Exp/Depreciation		155%	150%	151%	110%	135%
Other information						
Employee costs as a % of operating expenses		33%	30%	31%	30%	30%
Staff numbers FTEs		486	478	478	479	495
Average staff costs (\$'000s)		45	45	46	48	49

Comment

Council consistently returned a positive Result from operations (ie: Operating revenues less Operating expenses) for the period under review; however, it should be noted that the total surplus includes funds received as capital grants, the expenditure for which was in the main capitalised and thus not recorded as Operating expenditure.

Cost of Council's debt reduced markedly over the five years and reflects current market rates.

The Debt collection ratio generally exceeded the benchmark of 30 days. However, Council's experience indicates the majority of debtors balances were recovered within a 30-day period. The only exception relates to parking infringement debtors, for which Council set aside a considerable provision for doubtful debts.

OVERALL COMMENT

The 2003-04 audit was completed with satisfactory results.

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 \$'000s	Circular Head \$'000s	Huon Valley \$'000s	Kingborough \$'000s	Meander Valley \$'000s	Waratah-Wynyard \$'000s	West Tamar \$'000s
Rates	11 607	6 025	7 440	17 462	8 629	8 038	9 902
User charges	3 190	2 808	1 492	2 264	1 819	1 819	2 097
Grants	2 706	3 077	4 828	3 632	3 986	3 918	2 145
Other operating revenue	3 061	1 029	1 933	2 581	1 021	1 309	889
Non-operating revenue	5	717	687	5 654	1 051	844	899
Total Revenue	20 569	13 656	16 380	31 593	16 506	15 928	15 932
Employee costs	6 447	2 336	5 250	7 215	2 921	3 057	4 183
Borrowing costs	141	88	142	90	0	224	175
Depreciation	5 064	2 219	2 758	6 736	3 727	2 526	3 212
Other operating expenses	7 359	5 872	6 250	11 884	6 560	6 551	6 504
Non-operating expenses	0	418	436	781	2 212	730	630
Total Expenses	19 011	10 933	14 836	26 706	15 420	13 088	14 704
Result from Ordinary Activities	1 558	2 723	1 544	4 887	1 086	2 840	1 228

Comment

Revenue from Rates and User charges ranged from \$8.833m (Circular Head) to \$19.726m (Kingborough). The higher revenue recorded by

Kingborough was due to its larger population base, which approximates 30 000 people. On average, revenue from Rates, and User charges represented 69% of total operating revenue for the seven councils for 2003-04.

On average, Government grants and subsidies represented 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. Huon Valley Council recorded the highest percentage with 31% from government sources.

Kingborough recorded significant Non-operating revenue of \$5.654m, which included sub-division infrastructure assets taken over by Council, \$4.490m.

On average, borrowing costs represented 1% and depreciation 23% of total Operating expenditure. The depreciation percentages were fairly consistent across the seven councils, ranging from 19% (Huon Valley) to 27% (Central Coast).

Each council was able to report a surplus from Ordinary Activities, with Kingborough recording the largest, \$4.887m.

FINANCIAL POSITION

	Central Coast \$'000s	Circular Head \$'000s	Huon Valley \$'000s	King- borough \$'000s	Meander Valley \$'000s	Waratah- Wynyard \$'000s	West Tamar \$'000s
Cash	828	686	6 436	137	325	304	5 657
Receivables	749	834	478	922	579	715	575
Investments	8 419	3 366	0	12 175	8 872	4 730	0
Inventories	90	106	10	91	91	138	142
Other	142	183	0	22	42	87	190
Total Current Assets	10 228	5 175	6 924	13 347	9 909	5 974	6 564
Payables	678	654	812	1 748	676	953	560
Borrowings	498	391	557	86	0	733	808
Provisions	1 294	624	464	1 276	751	741	864
Other	242	79	0	1 151	145	51	65
Total Current Liabilities	2 712	1 748	1 833	4 261	1 572	2 478	2 297
Working Capital	7 516	3 427	5 091	9 086	8 337	3 496	4 267
Property, plant and equipment	181 696	63 220	83 867	267 244	114 416	73 811	94 247
Investments	10 607	4 358	0	12 009	9 732	5 355	15 378
Other	569	0	0	10	0	134	26
Total Non-Current Assets	192 872	67 578	83 867	279 263	124 148	79 300	109 651
Borrowings	1 165	779	785	582	0	3 673	1 949
Provisions	569	20	475	341	73	152	305
Total Non-Current Liabilities	1 734	799	1 260	923	73	3 825	2 254
Net Assets	198 654	70 206	87 698	287 426	132 412	78 971	111 664
Capital	0	0	0	160 537	0	0	0
Reserves	46 835	5 089	11 663	125 710	28 299	10 174	60 427
Retained Surpluses	151 819	65 117	76 035	1 179	104 113	68 797	51 237
Total Equity	198 654	70 206	87 698	287 426	132 412	78 971	111 664

Comment

The balance of net assets ranged from \$70.206m (Circular Head) to \$287.426m (Kingborough). As a non-current investment all councils, with the exception of Huon Valley, held an equity share in a regional water authority. The higher asset balance recorded by Kingborough was attributable to the municipality's larger population base and infrastructure network.

Kingborough separately recorded a Capital item entitled Ratepayer's Equity which represented 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 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	18 706	10 739	10 847	21 951	12 070	11 467	13 737
Payments to suppliers and employees	(14 883)	(9 259)	(11 141)	(17 966)	(10 308)	(10 897)	(11 344)
Interest received	625	300	354	652	545	320	369
Borrowing costs	(150)	(100)	(156)	(97)	0	(216)	(176)
Cash from operations	4 298	1 680	(96)	4 540	2 307	674	2 586
Proceeds from investments	0	0	0	0	0	0	509
Payments for investments	(1 402)	0	0	0	(3 180)	(1 930)	0
Payments for property, plant and equipment	(4 864)	(5 081)	(4 999)	(5 779)	(3 731)	(4 204)	(4 875)
Proceeds from sale of property, plant and equipment	490	717	562	710	427	843	442
Cash used in investing activities	(5 776)	(4 364)	(4 437)	(5 069)	(6 484)	(5 291)	(3 924)
Proceeds from borrowings	0	500	0	0	0	1 000	500
Repayment of borrowings	(619)	(484)	(519)	(192)	0	(709)	(854)
Cash from financing activities	(619)	16	(519)	(192)	0	291	(354)
Cash flows from Government	2 706	3 477	4 828	3 632	3 986	3 918	2 145
Net increase/(decrease) in cash	609	809	(224)	2 911	(191)	(408)	453
Cash at the beginning of the period	219	3 243	6 660	9 401	516	712	188
Cash at end of the period	828	4 052	6 436	12 312	325	304	641

Comment

Huon Valley was the only council to record a net decrease in cash for the year. Both Meander Valley and Waratah-Wynyard transferred surplus funds to investment accounts, which contributed to the reduction in the balances of cash held.

West Tamar's cash balance at the end of the period did not include other short-term investments amounting to \$5.016m. All councils hold significant short-term cash and investment balances.

FINANCIAL ANALYSIS

	Bench Mark	Central Coast	Circular Head	Huon Valley	King- borough	Meander Valley	Waratah- Wynyard	West Tamar
Financial Performance								
Result from operations (\$'000s)		1 553	2 424	1 293	14	2 247	2 726	959
Operating margin	>1.0	1.08	1.23	1.09	1.00	1.17	1.22	1.07
Financial Management								
Current ratio	>1	3.77	2.96	3.78	3.13	6.30	2.41	2.86
Cost of debt	7.5%	6.0%	7.8%	10.6%	10.4%	0.0%	5.9%	6.3%
Debt service ratio		3.7%	4.5%	4.3%	1.1%	0.0%	6.1%	6.9%
Debt collection	30 days	18	34	16	17	16	32	17
Creditor turnover	30 days	20	22	22	43	24	37	16
Capital Exp/Depreciation	100%	96%	229%	181%	86%	100%	166%	152%
Other information								
Employee costs as a % of operating expenses		34%	22%	36%	28%	22%	25%	30%
Staff numbers		143	50	96	157	62	81	84
Average staff costs (\$'000s)		45	47	55	48	47	42	50

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 1.23.

All of the seven councils had positive working capital, with the average current ratio being 3.6.

The average cost of debt for the large councils was 7.8%. In calculating this average, Meander Valley was excluded, as it had no borrowings at 30 June 2004.

Both average debt collection and average creditor turnover were better than the benchmarks of 30, at 21 days and 26 days respectively.

With the exception of Central Coast, 96%, and Kingborough, 86%, all other councils recorded a result above the benchmark for capital expenditure in comparison to depreciation.

Employee costs as a percentage of operating expenditure averaged 28% across the seven councils, with an average staff cost of \$0.046m.

OVERALL COMMENT

Overall, the seven councils recorded a surplus from ordinary and operating activities. This indicated 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 30 July 2004 and an unqualified audit report was issued on 16 August 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	9 998	10 347	10 830	11 151	11 607
User charges	3 303	3 103	3 384	3 110	3 190
Grants	2 250	2 251	2 429	2 627	2 706
Other operating revenue	1 331	1 626	2 240	2 854	3 061
Non-operating revenue	9 033	0	488	0	5
Total Revenue	25 915	17 327	19 371	19 742	20 569
Employee costs	5 285	5 667	5 618	6 036	6 447
Borrowing costs	402	328	288	193	141
Depreciation	4 496	4 491	4 824	4 890	5 064
Other operating expenses	6 743	6 898	7 442	7 753	7 359
Non-operating expenses	125	72	109	96	0
Total Expenses	17 051	17 456	18 281	18 968	19 011
Result from Ordinary Activities	8 864	(129)	1 090	774	1 558

Comment

Revenue from Rates increased steadily during the period under review, resulting in a \$1.609m increase over the five-year period. Non-operating revenue in 1999-00, \$9.355m, included \$9.032m relating to the recognition of the Council's interest in Cradle Coast Water. Council's investment in Cradle Coast Water was increased by \$0.488m in 2001-02 and \$1.086m in 2003-04 to reflect the increase in the equity of the Authority since the initial recognition. The increase in 2003-04 was recorded as an increment to the Asset Revaluation Reserve.

Depreciation expense remained fairly stable over the past five years, with the minor increments noted in 2001-02 and 2003-04 relating to revaluations of infrastructure. Borrowing costs decreased from \$0.402m in 1999-00 to \$0.141m in 2003-04. The decrease was attributable to regular repayments of loan borrowings, which 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. In 2003-04 Council recorded a surplus from ordinary activities of \$1.558m, compared to a budgeted surplus of \$0.611m. The increase over budget was principally attributable to increased revenue from User charges and Grants of \$0.322m and \$0.079m respectively and a decrease in materials and contracts expenditure of \$0.506m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	623	(478)	(129)	219	828
Receivables	1 165	1 330	1 219	1 092	749
Investments	6 950	7 638	8 296	7 017	8 419
Inventories	61	75	74	78	90
Other	135	332	224	294	142
Total Current Assets	8 934	8 897	9 684	8 700	10 228
Payables	314	502	727	939	678
Borrowings	830	777	1 089	612	498
Provisions	933	1 037	1 046	1 199	1 294
Other	364	156	158	170	242
Total Current Liabilities	2 441	2 472	3 020	2 920	2 712
Working Capital	6 493	6 425	6 664	5 780	7 516
Property, plant and equipment	150 944	158 902	170 143	171 980	181 696
Investments	9 032	9 032	9 521	9 521	10 607
Other	887	803	703	614	569
Total Non-Current Assets	160 863	168 737	180 367	182 115	192 872
Borrowings	3 750	3 371	2 282	1 669	1 165
Provisions	376	362	413	586	569
Other	0	0	0	0	0
Total Non-Current Liabilities	4 126	3 733	2 695	2 255	1 734
Net Assets	163 230	171 429	184 336	185 640	198 654
Reserves	14 095	21 502	33 844	34 747	46 835
Retained surpluses	149 135	149 927	150 492	150 893	151 819
Total Equity	163 230	171 429	184 336	185 640	198 654

Comment

Council had a positive working capital for each of the five years under review. At 30 June 2004 the working capital was \$7.516m, giving a current ratio of 3.77, which represented a solid financial position.

The balance of Property, plant and equipment increased by \$11.241m in 2001-02 due mainly to asset revaluation increments of \$11.817m recognised during that year. The revaluation increments related to land, buildings, drainage, recreation and environmental assets that were revalued on 1 July 2001. The increase in Property, plant and equipment in 2003-04 (\$9.716m) was also mainly due to asset revaluation increments of \$10.369m. The revaluation increments related to water and sewerage assets that were revalued on 1 July 2003.

Council's total Borrowings decreased from \$4.580m at 30 June 2000 to \$1.663m at 30 June 2004. The decrease reflected the loan repayments during the four years of \$3.317m less the proceeds from new borrowings of \$0.400m in 2000-01.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	14 004	15 053	17 007	17 784	18 706
Payments to suppliers and employees	(11 852)	(13 496)	(13 622)	(14 486)	(14 883)
Interest received	558	580	501	445	625
Borrowing costs	(413)	(348)	(291)	(164)	(150)
Cash from operations	2 297	1 789	3 595	3 579	4 298
Proceeds from investments	1 581	0	0	1 279	0
Payments for investments	0	(689)	(657)	0	(1 402)
Payments for property, plant and equipment	(4 217)	(4 148)	(4 416)	(6 495)	(4 864)
Proceeds from sale of property, plant and equipment	138	127	176	447	490
Cash used in investing activities	(2 498)	(4 710)	(4 897)	(4 769)	(5 776)
Proceeds from borrowings	0	400	0	0	0
Repayment of borrowings	(907)	(831)	(778)	(1 089)	(619)
Cash from financing activities	(907)	(431)	(778)	(1 089)	(619)
Cash Flows from Government	2 249	2 251	2 429	2 627	2 706
Net increase/(decrease) in cash	1 141	(1 101)	349	348	609
Cash at the beginning of the period	(518)	623	(478)	(129)	219
Cash at end of the period	623	(478)	(129)	219	828

Comment

Cash at the end of 2003-04 equalled \$0.828m, but Council also held current investments of \$8.419m.

Cash from operations increased from \$1.789m in 2000-01 to \$3.595m in 2001-02, which was attributable to increased receipts from contributions, user charges and rates. The increase in receipts from customers and

payments to suppliers in 2000-01 was due to the impact of the introduction of the GST.

Payments for property, plant and equipment increased from \$4.416m in 2001-02 to \$6.495m in 2002-03. The majority of the increase related to capital works on the Penguin Sewerage Treatment Plant.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(44)	(57)	711	870	1 553
Operating margin	>1.0	1.00	1.00	1.04	1.05	1.08
Financial Management						
Current ratio	>1	3.66	3.60	3.21	2.98	3.77
Cost of debt	7.5%	7.3%	7.1%	6.9%	6.0%	6.0%
Debt service ratio		7.8%	6.8%	5.7%	6.3%	3.7%
Debt collection	30 days	32	36	31	28	18
Creditor turnover	30 days	10	17	22	24	20
Capital Exp/Depreciation	100%	94%	92%	92%	133%	96%
Other information						
Employee Costs as % of Operating Expenses		31%	33%	31%	32%	34%
Staff numbers FTEs		126	127	129	135	143
Average staff costs (\$'000s)		42	45	44	45	45

Comment

The financial performance ratios show that Council recorded an operating surplus in three of the five years under review. An operating surplus of \$1.553m was recorded in 2003-04, the best result within this five year period.

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

The Cost of debt reduced from 7.3% in 1999-00 to 6.0% in 2003-04. The decrease was due to Council obtaining more competitive interest rates when loans were reviewed. Due to the decreasing loan balance, the debt service ratio also decreased in 2003-04 to 3.4%.

The Debt collection ratio reduced from 32 days in 1999-00 to 18 days in 2003-04, which was a positive result.

It was also pleasing to see that Council continued to fund a sufficient level of capital expenditure, to ensure that asset replacement was consistent with the depreciation charges being incurred.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of \$3.033m, and its net assets grew by 22% over this period to \$198.654m. This provided enough evidence to suggest that Council is in a sound financial position.

The 2003-04 audit was completed satisfactorily with no major issues outstanding.

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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2004 and an unqualified audit report was issued on 20 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	5 001	5 374	5 608	5 828	6 025
User charges	2 374	2 273	2 363	2 615	2 808
Grants	2 037	2 346	2 589	3 383	3 077
Other operating revenue	473	556	3 586	1 734	1 029
Non-operating revenue	3 711	178	279	228	717
Total Revenue	13 596	10 727	14 425	13 788	13 656
Employee costs	2 228	2 249	2 258	2 220	2 336
Borrowing costs	280	236	186	136	88
Depreciation	1 998	2 030	2 056	2 176	2 219
Other operating expenses	5 504	5 306	6 217	6 418	5 872
Non-operating expenses	75	401	468	288	418
Total Expenses	10 085	10 222	11 185	11 238	10 933
Result from Ordinary Activities	3 511	505	3 240	2 550	2 723

Comment

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 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. Other revenue in 2003-04 included a

contribution of \$0.250m for the Arthur River Road and \$0.100m for the Smithton Recreation Centre.

In 1999-00, Non-operating expenditure represented the net loss on the disposal of assets. For the years subsequent to 1999-00, Non-operating revenue and expenditure represented the total proceeds from asset sales and the written down value of the assets sold.

Non-operating revenue in 1999-00 of \$3.711m represented the recognition of the Council's interest in Cradle Coast Water.

Grant revenue in 2002-03 of \$3.383m included \$0.500m received under the Networking the Nation program for the extension of mobile phone services for the Marrawah area. A further \$0.420m was received in 2003-04 for the extension of services for Edith Creek, Trowutta, Togari, Montagu and Roger River areas.

Borrowing costs decreased from \$0.280m in 1999-00 to \$0.086m in 2003-04 due to regular repayments of loan borrowings.

During 2001-02, Other operating expenses increased by \$0.911m primarily due to the expensing of earthworks costs incurred as part of the Woolnorth Road upgrade. Council adopts a policy of expensing all earthworks relating to road construction. Other operating expenses in 2002-03 included \$0.523m relating to the extension of mobile phone services for the Marrawah area. A further \$0.430m was expensed in 2003-04 relating to the extension of services for Edith Creek, Trowutta, Togari, Montagu and Roger River areas.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	(17)	170	370	691	686
Receivables	795	711	732	1 295	834
Investments	900	1 328	2 151	2 552	3 366
Inventories	34	65	131	124	106
Other	417	208	423	310	183
Total Current Assets	2 129	2 482	3 807	4 972	5 175
Payables	457	862	599	895	654
Borrowings	409	428	455	647	391
Provisions	356	396	431	540	624
Other	123	107	86	75	79
Total Current Liabilities	1 345	1 793	1 571	2 157	1 748
Working Capital	784	689	2 236	2 815	3 427
Property, plant and equipment	57 612	57 826	59 255	60 738	63 220
Investments	3 711	3 711	3 711	3 711	4 358
Other	619	581	373	143	0
Total Non-Current Assets	61 942	62 118	63 339	64 592	67 578
Borrowings	2 046	1 618	1 161	507	779
Provisions	58	62	47	65	20
Other	0	0	0	0	0
Total Non-Current Liabilities	2 104	1 680	1 208	572	799
Net Assets	60 622	61 127	64 367	66 835	70 206
Reserves	4 442	4 442	4 442	4 442	5 089
Retained surpluses	56 180	56 685	59 925	62 393	65 117
Total Equity	60 622	61 127	64 367	66 835	70 206

Comment

Investments consisted 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.

Council's interest in the equity of Cradle Coast Water was recognised in 1999-00 and represented the balance of non-current investments of \$3.711m. In 2003-04 the carrying value of this asset was revalued upwards by \$0.642m, resulting in a similar increase in the reserve.

The majority of the balance of Other non-current assets was represented by a Sewerage Treatment Finance Agreement receivable. At 30 June 2004, the remaining balance of the receivable was classified as current.

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 decreased from \$2.455m in 1990-00 to \$1.170m in 2003-04 as Council reduced its debt.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 783	8 744	12 328	10 936	10 739
Payments to suppliers and employees	(8 083)	(7 507)	(9 752)	(9 170)	(9 259)
Interest received	124	158	156	231	300
Borrowing costs	(292)	(248)	(199)	(150)	(100)
Cash from operations	(468)	1 147	2 533	1 847	1 680
Payments for property, plant and equipment	(2 541)	(2 650)	(3 948)	(3 874)	(5 081)
Proceeds from sale of property, plant and equipment	328	178	279	228	717
Cash used in investing activities	(2 213)	(2 472)	(3 669)	(3 646)	(4 364)
Proceeds from borrowings	15	0	0	0	500
Repayment of borrowings	(399)	(406)	(430)	(462)	(484)
Cash from financing activities	(384)	(406)	(430)	(462)	16
Cash Flows from Government	2 037	2 346	2 589	2 983	3 477
Net increase/(decrease) in cash	(1 028)	615	1 023	722	809
Cash at the beginning of the period	1 911	883	1 498	2 521	3 243
Cash at end of the period	883	1 498	2 521	3 243	4 052

Comment

Receipts from customers increased by \$3.584m in 2001-02 due to the contributions for sealing the Woolnorth Road, \$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.

The majority of the Payments for property, plant and equipment in 2001-02 and 2002-03 related to additions to transport infrastructure and work undertaken on Woolnorth and Arthur River Roads. In 2003-04, Payments for property, plant and equipment included \$1.820m relating to the Smithton Recreation Centre.

Cash flows from Government increased from \$2.037m in 1999-00 to \$3.477m in 2003-04. Various National Heritage Trust funding grants were received during 1999-00 and 2000-01. The past four financial periods included Roads to Recovery funding of approximately \$0.400m in each year. The cash flows from government for 2003-04, \$3.477m, included the receipt of \$0.400m for the Smithton Recreation Centre that was recognised as revenue in 2002-03 but was a receivable at 30 June 2003.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(125)	728	3 429	2 610	2 424
Operating margin	>1.0	0.99	1.07	1.32	1.24	1.23
Financial Management						
Current ratio	>1	1.58	1.38	2.42	2.31	2.96
Cost of debt	7.5%	11.4%	10.4%	10.2%	9.8%	7.8%
Debt service ratio		7.0%	6.2%	4.4%	4.5%	4.5%
Debt collection	30 days	39	34	34	37	34
Creditor turnover	30 days	21	40	22	32	22
Capital Exp/Depreciation	100%	127%	131%	192%	178%	229%
Other information						
Employee Costs as a % of Operating Expenses		22.26%	22.90%	21.07%	20.27%	22.22%
Staff numbers FTEs		48	47	47	50	50
Average staff costs (\$'000s)		46	48	48	44	47

Comment

The financial performance ratios show that Council recorded positive results from operating activities in the past four financial years and a small loss in 1999-00. The total result from operating activities for the period under review amounted to \$9.066m.

Council's Current ratio was consistently above the benchmark and indicated that Council was able to meet all short-term liabilities.

The Council's Cost of debt, although above the benchmark, decreased from 11.4% in 1999-00 to 7.8% in 2003-04. A similar decrease was noted in the Debt service ratio.

The Debt collection ratio was 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 was 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.

Council consistently invests funds in new assets at levels greater than the annual depreciation charge. These investments in infrastructure were aided by externally funded capital projects during the period.

OVERALL COMMENT

In the five years under review, Council recorded a total operating Result from Ordinary Activities of \$12.529m.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Further to Report No. 2 of 2002-03, Volume 3, page 65, an unqualified audit report was issued on 27 November 2003.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 20 August 2004 and an unqualified audit report was issued on 26 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	6 502	6 582	6 865	7 152	7 440
User Charges	610	644	862	1 099	1 492
Grants	3 650	3 857	4 346	4 481	4 828
Other operating revenue	1 495	1 613	2 106	2 236	1 933
Non-operating revenue	615	373	405	371	687
Total Revenue	12 872	13 069	14 584	15 339	16 380
Employee costs	3 500	3 817	4 134	5 152	5 250
Borrowing costs	473	403	298	226	142
Depreciation	2 405	2 595	2 619	2 723	2 758
Other operating expenses	4 741	4 404	5 079	5 520	6 250
Non-operating expenses	506	28 158	436	224	436
Total Expenses	11 625	39 377	12 566	13 845	14 836
Result from Ordinary Activities	1 247	(26 308)	2 018	1 494	1 544

Comment

Grant revenue increased over the period due to additional funding for a number of projects and programs. These included road work programs, bridges, sewerage works and numerous other community initiatives.

Non-operating revenue and expenses represented the proceeds and carrying amounts on disposal of non current assets. Other Non-operating expenses for the 2000-01 year included a major asset write-down of the Council's road asset network, \$27.771m. This was a result of the road revaluation report that was commissioned by the Tasmanian Audit Office.

Other operating expenses increased over the period generally in line with increases in maintenance of infrastructure assets and additional project expenditure on programs funded by grants.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	3 263	4 444	5 919	6 660	6 436
Receivables	1 007	883	759	814	478
Inventories	17	7	5	3	10
Other	0	0	110	0	0
Total Current Assets	4 287	5 334	6 793	7 477	6 924
Payables	872	580	938	734	812
Borrowings	579	584	558	540	557
Provisions	471	414	428	482	464
Total Current Liabilities	1 922	1 578	1 924	1 756	1 833
Working Capital	2 365	3 756	4 869	5 721	5 091
Property, plant and equipment	103 642	75 405	75 906	78 418	83 867
Total Non-Current Assets	103 642	75 405	75 906	78 418	83 867
Borrowings	3 381	2 796	1 843	1 322	785
Provisions	108	153	195	183	475
Total Non-Current Liabilities	3 489	2 949	2 038	1 505	1 260
Net Assets	102 518	76 212	78 737	82 634	87 698
Reserves	2 953	4 365	5 795	8 897	11 663
Retained surpluses	99 565	71 847	72 942	73 737	76 035
Total Equity	102 518	76 212	78 737	82 634	87 698

Comment

The increases in cash over the five-year period were consistent with the Cash Flow Statement. Refer to the following section for additional explanations.

The decrease in Receivables noted since 1999-00 was due to a concerted effort to enforce the collections policy of Council, which included property sell-offs within the provisions of the *Local Government Act 1993*.

Council's strong working capital position was mainly due to high cash holdings. A driver over the period was capital expenditure not being carried out before year-end on Council's infrastructure assets. Excess funds were placed in short-term investments until the amounts were required.

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 increases in 2002-03 and 2003-04 were attributable to the asset revaluations of land, buildings, building contents and bridges totalling \$2.403m and \$3.519m respectively.

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

Increases in reserves since 2002-03 were consistent with the revaluations noted previously.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 424	8 709	9 490	10 068	10 847
Payments to suppliers and employees	(7 683)	(10 034)	(8 897)	(10 712)	(11 141)
Interest received	171	255	230	365	354
Borrowing costs	(484)	(415)	(307)	(237)	(156)
Cash from operations	428	(1 485)	516	(516)	(96)
Payments for property, plant and equipment	(3 172)	(985)	(2 872)	(3 010)	(4 999)
Proceeds from sale of property, plant and equipment	603	373	229	326	562
Cash used in investing activities	(2 569)	(612)	(2 643)	(2 684)	(4 437)
Proceeds from borrowings	0	0	0	0	
Repayment of borrowings	(550)	(579)	(743)	(540)	(519)
Cash from financing activities	(550)	(579)	(743)	(540)	(519)
Cash Flows from Government	3 650	3 857	4 346	4 480	4 828
Net increase/(decrease) in cash	959	1 181	1 476	740	(224)
Cash at the beginning of the period	2 305	3 263	4 444	5 920	6 660
Cash at end of the period	3 264	4 444	5 920	6 660	6 436

Comment

The steady growth in Receipts from customers over the years was a result of increases in rates and user charges received. A factor in this increase was the more stringent enforcement of debt collection.

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 results from then on were more in line with the normal capital expenditure of Council.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		1 138	1 477	2 049	1 347	1 293
Operating margin	>1.0	1.61	1.72	1.77	1.77	1.09
Financial Management						
Current ratio	>1	2.23	3.38	3.53	4.26	3.78
Cost of debt	7.5%	11.9%	11.9%	12.4%	12.1%	10.6%
Debt service ratio		8.4%	7.8%	7.4%	5.2%	4.3%
Debt collection	30 days	43	36	28	28	16
Creditor turnover	30 days	39	29	38	25	22
Capital Exp/Depreciation	100%	132%	38%	110%	111%	181%
Other information						
Employee costs as a % of operating expenses		31%	34%	34%	38%	36%
Staff numbers FTEs		80	92	98	93	96
Average staff costs (\$'000s)		44	41	42	55	55

Comment

Council achieved significant results from operations in the five years under review and consequently had an operating margin consistently over the benchmark.

The Cost of debt ratio was high, as Council was locked into some borrowing agreements that have interest rates higher than those rates that are currently available in the market. The Debt service ratio has fallen chiefly due to increases in operating revenue.

The unusually low Debt collection ratio for 2003-04 indicated active debtor management. A low Receivables balance at year end has driven this ratio lower. Creditor turnover fluctuated somewhat depending upon the creditor balance at year-end. Given the Council's strong cash position, a decline since 2002-03 was expected.

Increased expenditure in 2003-04 on mainly sewerage and road infrastructure resulted in the higher ratio of capital expenditure compared to depreciation. The ratio for 2000-01, which was well below the benchmark, reflected Council's focus towards maintenance in that year, as mentioned previously.

OVERALL COMMENT

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

2.4 KINGBOROUGH COUNCIL

INTRODUCTION

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

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Financial statements were signed on 31 August 2004 and an unqualified audit report was issued on 8 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	16 029	16 728	17 350	18 586	19 726
Grants	3 132	3 405	3 525	3 315	3 632
Other operating revenue	1 830	2 231	2 091	2 305	2 581
Non-operating revenue	1 633	1 936	2 694	3 531	5 654
Total Revenue	22 624	24 300	25 660	27 737	31 593
Employee costs	5 407	5 951	6 127	6 444	7 215
Borrowing costs	224	180	145	117	90
Depreciation	6 132	5 449	5 757	6 287	6 736
Other operating expenses	9 505	9 821	10 617	11 115	11 884
Non-operating expenses	412	1 153	693	625	781
Total Expenses	21 680	22 554	23 339	24 588	26 706
Result from Ordinary Activities	944	1 746	2 321	3 149	4 887

Comment

Total revenue increased from \$27.737m in 2002-03 to \$31.593m in 2003-04. The main contributors to the increase were rates which increased by \$0.754m, user charges which increased by \$0.363m and non-cash contributions by developers which increased by \$1.697m. Rate revenue increased by 3.48% over the previous year. Rising employee costs over

the five years reflected increased staffing levels to service the growing needs of the region.

Non-operating revenue in each of the years included the value of sub-division infrastructure assets taken over by Council. In 2003-04 this amounted to \$4.490m.

The steady increase in revenue over the period under review was consistent with the growing population base for the Channel region of the State.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	94	287	(381)	284	137
Receivables	882	1 162	909	782	922
Investments	6 754	6 448	7 223	9 117	12 175
Inventories	161	106	89	92	91
Other	74	38	54	4	22
Total Current Assets	7 965	8 041	7 894	10 279	13 347
Payables	1 449	1 136	1 171	1 098	1 748
Borrowings	384	312	290	197	86
Provisions	790	954	1 051	1 060	1 276
Other	533	760	828	901	1 151
Total Current Liabilities	3 156	3 162	3 340	3 256	4 261
Working Capital	4 809	4 879	4 554	7 023	9 086
Property, plant and equipment	155 952	215 502	221 228	243 807	267 244
Investments	11 460	11 460	11 460	11 460	12 009
Other	40	28	20	14	10
Total Non-Current Assets	167 452	226 990	232 708	255 281	279 263
Borrowings	1 467	1 155	865	669	582
Provisions	153	117	229	331	341
Other	0	0	0	0	0
Total Non-Current Liabilities	1 620	1 272	1 094	1 000	923
Net Assets	170 641	230 597	236 168	261 304	287 426
Capital	152 867	154 464	157 044	157 814	160 537
Reserves	14 971	73 607	77 158	101 763	125 710
Retained surpluses	2 803	2 526	1 966	1 727	1 179
Total Equity	170 641	230 597	236 168	261 304	287 426

Comment

In 2002-03, Council increased its investments by \$3.607m to \$24.184m however \$11.460m of this represented Council's interest in Hobart Water.

Council's investment in Hobart Water was revalued for the first time during 2003-04. The investment, previously carried at the 1998 valuation, was disclosed in the 2003-04 financial report at a fair value of \$12.009m. Fair value was based on Council's percentage shareholding in Hobart

Water, and on water consumption revenue over the last three-year period. The revaluation increment was brought to account in the asset revaluation reserve, and was indicative of the increased consumption of water services in the municipality. This in turn correlated with the increased economic activity over the past six years since the investment was initially recognised.

During 2000-01 Council revalued land, buildings, and infrastructure assets by \$58.210m, which was 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 Council's 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 were undertaken between periods of full revaluations.

Movements in Property, plant and equipment in 2002-03 and 2003-04 reflected substantial increases arising from revaluations that increased the values attributed to roads (by \$11.564; 2003: \$9.746m), water, stormwater and sewerage works (by \$8.608m; 2003: \$4.734m), and bridges and minor infrastructure (by \$0.510m; 2003: \$0.845m). Additions to non-current assets of \$10.269m (2003: \$7.503m), including the developer contributions referred to above, more or less balanced out depreciation of \$6.737m (2003: \$6.287m).

Borrowings are minor and were decreasing over the period.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	17 292	18 343	19 366	20 709	21 951
Payments to suppliers and employees	(14 370)	(15 649)	(16 395)	(17 401)	(17 966)
Interest received	384	496	410	502	652
Borrowing costs	(234)	(190)	(151)	(117)	(97)
Cash from operations	3 072	3 000	3 230	3 693	4 540
Payments for property, plant and equipment	(6 474)	(6 647)	(6 953)	(4 710)	(5 779)
Proceeds from sale of property, plant and equipment	418	502	608	545	710
Cash used in investing activities	(6 056)	(6 145)	(6 345)	(4 165)	(5 069)
Repayment of borrowings	(387)	(372)	(303)	(284)	(192)
Cash from financing activities	(387)	(372)	(303)	(284)	(192)
Cash Flows from Government	3 131	3 405	3 525	3 315	3 632
Net increase/(decrease) in cash	(240)	(112)	107	2 559	2 911
Cash at the beginning of the period	7 087	6 847	6 735	6 842	9 401
Cash at end of the period	6 847	6 735	6 842	9 401	12 312

Comment

Over the five-year period Council invested \$30.563m in property, plant and equipment including infrastructure. The source of this funding was cash from operations of \$17.535m and government grants of \$17.008m. Over the same period Council reduced debt by \$1.093m. Council borrowings stood at \$0.668m at 30 June 2004.

It was significant that Council was able to re-invest the funds generated from funding depreciation (\$30.361m over five years), while at the same time maintaining strong cash reserves currently \$12.312m (including short-term investments).

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(277)	963	320	243	14
Operating margin	>1.0	0.99	1.04	1.01	1.01	1.00
Financial Management						
Current ratio	>1	2.52	2.54	2.36	3.16	3.13
Cost of debt	7.5%	12.1%	12.3%	9.8%	9.3%	10.4%
Debt service ratio		3.0%	2.5%	2.0%	1.7%	1.1%
Debt collection	30 days	20	25	19	15	17
Creditor turnover	30 days	32	28	25	30	43
Capital Exp/Depreciation		106%	122%	121%	75%	86%
Other information						
Employee costs as a % of operating expenses		25%	28%	27%	27%	28%
Staff numbers FTEs		141	151	162	152	157
Average staff costs (\$'000s)		40	42	40	45	48

Comment

The Result from operations over the five-year period (i.e. operating revenue less operating expenses) showed a small surplus of \$1.263m over the period of review compared with the result from ordinary activities, including non-operating revenues and expenses, totalling \$13.047m. The large difference arises from non-cash contributions by developers and the recognition of the equity interest in Hobart Water. Council was prudent in budgeting to achieve a breakeven result ignoring these contributions.

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

The sustained growth in the Council in recent years gave rise to the necessity for increased staffing levels.

OVERALL COMMENT

Kingborough Council was 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, which is particularly important for such a growing region.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2004, with amended statements received on 18 October 2004. An unqualified audit report was issued on 28 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	7 305	7 642	7 655	8 128	8 629
User charges	981	1 182	1 378	1 637	1 819
Grants	3 525	3 430	4 471	4 094	3 986
Other operating revenue	491	814	640	882	1 021
Non-operating revenue	1 225	1 421	375	293	1 051
Total Revenue	13 527	14 489	14 519	15 034	16 506
Employee costs	2 378	2 552	2 563	2 817	2 921
Borrowing costs	68	70	0	0	0
Depreciation	3 150	3 221	3 353	3 544	3 727
Other operating expenses	5 229	5 866	6 343	6 587	6 560
Non-operating expenses	382	189	539	702	2 212
Total Expenses	11 207	11 898	12 798	13 650	15 420
Result from Ordinary Activities	2 320	2 591	1 721	1 384	1 086

Comment

Revenue from rates increased steadily during the period under review, resulting in an increase of \$1.324m, or 18%, over the five-year period.

The increase in grant revenue for 2001-02 of \$1.041m was 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 generally represented subdivisional work taken over by Council and proceeds on the sale of property, plant and equipment. In 2000-01 the balance also included an adjustment to the carrying value of Council's share in Esk Water of \$0.598m. The lower amounts in 2001-02 and 2002-03 were due to lower balances of subdivisional work taken over than in the other three years under review.

No borrowing costs were incurred since 2000-01 as Council repaid the balance of borrowings outstanding during that financial year.

Non-operating expenses generally comprised the written down value of assets at the time of disposal. In 2003-04 the balance also included an adjustment to the carrying value of Council's share in Esk Water of \$1.732m. The decrease was due to a reduction in Council's percentage interest as a result of lower average water sales over the last three years.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	5 516	528	607	516	325
Receivables	753	990	931	857	579
Investments	0	4 000	5 554	5 692	8 872
Inventories	38	43	33	76	91
Other	83	61	100	109	42
Total Current Assets	6 390	5 622	7 225	7 250	9 909
Payables	519	403	966	789	676
Borrowings	135	0	0	0	0
Provisions	516	552	538	693	751
Other	137	96	87	95	145
Total Current Liabilities	1 307	1 051	1 591	1 577	1 572
Working Capital	5 083	4 571	5 634	5 673	8 337
Property, plant and equipment	105 358	107 359	108 204	114 240	114 416
Investments	10 864	11 462	11 462	11 464	9 732
Other	84	56	28	0	0
Total Non-Current Assets	116 306	118 877	119 694	125 704	124 148
Borrowings	539	0	0	0	0
Provisions	56	63	84	51	73
Total Non-Current Liabilities	595	63	84	51	73
Net Assets	120 794	123 385	125 244	131 326	132 412
Reserves	23 378	23 378	23 516	28 299	28 299
Retained surpluses	97 416	100 007	101 728	103 027	104 113
Total Equity	120 794	123 385	125 244	131 326	132 412

Comment

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

The increase in Property, plant and equipment in 2002-03 of \$6.036m was 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 it represented the majority of non-current investments. This balance increased to \$11.462m at 30 June 2001 to reflect the increase in Council's share of the net assets of Esk Water. During 2003-04 a further revaluation based on Council's percentage holding in Esk Water was undertaken, which resulted in a decrease in the investment.

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

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 355	9 710	10 119	11 209	12 070
Payments to suppliers and employees	(7 288)	(9 247)	(8 966)	(10 674)	(10 308)
Interest received	268	456	311	394	545
Borrowing costs	(50)	(89)	0	0	0
Cash from operations	1 285	830	1 464	929	2 307
Proceeds from investments	0	0	0	0	0
Payments for investments	0	(4 000)	(1 554)	(140)	(3 180)
Payments for property, plant and equipment	(3 357)	(4 806)	(4 433)	(5 132)	(3 731)
Proceeds from sale of property, plant and equipment	391	232	132	158	427
Cash used in investing activities	(2 966)	(8 574)	(5 855)	(5 114)	(6 484)
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	(145)	(674)	0	0	0
Cash from financing activities	(145)	(674)	0	0	0
Cash Flows from Government	3 525	3 430	4 470	4 094	3 986
Net increase/(decrease) in cash	1 699	(4 988)	79	(91)	(191)
Cash at the beginning of the period	3 817	5 516	528	607	516
Cash at the end of the period	5 516	528	607	516	325

Comment

Interest receipts increased during 2000-01 due to the transfer of funds to a higher yielding cash management account, combined with an increase in the average cash holdings 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	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		1 477	1 359	1 885	1 793	2 247
Operating margin	>1.0	1.14	1.12	1.15	1.14	1.17
Financial Management						
Current ratio	>1	4.89	5.35	4.54	4.60	6.30
Cost of debt	7.5%	10.1%	-	-	-	-
Debt service ratio		1.6%	5.8%	-	-	-
Debt collection	30 days	21	23	24	22	16
Creditor turnover	30 days	22	14	33	25	24
Capital Exp/ Depreciation		107%	149%	132%	145%	100%
Other information						
Employee costs as % of Operating Expenses		22%	22%	21%	22%	22%
Staff numbers FTEs		58	58	59	59	62
Average staff costs (\$'000s)		41	44	43	48	47

Comment

The financial performance ratios show that Council recorded operating surpluses in the past five years. Council's operating margin consistently remained above the benchmark for all years under review.

Council's Current ratio was above the benchmark in all five years and indicated that it was able to meet all short-term liabilities as they fall due.

A Cost of debt was not calculated since 1999-00 as Council repaid its borrowings during the 2000-01 financial year. The Debt service ratio fell to nil during 2001-02 for the same reason.

The Debt collection ratio was 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.

Council's Capital expenditure to depreciation ratio was at least at the benchmark for all years under review. Council continued to fund a sufficient level of capital expenditure, to ensure that asset replacement was consistent with the depreciation charges being incurred.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of \$8.761m. It has no debt and a healthy net working capital position.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 25 August 2004 and an unqualified audit report was issued on 10 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	7 348	7 583	7 466	7 739	8 038
User charges	858	884	1 059	1 438	1 819
Grants	2 003	2 458	2 883	3 874	3 918
Other operating revenue	467	620	580	979	1 309
Non-operating revenue	5 344	234	431	430	844
Total Revenue	16 020	11 779	12 419	14 460	15 928
Employee costs	3 088	3 144	3 118	3 166	3 057
Borrowing costs	331	324	279	259	224
Depreciation	2 311	3 088	2 410	2 530	2 526
Other operating expenses	5 025	5 371	5 745	5 749	6 551
Non-operating expenses	1 014	433	805	584	730
Total Expenses	11 769	12 360	12 357	12 288	13 088
Result from Ordinary Activities	4 251	(581)	62	2 172	2 840

Comment

Revenue from Rates increased steadily during the period under review, resulting in a \$0.690m (or 9%) increase over the five-year period.

User charges increased in 2002-03 as a result of Council reallocating the receipt of Government funding for the operation of child care facilities from Grants. The Grant balance for the period 1999-00 to 2001-02 included revenue relating to the Government contribution to childcare facilities. In addition, the increase of \$0.381m in 2003-04 related to

increased revenue from childcare, water and sewerage services, and increased private works.

Grants revenue in 2002-03 was substantially greater than previous periods due to a Commonwealth Government grant of \$1.000m and a State Government grant of \$0.370m for the construction of a sewerage scheme at Boat Harbour. In 2003-04, Council maintained the level of grant funding received in 2002-03. This was achieved through the receipt of a Commonwealth grant of \$1.000m to construct a sewerage scheme at Sisters Beach and a Commonwealth grant of \$0.440m, for Networking the Nation - CDMA mobile phone upgrade.

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 was recorded in Other operating revenue for 2002-03. In 2003-04 Other operating revenue increased by \$0.330m primarily due to contributions from the Department of Infrastructure, Energy and Resources (DIER) and Crown Land Services for various works at Boat Harbour Beach. Council received \$0.403m to expend on retaining walls, fencing, property access, stormwater and road works. In addition, Other operating revenue included a Ratepayer contribution to the Boat Harbour Sewerage Scheme of \$0.190m.

The majority of Non operating revenue consisted of the consideration received from the sale of non current assets. In 1999-00 Non-operating revenue included the recognition of Council's interest in Cradle Coast Water, \$4.564m, which it jointly owns with a number of other North-Western based councils. In 2003-04, the balance of \$0.844m reflected Council's success in selling land in its sub-division developments.

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 that year. During 2001-02, and following a state-wide review of road accounting practices by the Tasmanian Audit Office in conjunction with all Councils, 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 the prior year by \$0.760m 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 also impacted on accumulated depreciation.

Other operating expenditure increased by \$0.802m in 2003-04. The increase was mainly attributable to \$0.440m expended on the CDMA mobile phone network and increased private works.

Non-operating expenses primarily represented the written down value of assets disposed of during the financial year. This balance was volatile due

to the changing nature of assets sold or replaced through new capital works.

Throughout the period under review, and assisted by the recognition of Council's investment in Cradle Coast Water and the capital grants for the Boat Harbour and Sisters Beach Sewerage Schemes referred to above, Council returned a positive Result from Ordinary Activities of \$8.744m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	867	851	221	712	304
Receivables	329	558	597	491	715
Investments	2 047	2 500	3 000	2 800	4 730
Inventories	296	254	223	182	138
Other	114	97	65	48	87
Total Current Assets	3 653	4 260	4 106	4 233	5 974
Payables	492	551	640	1 021	953
Borrowings	725	736	715	707	733
Provisions	762	874	922	848	741
Other	163	117	148	130	51
Total Current Liabilities	2 142	2 278	2 425	2 706	2 478
Working Capital	1 511	1 982	1 681	1 527	3 496
Property, plant and equipment	71 878	70 675	70 814	72 722	73 811
Investments	4 564	4 564	4 564	4 564	5 355
Other	220	84	43	70	134
Total Non-Current Assets	76 662	75 323	75 421	77 356	79 300
Borrowings	4 272	4 033	3 815	3 408	3 673
Provisions	134	127	120	136	152
Other	81	41	0	0	0
Total Non-Current Liabilities	4 487	4 201	3 935	3 544	3 825
Net Assets	73 686	73 104	73 167	75 339	78 971
Reserves	9 382	9 382	9 382	9 382	10 174
Retained surpluses	64 304	63 722	63 785	65 957	68 797
Total Equity	73 686	73 104	73 167	75 339	78 971

Comment

Council's current assets remained fairly stable over the period under review, although Investments at 30 June 2004 increased by \$1.930m as a result of grant and loan funds held to complete the construction of the Sisters Beach Sewerage Scheme in 2004-05.

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

Council had a positive working capital for each of the five-years under review. At 30 June 2004 the working capital was \$3.496m, giving a current ratio of 2.41, which represented a solid financial position.

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 to 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, was 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 in relation to roads and their related components, Council returned to measuring this asset class on a fair value basis in accordance with the revised accounting standard, which became applicable during that 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.

Non-current investments reflected Council's interest in Cradle Coast Water. During 2003-04, Council revalued its investment based upon its ownership interest and the equity balance of Cradle Coast Water at 30 June 2003. The revaluation resulted in the investment balance increasing by \$0.791m, with a corresponding increase in the asset revaluation reserve.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 485	9 092	9 589	10 579	11 467
Payments to suppliers and employees	(7 734)	(8 849)	(9 368)	(9 855)	(10 897)
Interest received	232	268	209	257	320
Borrowing costs	(338)	(327)	(281)	(262)	(216)
Cash from operations	645	184	149	719	674
Proceeds from investments	0	0	0	200	0
Payments for investments	(46)	(453)	(500)	0	(1 930)
Payments for property, plant and equipment	(2 810)	(2 211)	(3 354)	(4 576)	(4 204)
Proceeds from sale of property, plant and equipment	399	234	431	430	843
Cash used in investing activities	(2 457)	(2 430)	(3 423)	(3 946)	(5 291)
Proceeds from borrowings	400	500	500	300	1 000
Repayment of borrowings	(690)	(728)	(739)	(716)	(709)
Cash from financing activities	(290)	(228)	(239)	(416)	291
Cash Flows from Government	2 003	2 458	2 883	4 134	3 918
Net increase/(decrease) in cash	(99)	(16)	(630)	491	(408)
Cash at the beginning of the period	966	867	851	221	712
Cash at end of the period	867	851	221	712	304

Comment

Cash at the end of 2003-04 equalled \$0.304m, but Council also held current investments of \$4.730m.

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 were grossed up to reflect GST paid to suppliers and GST recoveries.

The increase in Receipts from customers in 2002-03, totalling \$0.990m was 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.

The further increase in Receipts from customers in 2003-04 of \$0.888m was due primarily to an increase in Non-operating revenue from DIER and Crown Land Services for works at the Boat Harbour Beach, and a significant increase in private works undertaken during the financial year.

The increase in Payments to suppliers and employees in 2003-04, reflected Council's expenditure on the CDMA mobile network, totalling \$0.440m and the private work projects.

Council maintained its investment in Property, plant and equipment throughout the period reinvesting a total of \$17.155m in non-current

assets compared with the depreciation expense for the same period totalling \$12.685m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(79)	(382)	436	2 326	2 726
Operating margin	>1.0	0.99	0.97	0.63	1.20	1.22
Financial Management						
Current ratio	>1	1.71	1.87	1.69	1.56	2.41
Cost of debt	7.5%	6.0%	5.7%	5.5%	6.0%	5.9%
Debt service ratio		9.6%	9.1%	8.5%	7.0%	6.1%
Debt collection	30 days	16	27	29	23	32
Creditor turnover	30 days	27	32	30	43	37
Capital Exp/Depreciation	100%	122%	72%	139%	181%	166%
Other information						
Employee costs as % of operating expenses		29%	26%	27%	27%	25%
Staff numbers FTEs		74	71	71	71	81
Average staff costs (\$'000s)		44	46	47	46	42

Comment

The financial performance ratios show that Council recorded an operating surplus in three of the five years under review. In 2003-04, results from operations revealed a surplus of \$2.726m, the best result within the five-year period.

The 2002-03 Result from operations was significantly greater due to the increase in operating revenue. The increase included 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 Results from operations increased in 2003-04 due to further Commonwealth grant funding, of \$1.000m for the Sister beach Sewerage Scheme, a Ratepayer contribution to the Boat Harbour Sewerage Scheme and a general increase in rates and user charges.

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

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

The Debt collection and Creditor turnover ratios were within acceptable limits. The 2002-03 Creditor ratio was greater than the benchmark, but this was the result of the year-end Payables balance including \$0.206m in capital creditors.

The Capital expenditure/depreciation ratio indicated Council is spending greater amounts on capital projects than the depreciation charges incurred. The ratio was considerably greater than the benchmark in 2002-03 and 2003-04 due to Government funding of both the Boat Harbour and Sisters Beach Sewerage Schemes.

Average staff costs remained stable over the period under review. The decrease in 2003-04 was the result of an increase in staff numbers during 2003-04 affecting the calculation. Council had 81 full time equivalent employees at 30 June 2004, an increase of 10 due to the employment on a permanent basis of a number of childcare workers and Council employing several workers, who were previously working as contract labour.

OVERALL COMMENT

In the five years under review Council recorded a total operating surplus of \$8.744m. A significant part of the surplus related to the recognition of Council's interest in Cradle Coast Water, totalling \$4.564m.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 9 September 2004, with amended statements received on 16 September 2004. An unqualified audit report was issued on 22 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	8 911	9 562	9 203	9 463	9 902
User charges	1 139	1 068	1 633	1 885	2 097
Grants	1 631	3 011	2 012	2 150	2 145
Other operating revenue	710	743	756	800	889
Non-operating revenue	366	1 459	466	158	899
Total Revenue	12 757	15 843	14 070	14 456	15 932
Employee costs	3 344	3 420	3 710	3 920	4 183
Borrowing costs	232	224	215	202	175
Depreciation	3 188	3 255	3 201	3 374	3 212
Other operating expenses	5 481	5 627	5 845	5 935	6 504
Non-operating expenses	436	539	136	69	630
Total Expenses	12 681	13 065	13 107	13 500	14 704
Result from Ordinary Activities	76	2 778	963	956	1 228

Comment

Revenue from Rates gradually increased from \$8.911m in 1999-00 to \$9.902m in 2003-04. The increase in rate revenue in 2003-04 of \$0.439m was mainly attributable to a rise in the general rate levied on properties of 3.5%. The increase in grant revenue in 2000-01 (total \$3.011m) was mainly attributable to the receipt of funding of \$1.083m under the Roads to Recovery Programme.

Non-operating revenue in 2000-01 of \$1.459m, was comprised of an increase in Council's equity in Esk Water (\$0.933m); asset takeovers (\$0.470m) and a profit on disposal of property, plant and equipment (\$0.056m). The 2003-04 non-operating revenue of \$0.899m comprised of subdivision assets taken over by Council (\$0.684m) and a profit on disposal of property, plant and equipment (\$0.215m).

Non-operating expenditure in 2003-04 (\$0.630m) was made up of a revaluation decrement relating to land assets of \$0.416m and a loss on disposal of property, plant and equipment of \$0.214m.

The increase in Other operating expenses in 2003-04 of \$0.569m was due to a number of factors including:

- A contribution to the State Government in relation to the Legana landslip;
- Increased community grant funding;
- Payments for the purchase of land under roads; and
- Computer software upgrades and backscanning of records.

Council recorded surpluses from ordinary activities in all five years under review, totalling \$6.001m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	4 202	5 829	5 777	5 713	5 657
Receivables	1 347	1 184	909	940	575
Investments	0	0	0	0	0
Inventories	108	110	126	124	142
Other	59	306	209	128	190
Total Current Assets	5 716	7 429	7 021	6 905	6 564
Payables	511	698	688	515	560
Borrowings	741	759	809	836	808
Provisions	543	572	655	773	864
Other	76	70	52	42	65
Total Current Liabilities	1 871	2 099	2 204	2 166	2 297
Working Capital	3 845	5 330	4 817	4 739	4 267
Property, plant and equipment	91 055	91 241	92 324	92 782	94 247
Investments	12 889	13 822	13 822	13 860	15 378
Other	61	53	44	37	26
Total Non-Current Assets	104 005	105 116	106 190	106 679	109 651
Borrowings	3 406	3 235	2 827	2 291	1 949
Provisions	181	169	175	209	305
Total Non-Current Liabilities	3 587	3 404	3 002	2 500	2 254
Net Assets	104 263	107 042	108 005	108 918	111 664
Reserves	58 909	58 909	58 909	58 909	60 427
Retained surpluses	45 354	48 133	49 096	50 009	51 237
Total Equity	104 263	107 042	108 005	108 918	111 664

Comment

Council's interest in Esk Water was recognised in 1997-98 and was represented by the balance of non-current investments in 1999-00 of \$12.889m. This balance increased by \$0.933m in 2000-01 and by \$0.036m in 2002-03 to reflect the increase in Council's share of the net assets of Esk Water. These adjustments were accounted for as non-operating revenue and recorded in Council's Statement of Financial Performance. The investment balance increased again in 2003-04 by \$1.518m, however this adjustment was recorded as a revaluation adjustment to a non-current asset. The revaluation increment resulted in an increase in the balance of Reserves of \$1.518m.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2002-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	11 872	11 768	12 179	12 607	13 737
Payments to suppliers and employees	(8 616)	(9 653)	(10 111)	(10 677)	(11 344)
Interest received	289	346	370	349	369
Borrowing costs	(232)	(224)	(215)	(203)	(176)
Cash from operations	3 313	2 237	2 223	2 076	2 586
Proceeds from investments	134	1 873	0	0	509
Payments for investments	(2 105)	(1 627)	(746)	(960)	0
Payments for property, plant and equipment	(2 920)	(3 602)	(4 204)	(3 914)	(4 875)
Proceeds from sale of property, plant and equipment	409	238	271	145	442
Cash used in investing activities	(4 482)	(3 118)	(4 679)	(4 729)	(3 924)
Proceeds from borrowings	300	500	400	300	500
Repayment of borrowings	(628)	(757)	(754)	(819)	(854)
Cash from financing activities	(328)	(257)	(354)	(519)	(354)
Cash Flows from Government	1 631	3 011	2 012	2 150	2 145
Net increase/(decrease) in cash	134	1 873	(798)	(1 022)	453
Cash at the beginning of the period	1	135	2 008	1 210	188
Cash at the end of the period	135	2 008	1 210	188	641

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.

According to the above table (which was based on Council's Cash Flow Statement), an increase in cash of \$0.453m was recorded in 2003-04. It is noted that Council's total Cash and Short Term Deposits amounted to \$5.657m at 30 June 2004, compared with \$5.713m at 30 June 2003. This represented an overall decrease in total funds held of \$0.056m. The increase of \$0.453m referred to, plus the overall decrease of \$0.056m

totals \$0.509m, being the proceeds from short-term investments transferred into Council's bank accounts.

Payments for property, plant and equipment in 2003-04 of \$4.875m included contract payments relating to the Beauty Point effluent re-use project and the replacement of the Supply River Bridge.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		146	1 858	633	867	959
Operating margin	>1.0	1.01	1.15	1.05	1.06	1.07
Financial Management						
Current ratio	>1	3.06	3.54	3.19	3.19	2.86
Cost of debt	7.5%	5.6%	5.6%	6.4%	6.4%	6.3%
Debt service ratio		6.9%	6.8%	7.1%	7.1%	6.9%
Debt collection	30 days	49	41	31	30	17
Creditor turnover	30 days	16	27	17	15	16
Capital Exp/Depreciation	100%	92%	111%	131%	116%	152%
Other information						
Employee Costs as % of Operating Expenses		27.31%	27.30%	28.60%	29.19%	29.72%
Staff numbers FTEs		76	79	80	83	84
Average staff costs (\$'000s)		44	43	46	47	50

Comment

The financial performance ratios show that Council has recorded operating surpluses in each of the past five years.

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

Council's cost of debt and debt service ratio remained relatively stable over the five years under review.

The debt collection ratio decreased from 49 days in 1999-00 to 17 days in 2003-04 due to a concerted effort by Council to recover long outstanding rate debtors. The creditor turnover figure was below the benchmark of 30 days for the entire period under review.

Council's capital expenditure to depreciation ratio was higher than the benchmark of 100% for the past four years. The ratio was relatively high in 2003-04 at 152% due to significant capital payments relating to the Beauty Point effluent re-use project and the replacement of the Supply River Bridge (as referred to in the Cash Position section of this Report).

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of \$4.463m.

The 2003-04 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 \$5.500m 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	6 214	5 443	4 009	4 651	5 474	6 017	6 537	4 961
User charges	2 124	1 044	1 342	1 377	960	1 152	1 389	760
Grants	2 551	2 216	3 543	2 074	1 181	5 487	2 471	4 018
Other operating revenue	1 423	979	296	247	569	1 476	475	375
Non-operating revenue	66	362	342	71	587	0	285	111
Total Revenue	12 378	10 044	9 532	8 420	8 771	14 132	11 157	10 225
Employee costs	2 396	2 653	2 313	1 442	2 211	2 984	3 830	4 262
Borrowing costs	389	178	57	265	112	0	217	216
Depreciation	1 857	2 087	3 746	1 375	1 876	3 592	3 991	1 600
Other operating expenses	6 293	4 701	3 746	4 315	3 796	4 407	4 210	4 351
Non-operating expenses	0	325	369	128	571	358	264	118
Total Expenses	10 935	9 944	10 231	7 525	8 566	11 341	12 512	10 547
Result from Ordinary Activities	1 443	100	(699)	895	205	2 791	(1 355)	(322)

Comment

Revenue from Rates and User charges ranged from \$5.351m (Dorset) to \$8.338m (Brighton). The higher revenue recorded by Brighton Council was due to its larger population base, which approximated 13 000 people compared with Dorset's population of 7 500. On average, revenue from Rates, fees and charges represented 65% of total operating revenue for the eight councils for 2003-04.

Government grants and subsidies represented 28% of total operating revenue recorded by the eight councils. Three of the councils derived over 38% of their operating revenue from government sources, with West Coast recording the highest proportion with 40%.

On average, borrowing costs represented 2.5% of total operating expenditure for 2003-04. Northern Midlands had no borrowing costs as the Council repaid its outstanding borrowings during 1999-00. George Town recorded the highest proportion with 3.6%. However, under an agreement relating to its wastewater treatment plant, Council was reimbursed for principal and interest repayments made in relation to its largest debenture loan.

On average, depreciation accounted for 24% of total operating expenditure, with percentages for medium councils ranging from 15.3% (West Coast) to 38.0% (Dorset).

Five of the eight councils recorded surpluses from Ordinary Activities, with the largest surplus being recorded by Northern Midlands. It is significant that Northern Midlands has no borrowing costs and has budgeted to recover the full costs of depreciation. In contrast Dorset and Sorell had not budgeted to recover the increased costs of depreciation resulting from revaluations of non-current assets. West Coast made a small deficit as a result of increased staff costs at its subsidiary, West Coast Health and Community Services Pty Ltd.

FINANCIAL POSITION

	Brighton \$'000s	Derwent Valley \$'000s	Dorset \$'000s	George Town \$'000s	Latrobe \$'000s	Northern Midlands \$'000s	Sorell \$'000s	West Coast \$'000s
Cash	1 597	60	243	692	1 163	656	39	699
Receivables	643	858	825	515	419	677	608	903
Investments	0	400	4 300	0	1 163	6 335	3 724	62
Inventories	159	52	118	0	7	11	27	15
Other	185	53	86	349	191	32	222	107
Total Current Assets	2 584	1 423	5 572	1 556	2 943	7 711	4 620	1 786
Payables	6	658	309	599	798	691	595	489
Borrowings	505	468	159	705	318	0	381	389
Provisions	527	861	646	396	399	620	937	715
Other	1 077	98	236	28	350	326	171	595
Total Current Liabilities	2 115	2 085	1 350	1 728	1 865	1 637	2 084	2 188
Working Capital	469	(662)	4 222	(172)	1 078	6 074	2 536	(402)
Property, plant and equipment	73 603	53 024	111 593	33 167	52 310	156 409	78 455	50 003
Investments	5 799	5 616	0	8 485	3 829	126	2 594	0
Other	85	12	44	0	152	0	932	0
Total Non-Current Assets	79 487	58 652	111 637	41 652	56 291	156 535	81 981	50 003
Borrowings	4 693	1 918	739	2 234	1 880	0	2 706	2 519
Provisions	28	68	90	61	99	170	92	128
Other	0	0	0	37	512	0	0	0
Total Non-Current Liabilities	4 721	1 986	829	2 332	2 491	170	2 798	2 647
Net Assets	75 235	56 004	115 030	39 148	54 878	162 439	81 719	46 954
Reserves	21 119	33 803	42 692	1 766	14 830	49 130	45 386	3 701
Retained Surpluses	54 116	22 201	72 338	37 382	40 048	113 309	36 333	43 253
Total Equity	75 235	56 004	115 030	39 148	54 878	162 439	81 719	46 954

Comment

Five of the eight councils had positive working capital, with Derwent Valley, George Town and West Coast recording relatively small negative working capital balances. The proportion of debt to equity was highest for George Town whose borrowings represented 7.51% of total equity. As noted previously, this Council has an offsetting receivable in relation to its largest loan.

The balance of net assets ranged from \$39.148m (George Town Council) to \$162.439m (Northern Midlands). The larger asset balance recorded by Northern Midlands reflected the fact that this Council is responsible for the longest length of roads in the State.

CASH POSITION

	Brighton \$'000s	Derwent Valley \$'000s	Dorset \$'000s	George Town \$'000s	Latrobe \$'000s	Northern Midlands \$'000s	Sorell \$'000s	West Coast \$'000s
Receipts from customers	9 334	7 278	6 255	7 352	7 201	9 529	8 240	6 942
Payments to suppliers and employees	(8 878)	(7 068)	(7 295)	(5 979)	(6 297)	(8 026)	(8 338)	(9 365)
Interest received	147	100	246	58	158	479	193	47
Borrowing costs	(389)	(181)	(59)	(280)	(112)	0	(217)	(229)
Cash from operations	214	129	(853)	1 151	950	1 982	(122)	(2 605)
Proceeds from investments	148	250	0	0	140	3 518	0	543
Payments for investments	0	0	(200)	0	(109)	0	0	0
Payments for property, plant and equipment	(1 836)	(2 236)	(2 996)	(1 639)	(2 388)	(10 713)	(2 018)	(1 869)
Proceeds from sale of property, plant and equipment	103	357	127	102	544	280	285	108
Cash used in investing activities	(1 585)	(1 629)	(3 069)	(1 537)	(1 813)	(6 915)	(1 733)	(1 218)
Proceeds from borrowings	0	0	25	0	500	0	723	0
Repayment of borrowings	(539)	(438)	(136)	(1 123)	(266)	0	(655)	(364)
Cash from financing activities	(539)	(438)	(111)	(1 123)	234	0	68	(364)
Cash flows from Government	2 511	2 216	3 543	2 074	1 078	5 299	2 471	4 269
Net increase/(decrease) in cash	601	278	(490)	565	449	366	684	82
Cash at the beginning of the period	996	(218)	733	127	714	290	3 079	183
Cash at end of the period	1 597	60	243	692	1 163	656	3 763	265

Comment

Only Dorset Council recorded a net decrease in cash during 2003-04, however it did hold current investments of \$4.300m. The relatively high negative cash flows from operations at Dorset and West Coast related to spending associated with the relatively high level of grants received from Government.

FINANCIAL ANALYSIS

	Bench Mark	Brighton	Derwent Valley	Dorset	George Town	Latrobe	Northern Midlands	Sorell	West Coast
Financial Performance									
Result from operations (\$'000s)		1 377	63	(672)	952	189	3 149	(1 376)	(315)
Operating margin	>1.0	1.13	1.01	0.93	1.13	1.02	1.29	0.89	0.97
Financial Management									
Current ratio	>1	1.22	0.68	4.13	0.90	1.58	4.71	2.22	0.82
Cost of debt	7.5%	7.5%	7.5%	6.3%	7.1%	6.2%	0.0%	7.0%	6.3%
Debt service ratio		7.5%	6.4%	2.1%	16.8%	4.6%	0.0%	8.0%	5.9%
Debt collection	30 days	26	42	56	21	10	20	32	58
Creditor turnover	30 days	0	51	17	20	45	17	52	29
Capital Exp/Depreciation	100%	99%	107%	80%	119%	127%	298%	51%	117%
Other information									
Employee costs as a % of operating expenses		22%	28%	23%	19%	28%	27%	31%	41%
Staff numbers		43	52	50	43	52	69	70	95
Average staff costs (\$'000s)		56	51	46	48	43	43	55	45

Comment

Most medium councils had a positive operating margin and five of the eight councils had working capital ratios above benchmark at 30 June 2004.

The average cost of debt for the medium councils was 6.9%, which was below benchmark. Northern Midlands had no borrowings at 30 June 2004.

The average debt collection period was 33 days, while the average creditor turnover was 29 days. The debt collection periods for Dorset (56 days) and West Coast (58 days) were high as these councils were experiencing difficulties in recovering rate debtors, but were taking action to recover outstanding debts.

With the exception of Sorell, capital expenditure in comparison to depreciation was close to, or above the benchmark. Sorell's low ratio indicates that capital expenditure may not be keeping pace with the depreciation of infrastructure assets.

The average cost of staff for medium councils was \$0.048m, which equated to an average of 27% of operating expenditure.

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 2003-04 FINANCIAL STATEMENTS

Council's financial statements were signed on 28 October 2004 and an unqualified audit report was issued on the same day.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	6 802	7 074	7 157	7 755	8 338
Grants	2 495	1 900	2 061	2 258	2 511
Other operating revenue	275	322	336	402	484
Non-operating revenue	462	1 914	670	420	1 005
Total Revenue	10 034	11 210	10 224	10 835	12 338
Employee costs	1 872	1 989	1 990	2 113	2 396
Borrowing costs	478	491	460	426	389
Depreciation	2 301	2 006	1 775	1 853	1 857
Other operating expenses	5 643	5 767	5 789	5 971	6 293
Non-operating expenses	1 625	113	31	1 559	0
Total Expenses	11 919	10 366	10 045	11 922	10 935
Result from Ordinary Activities	(1 885)	844	179	(1 087)	1 403

Comment

Non-operating revenue generally reflected the disposal proceeds of non-current assets in any given year together with contributions of infrastructure assets by developers.

Non-operating expenses generally reflected 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 was 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 identified that this change in accounting policy had the 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 non-operating expense of \$1.420m in 2002-03. This was ironic since in part, this reflected 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.

Ignoring the impact of Non-operating income and expenditure, Council recorded operating deficits in the first three of these years. Depreciation on road assets was 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 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 then had total revenue and expense in approximate balance. This was evident in improved surpluses before non-operating revenues and expenses of \$0.052m and \$0.398m in 2002-03 and 2003-04 respectively.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	437	322	693	996	1 597
Receivables	1 100	1 082	957	918	643
Inventories	0	190	177	159	159
Other	349	162	95	161	185
Total Current Assets	1 886	1 756	1 922	2 234	2 584
Payables	96	42	71	3	6
Borrowings	386	414	446	478	505
Provisions	340	402	376	415	527
Other	753	633	631	784	1 077
Total Current Liabilities	1 575	1 491	1 524	1 680	2 115
Working Capital	311	265	398	554	469
Property, plant and equipment	58 303	68 963	68 596	73 070	73 603
Investments	6 873	6 873	6 873	5 453	5 799
Other	126	115	104	95	85
Total Non-Current Assets	65 302	75 951	75 573	78 618	79 487
Borrowings	6 588	6 175	5 728	5 251	4 693
Provisions	44	67	89	89	28
Total Non-Current Liabilities	6 632	6 242	5 817	5 340	4 721
Net Assets	58 981	69 974	70 154	73 832	75 235
Reserves	6 204	16 353	16 353	21 119	21 119
Retained surpluses	52 777	53 621	53 801	52 713	54 116
Total Equity	58 981	69 974	70 154	73 832	75 235

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.

Receivables at 30 June 2004 totalled \$0.643m, which included rate receivables of \$0.340m and \$0.195m in relation to water consumption.

These outstanding amounts are fully secured over the properties concerned, and decreased in line with improved debt collection practices.

As noted previously, the Non-current investments decreased in 2002-03 due to the revaluation of Council's interest in Hobart Water.

Total equity increased over the five-year period due principally to the impact of asset revaluations referred to above.

There was also an improving trend in its net working capital position, achieved at the same time as increased investments in capital works.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 696	7 337	7 930	8 376	9 334
Payments to suppliers and employees	(7 792)	(7 582)	(8 181)	(8 405)	(8 878)
Interest received	79	68	83	108	147
Borrowing costs	(581)	(604)	(468)	(426)	(389)
Cash from operations	(1 598)	(781)	(636)	(347)	214
Payments for property, plant and equipment	(1 787)	(836)	(789)	(1 500)	(1 836)
Proceeds from sale of property, plant and equipment	130	138	34	220	103
Other	0	0	127	129	148
Cash used in investing activities	(1 657)	(698)	(628)	(1 151)	(1 585)
Proceeds from borrowings	850	0	0	0	0
Repayment of borrowings	(332)	(536)	(425)	(457)	(539)
Cash from financing activities	518	(536)	(425)	(457)	(539)
Cash Flows from Government	2 495	1 900	2 060	2 258	2 511
Net increase/(decrease) in cash	(242)	(115)	371	303	601
Cash at the beginning of the period	679	437	322	693	996
Cash at end of the period	437	322	693	996	1 597

Comment

Council maintained cash and investment balances at an average of \$0.809m over the five-year period. At the same time, borrowings were reduced resulting in lower borrowing costs.

Government grants constituted 20.4% of revenue in 2003-04 and this cash inflow, together with net cash inflows from operations (\$0.214m), more than offset the investment in property, plant and equipment (\$1.585m) and repayments of borrowings, resulting in the \$0.601m improvement in the cash position as at 30 June 2004.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(722)	(957)	(460)	52	398
Operating margin	>1.0	0.93	0.91	0.95	1.01	1.04
Financial Management						
Current ratio	>1	1.20	1.18	1.26	1.33	1.22
Cost of debt	7.5%	6.9%	7.5%	7.5%	7.4%	7.5%
Debt service ratio		9.5%	12.3%	9.3%	8.5%	8.2%
Debt collection	30 days	59	56	49	42	26
Creditor turnover	30 days	6	3	5	0	0
Capital Exp/Depreciation		78%	42%	44%	81%	99%
Other information						
Employee costs as a % of operating expenses		18%	19%	20%	20%	22%
Staff numbers FTEs		42	40	41	41	43
Average staff costs (\$'000s)		45	50	49	52	56

Comment

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

I commented earlier in this segment of the Report that depreciation on road assets was a major contributing factor to the deficits. 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 remained consistently high, but now stand at 26 days representing an improvement by Council in its debt collection processes. The major components of receivables are outstanding rates and water charges, which account for 70% of the total amount outstanding.

Creditor turnover was 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.

It was pleasing to see that over the past two years Council has begun to fund a sufficient level of capital expenditure, to ensure that asset replacement is consistent with the depreciation charges. This was, however, also aided by reducing depreciation charges as previously outlined.

Staff numbers 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 2003-04 FINANCIAL STATEMENTS

Further to Report No. 2 of 2002-03, Volume 3, page 105, an unqualified audit report was issued on 4 December 2003.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

The financial statements were received on 23 September 2004 and the final phase of the audit was being undertaken at the time of completing this Report. An audit report has yet to be issued. The figures in the following tables are unaudited for 2003-04 and therefore only limited commentary in respect of 2003-04 has been provided.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	5 055	5 082	5 198	5 351	5 443
User Charges	694	769	679	808	1 044
Grants	1 416	2 027	2 038	2 179	2 216
Other operating revenue	228	473	416	512	979
Non-operating revenue	299	215	739	266	362
Total Revenue	7 692	8 566	9 070	9 116	10 044
Employee Costs	2 770	2 658	2 592	2 662	2 653
Borrowing costs	286	263	234	206	178
Depreciation	2 069	1 646	1 703	1 746	2 087
Other operating expenses	3 030	3 353	3 521	4 455	4 701
Non-operating expenses	271	221	549	263	325
Total Expenses	8 426	8 141	8 599	9 332	9 944
Result from Ordinary Activities	(734)	425	471	(216)	100

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 National Heritage Trust projects. The higher level of grant funding, along with other minor increases, has been maintained from 2001-02.

Non-operating revenue generally reflected the proceeds from the disposal of non-current assets in any given year, together with contribution of infrastructure assets by developers. The 2001-02 figure included proceeds from the sale of Lachlan River Investments.

In 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. During 2003-04 Council again carried out a revaluation of infrastructure assets including road assets. This was the principal reason for the increase in depreciation of \$0.341m over the prior year.

Non-operating expenses generally reflected the written down value of assets disposed of during each year. In 2001-02 Council disposed of more assets than in the other years under review.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	8	(83)	66	(218)	60
Receivables	532	529	470	710	858
Investments	600	850	1 000	650	400
Inventories	98	84	66	54	52
Other	139	68	84	37	53
Total Current Assets	1 377	1 448	1 686	1 233	1 423
Payables	220	244	209	325	658
Borrowings	360	385	410	438	468
Provisions	648	701	702	754	861
Other	466	392	310	269	98
Total Current Liabilities	1 694	1 722	1 631	1 786	2 085
Working Capital	(317)	(274)	55	(553)	(662)
Property, plant and equipment	22 069	37 716	37 571	36 646	53 024
Investments	5 122	5 412	5 308	5 269	5 616
Other	122	100	75	83	12
Total Non-Current Assets	27 313	43 228	42 954	41 998	58 652
Borrowings	3 619	3 234	2 824	2 386	1 918
Provisions	32	39	52	56	68
Other	61	31	0	0	0
Total Non-Current Liabilities	3 712	3 304	2 876	2 442	1 986
Net Assets	23 284	39 650	40 133	39 003	56 004
Reserves	3 249	19 480	20 395	16 681	33 803
Retained surpluses	20 035	20 170	19 738	22 322	22 201
Total Equity	23 284	39 650	40 133	39 003	56 004

Comment

Cash balances over the period of review reflected Council's policy for cash management, where increased funds were paid into an investment account. The overdraft in 2000-01 was a timing matter related to the transfer of investment funds. The overdraft in 2002-03 was also a timing matter relating to a large balance of un-presented cheques at year-end.

Other current assets were higher in 1999-00 due to increased prepayments, \$0.110m related to insurance premiums that in other financial years were paid after the end of the financial year.

The significant increases noted in 2000-01 and 2003-04 for Property, plant and equipment were predominantly a result of the revaluations of road infrastructure assets, which amounted to \$15.647m and \$16.378m respectively. These revaluations were also reflected in the balance of Reserves.

The Non-current Investments represent Council's share of the net assets in the Hobart Regional Water Authority.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 750	6 268	6 210	6 296	7 278
Payments to suppliers and employees	(5 834)	(6 043)	(6 192)	(6 938)	(7 068)
Interest received	104	124	125	143	100
Borrowing costs	(260)	(268)	(240)	(211)	(181)
Cash from operations	(240)	81	(97)	(710)	129
Payments for investments	(200)	(250)	(150)	350	250
Payments for property, plant and equipment	(1 503)	(1 802)	(1 991)	(1 959)	(2 236)
Proceeds from sale of property, plant and equipment	295	213	734	266	357
Cash used in investing activities	(1 408)	(1 839)	(1 407)	(1 343)	(1 629)
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	(338)	(360)	(385)	(410)	(438)
Cash from financing activities	(338)	(360)	(385)	(410)	(438)
Cash Flows from Government	1 416	2 027	2 038	2 179	2 216
Net increase/(decrease) in cash	(570)	(91)	149	(284)	278
Cash at the beginning of the period	578	8	(83)	66	(218)
Cash at end of the period	8	(83)	66	(218)	60

Comment

The improving trend in Receipts from customers was related to increases in rates and user charges.

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

The increase of \$0.500m in the Proceeds from the sale of property, plant and equipment for 2001-02 included 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 sold in June 2002.

From 1999-00 capital works were funded from internal funds thereby enabling Council to discontinue its need for borrowings and the level of borrowings declined steadily over the five-year period.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(762)	431	281	(219)	63
Operating margin	>1.0	0.91	1.05	1.03	0.98	1.01
Financial Management						
Current ratio	>1	0.81	0.84	1.03	0.69	0.68
Cost of debt	7.5%	7.2%	7.3%	7.2%	7.3%	7.5%
Debt service ratio		8.1%	7.5%	7.5%	7.0%	6.4%
Debt collection	30 days	32	31	27	39	42
Creditor turnover	30 days	27	27	22	27	51
Capital Exp/Depreciation	100%	73%	109%	117%	112%	107%
Other information						
Employee costs as a % of operating expenses		34%	34%	32%	29%	28%
Staff numbers FTEs		53	54	53	55	52
Average staff costs (\$'000s)		52	49	49	48	51

Comment

The financial performance ratios show Council incurred a small operating loss of \$0.206 for the five-year period to 30 June 2004. Annual results tended to fluctuate with key movements in operating revenues and expenditure. The increase in grant funding and reduced depreciation expense in 2000-01 and 2001-02 aided the return to surpluses in those years. A rise in other expenditure, including materials, in 2002-03 resulted in a deficit. In 2003-04 increases in operating revenues covered the higher costs and the rise in depreciation expense.

Council's Cost of debt remained relatively stable over the period of review with the higher Debt service ratio in 1999-00 being due to lower operating revenues in that year.

Between 1999-00 and 2001-02 the Debt collection ratio was consistently close to the benchmark of 30 days. From 2002-03 Council recorded a higher ratio at year-end. Receivables were higher in both years due mainly to large infrastructure developments in the municipality. In 2003-04 Council was monitoring two major developments expected to be settled in the coming year that constituted 41% of total receivables.

Between 1999-00 and 2002-03 Council was consistently below the benchmark of 30 days for Creditor turnover. In 2003-04 a number of large accounts remained outstanding at year-end resulting in the sharp increase in the ratio.

OVERALL COMMENT

The audit of the financial statements for 2003-04 was nearing finalisation at the time of preparation of this Report.

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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2004 and an unqualified audit report was issued on 25 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	3 084	3 341	3 326	3 771	4 009
User Charges	989	1 059	1 221	1 515	1 342
Grants	2 209	2 663	3 189	3 959	3 543
Other operating revenue	248	269	261	248	296
Non-operating revenue	408	253	192	325	342
Total Revenue	6 938	7 585	8 189	9 818	9 532
Employee costs	1 710	1 882	2 055	2 124	2 313
Borrowing costs	17	14	30	49	57
Depreciation	2 590	2 684	2 758	2 831	3 746
Other operating expenses	2 561	2 534	3 058	4 480	3 746
Non-operating expenses	506	297	183	269	369
Total Expenses	7 384	7 411	8 084	9 753	10 231
Result from Ordinary Activities	(446)	174	105	65	(699)

Comment

Revenue from rates increased from \$3.084m in 1999-00 to \$4.009m in 2003-04, a total increase of \$0.925m or 30%. The implementation of Council's waste management strategy resulted in a number of variable charges replacing the fixed garbage rate during the 2002-03 year. Council introduced two-part water pricing during 2001-02 for the Scottsdale and Bridport townships.

Grant funding increased steadily over the last five years, with a substantial increase during 2002-03, primarily due to receipt of the first instalment of Networking the Nation funding of \$0.687m. During the 2003-04 year the final instalment of Networking the Nation funding was received totalling \$0.308m, a decrease of \$0.379m, contributing to the overall reduction in grant funding of \$0.416m during 2003-04 compared with 2002-03.

Depreciation increased by \$0.915m in 2003-04 due to the revaluation of road and bridge infrastructure assets to fair value at 30 June 2003 and the resulting change in depreciable amounts and useful lives.

Other operating expenses increased in 2002-03 by \$1.422m with the majority of the increase related to the Council's Community Development and Services program, which included expenses associated with Networking the Nation of \$0.697m and on recreational and community facilities, community projects and childcare, youth, aged and disability support services.

Non-operating revenue represented Proceeds on the sale of property, plant and equipment assets. Non-operating expenses generally comprised the written down value of assets at the time of disposal. In 1999-00 the expense item included a land and buildings revaluation decrement of \$0.213m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	315	327	9	734	243
Receivables	553	545	561	863	825
Investments	2 900	3 500	4 200	4 100	4 300
Inventories	161	124	107	124	118
Other	46	86	99	41	86
Total Current Assets	3 975	4 582	4 976	5 862	5 572
Payables	228	318	256	1 108	309
Borrowings	186	53	129	136	159
Provisions	384	404	461	521	646
Other	192	224	247	172	236
Total Current Liabilities	990	999	1 093	1 937	1 350
Working Capital	2 985	3 583	3 883	3 925	4 222
Property, plant and equipment	70 360	70 215	70 468	97 894	111 593
Other	141	106	62	62	44
Total Non-Current Assets	70 501	70 321	70 530	97 956	111 637
Borrowings	1	247	709	873	739
Provisions	46	80	60	80	90
Other	74	38	0	0	0
Total Non-Current Liabilities	121	365	769	953	829
Net Assets	73 365	73 539	73 644	100 928	115 030
Reserves	618	618	618	27 890	42 692
Retained surpluses	72 747	72 921	73 026	73 038	72 338
Total Equity	73 365	73 539	73 644	100 928	115 030

Comment

A bank overdraft was reported during 2001-02 and included in the current Borrowings. The overdraft was the result of timing differences relating to outstanding cheques at year end. Cash reported at 30 June 2003 was greater due to the late June receipt of Networking the Nation funding and the corresponding outflow of cash not being made until the 2003-04 financial year.

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

Both current and non-current Borrowings increased during the 2001-02 and 2002-03 years as Council took out new loans of \$0.570m during 2001-02 and \$0.300m during 2002-03. The overall balance of Borrowings decreased to \$0.898m at 30 June 2004.

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. Further independent revaluations of sewerage and stormwater assets were undertaken at 30 June 2004 resulting in a further net increment to both the asset revaluation reserve and property, plant and equipment assets of \$14.802m.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 004	4 924	5 160	5 687	6 255
Payments to suppliers and employees	(4 242)	(4 724)	(5 674)	(6 467)	(7 295)
Interest received	190	216	176	237	246
Borrowing costs	(17)	(16)	(16)	(48)	(59)
Cash from operations	(65)	400	(354)	(591)	(853)
Proceeds from investments	700	0	0	100	0
Payments for investments	0	(600)	(700)	0	(200)
Payments for property, plant and equipment	(2 483)	(2 798)	(3 150)	(3 143)	(2 996)
Proceeds from sale of property, plant and equipment	286	233	158	228	127
Cash used in investing activities	(1 497)	(3 165)	(3 692)	(2 815)	(3 069)
Proceeds from borrowings	0	300	570	300	25
Repayment of borrowings	(164)	(186)	(53)	(107)	(136)
Cash from financing activities	(164)	114	517	193	(111)
Cash Flows from Government	2 209	2 663	3 189	3 959	3 543
Net increase/(decrease) in cash	483	12	(340)	746	(490)
Cash at the beginning of the period	(168)	315	327	(13)	733
	315	327	(13)	733	243

Comment

Receipts from customers (rates and user charges) and Payments to suppliers and employees increased by 55% and 72% respectively over the past five years. The higher rate of increase in payments was reflected in the negative cash from operations by 30 June 2004 (before accounting for cash flows from Government).

The timing of the new loan for 2001-02 meant that there was no impact on borrowing costs paid in that year. However, Borrowing costs paid increased during 2002-03 and 2003-04 as the loans taken out during 2001-02 and 2002-03 began to be repaid.

Over the five year period under review, Council invested net surplus cash of \$0.700m. The availability of cash for investment has arisen from additional borrowings being held in investment accounts until the funds were expended and delays in spending project grants received from Government.

Payments for property, plant and equipment were relatively consistent during the five years under review as Council continued 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 included the Bridport effluent re-use scheme, Scottsdale water treatment plant upgrade and the construction of waste

transfer stations throughout the municipality. The majority of capital expenditure during 2003-04 was for road and bridge construction totalling \$2.174m, with lesser amounts expended on water, (\$0.175m), and sewerage, (\$0.167m) plant upgrades.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(348)	218	96	9	(672)
Operating margin	>1.0	0.95	1.03	1.01	1.00	0.93
Financial Management						
Current ratio	>1	4.02	4.59	4.55	3.03	4.13
Cost of debt	7.5%	9.1%	5.9%	6.2%	5.8%	6.1%
Debt service ratio		2.8%	2.8%	0.9%	1.6%	2.1%
Debt collection	30 days	50	45	45	60	56
Creditor turnover	30 days	16	22	15	53	17
Capital Exp/Depreciation	100%	96%	104%	114%	111%	80%
Other information						
Employee costs as a % of operating expenses		25%	26%	26%	22%	23%
Staff numbers FTEs		47	49	49	49	50
Average staff costs (\$'000s)		40	42	46	48	50

Comment

The financial performance ratios show that the Council returned positive results from operations during the 2001, 2002 and 2003 financial years. The loss from operations incurred during 2003-04 was primarily due to higher depreciation expense, mainly on road infrastructure following a revaluation at 30 June 2003, and reduced user charges due to the closure of the Simplot factory during the year which was a major trade waste and water user.

Council's Operating margin consistently remained around the benchmark.

Council's Current ratio was consistently above the benchmark indicating that it was able to meet all short-term liabilities.

Decreased interest rates over the last few years assisted Council to keep the Cost of debt lower than the benchmark.

The Debt collection ratio was consistently above the benchmark of 30 days. The increase in 2002-03 was 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. Council took action under the provisions of the *Local Government*

Act 1993 to recover outstanding rate debts. Outstanding rate debts reduced to \$0.151m at 30 June 2004.

The creditor turnover ratio was consistently within benchmark except for the 2002-03 year when the increased result of 55 days 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.

Council's capital expenditure to depreciation ratio was around the benchmark for all five years under review. The ratio decreased during the last year due to the increase in depreciation following the revaluation of road infrastructure previously referred to. Capital expenditure for the year was slightly less than the previous year, but the majority of the decrease in this ratio was due to the increased depreciation.

OVERALL COMMENT

In the five years under review, Council recorded a total operating deficit (excluding non-operating items) of \$0.697m.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2004, with amended statements received on 25 October 2004. An unqualified audit report was issued on 29 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	4 338	4 351	4 255	4 488	4 651
User charges	906	1 254	1 428	1 541	1 377
Grants	1 063	1 434	1 618	1 510	2 074
Other operating revenue	165	167	210	232	247
Non-operating revenue	62	0	0	36	71
Total Revenue	6 534	7 206	7 511	7 807	8 420
Employee costs	1 569	1 569	1 640	1 739	1 442
Borrowing costs	608	546	467	369	265
Depreciation	1 093	1 226	1 419	1 510	1 375
Other operating expenses	2 831	2 951	3 677	3 666	4 315
Non-operating expenses	85	16	10	0	128
Total Expenses	6 186	6 308	7 213	7 284	7 525
Result from Ordinary Activities	348	898	298	523	895

Comment

The increase in Grant revenue from 1999-00 to 2000-01, \$0.371m, was 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 included \$0.306m under the Roads to Recovery Programme. The increase in grant revenue in 2003-04 of \$0.564m was

mainly due to the receipt of \$0.355m for the Low Head Pilot Station Ship Village and \$0.383m in Roads to Recovery funding.

Non-operating revenue and expenditure usually related to the profit/loss on disposal of non-current assets. However, in 1999-00, the Non-operating revenue related to the recognition of non-current assets and in 2003-04 there were prior year adjustments relating to revenues and expenses of \$0.031m and \$0.128m respectively.

Borrowing costs decreased over the five years under review, with no new borrowings taken up during the current period.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	501	801	1 085	436	692
Receivables	1 022	1 110	1 107	1 254	515
Other	23	217	57	234	349
Total Current Assets	1 546	2 128	2 249	1 924	1 556
Payables	407	615	1 003	468	599
Borrowings	963	1 009	1 137	1 431	705
Provisions	203	262	303	299	396
Other	2	17	14	76	28
Total Current Liabilities	1 575	1 903	2 457	2 274	1 728
Working Capital	(29)	225	(208)	(350)	(172)
Property, plant and equipment	32 492	32 738	32 979	32 964	33 167
Investments	8 485	8 485	8 485	8 485	8 485
Other	1 786	1 336	781	211	0
Total Non-Current Assets	42 763	42 559	42 245	41 660	41 652
Borrowings	6 072	5 211	4 163	2 940	2 234
Provisions	58	29	44	66	61
Other	35	77	65	51	37
Total Non-Current Liabilities	6 165	5 317	4 272	3 057	2 332
Net Assets	36 569	37 467	37 765	38 253	39 148
Reserves	967	1 279	1 683	1 706	1 766
Retained surpluses	35 602	36 188	36 082	36 547	37 382
Total Equity	36 569	37 467	37 765	38 253	39 148

Comment

The balance of Current Receivables decreased significantly in 2003-04 due mainly to a reduction in the amount due in relation to the TEMCO loan receivable of \$0.437m. The loan receivable is due to be paid out during 2004-05.

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

Other non-current assets mostly comprised the non-current portion of the TEMCO loan receivable which reduced steadily from \$1.786m at 30 June 2000 to a nil balance at 30 June 2004.

The increase in Payables from 2000-01 to 2001-02, \$0.388m, was 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 managed Council's outside workforce.

The balance of current Borrowings at 30 June 2003 of \$1.431m included a bank overdraft of \$0.308m. This balance decreased by \$0.726m during 2003-04 by eliminating the bank overdraft and utilising funds recovered from TEMCO, \$0.437m, to repay debt.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 002	6 307	6 766	6 869	7 352
Payments to suppliers and employees	(4 563)	(4 639)	(5 179)	(6 365)	(5 979)
Interest received	50	60	56	57	58
Borrowing costs	(606)	(570)	(467)	(379)	(280)
Cash from operations	883	1 158	1 176	182	1 151
Payments for property, plant and equipment	(1 380)	(1 320)	(1 656)	(1 547)	(1 639)
Proceeds from sale of property, plant and equipment	171	40	99	103	102
Cash used in investing activities	(1 209)	(1 280)	(1 557)	(1 444)	(1 537)
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	(810)	(936)	(1 018)	(1 186)	(1 123)
Cash from financing activities	(810)	(936)	(1 018)	(1 186)	(1 123)
Cash Flows from Government	1 063	1 445	1 632	1 541	2 074
Net increase/(decrease) in cash	(73)	387	233	(907)	565
Cash at the beginning of the period	487	414	801	1 034	127
Cash at end of the period	414	801	1 034	127	692

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 was primarily due to the impact of the payables outstanding at 30 June 2002 of \$1.003m.

Repayments of borrowings for the five-year period totalled \$5.073m and resulted in reduced borrowing costs each year.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		371	914	308	487	952
Operating margin	>1.0	1.06	1.15	1.04	1.07	1.13
Financial Management						
Current ratio	>1	0.98	1.12	0.92	0.85	0.90
Cost of debt	7.5%	8.6%	8.3%	8.3%	7.5%	7.1%
Debt service ratio		21.88%	20.90%	19.77%	20.14%	16.80%
Debt collection	30 days	40	40	36	40	21
Creditor turnover	30 days	10	27	57	25	20
Capital Exp/Depreciation	100%	126.26%	107.67%	116.70%	102.45%	119.20%
Other information						
Employee costs as % of operating expenses		25.72%	24.94%	22.77%	23.87%	19.49%
Staff numbers FTEs		32	35	38	41	43
Average staff costs (\$'000s)		49	50	48	47	48

Comment

The financial performance ratios show that Council recorded operating surpluses for all the years under review. The total result from operations for the five-year period was \$3.032m. Council's operating margin remained slightly above the benchmark with the highest level of 1.15 in 2000-01.

Council's Current ratio was close to the benchmark over the past five years and indicated that it was able to meet all short-term liabilities.

The Council's Cost of debt and Debt service ratios have gradually reduced during the five-year period with no new borrowings taken out during that time.

The Debt collection period was below the benchmark of 30 days in 2003-04, the first time in the five years under review. The improvement in the debt collection period was due to a significant reduction in the Receivables balance at 30 June 2004.

The Creditor turnover figure was 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 average staff costs remained fairly stable over the period of the review. Employee costs as a percentage of Operating Expenses decreased in 2003-04 due to an increase of \$0.453m in the value of wages that were capitalised.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from ordinary activities of \$2.962m.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 21 September 2004, with amended statements received on 4 October 2004. An unqualified audit report was issued on 8 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	4 635	4 909	5 049	5 238	5 474
User Charges	641	763	703	732	960
Grants	1 362	1 886	1 028	1 274	1 181
Other operating revenue	463	406	402	471	569
Non-operating revenue	3 197	72	134	545	587
Total Revenue	10 298	8 036	7 316	8 260	8 771
Employee costs	510	930	1 535	1 862	2 211
Borrowing costs	81	87	91	106	112
Depreciation	1 196	1 284	1 585	1 690	1 876
Other operating expenses	4 373	4 106	3 727	3 606	3 796
Non-operating expenses	76	937	365	418	571
Total Expenses	6 236	7 344	7 303	7 682	8 566
Result from Ordinary Activities	4 062	692	13	578	205

Comment

Revenue from Rates, and user charges increased steadily during the period under review. The increase in grant revenue from 1999-00 to 2000-01, \$0.524m, was mainly attributable to funding of \$0.700m for Bakers Beach Road.

Non-operating revenue in 1999-00 of \$3.197m included \$3.160m related to the recognition of the Council's interest in Cradle Coast Water. Non-operating revenue in 2002-03 of \$0.545m included \$0.223m related to the increase in Council's investment to reflect Cradle Coast Water's equity balance as at 30 June 2002.

Non-operating revenue in 2003-04 of \$0.587m consisted of proceeds from the disposal of assets, the majority of which related to the disposal of land at the Latrobe and Port Sorell Industrial Estates.

The increase in depreciation expense in 2001-02, \$0.301m was due principally to the effect of an upward revaluation of road assets effective from 30 June 2001. The increase in depreciation expense in 2003-04, \$0.186m, was primarily attributable to water infrastructure assets, which increased by \$0.107m as a result of a revaluation effective from 1 July 2003 and a reassessment of useful lives.

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

Council recorded surpluses in the five years under review totalling \$5.550m. The higher surplus recorded in 1999-00 was due mainly to the \$3.160m revenue item related to the recognition of Council's interest in Cradle Coast Water.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 095	1 073	841	714	1 163
Receivables	254	235	223	262	419
Investments	250	517	1 046	1 102	1 163
Inventories	0	0	5	6	7
Other	89	262	72	119	191
Total Current Assets	1 688	2 087	2 187	2 203	2 943
Payables	481	643	405	436	798
Borrowings	139	156	175	264	318
Provisions	176	191	302	322	399
Other	46	141	87	134	350
Total Current Liabilities	842	1 131	969	1 156	1 865
Working Capital	846	956	1 218	1 047	1 078
Property, plant and equipment	37 487	44 585	45 557	46 316	52 310
Investments	4 415	4 532	3 278	3 501	3 829
Other	143	0	0	0	152
Total Non-Current Assets	42 045	49 117	48 835	49 817	56 291
Borrowings	1 273	1 316	1 342	1 586	1 880
Provisions	31	33	34	64	99
Other	663	535	475	492	512
Total Non-Current Liabilities	1 967	1 884	1 851	2 142	2 491
Net Assets	40 924	48 189	48 202	48 722	54 878
Reserves	2 306	8 880	8 880	8 880	14 830
Retained surpluses	38 618	39 309	39 322	39 842	40 048
Total Equity	40 924	48 189	48 202	48 722	54 878

Comment

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

Property, plant and equipment increased by \$5.994m in 2003-04. The increase was mainly due to the revaluation increment relating to water infrastructure of \$4.894m.

The increase in Non-current Investments in 1999-00, \$3.047m, principally related to the recognition of Council's interest in the equity of Cradle Coast Water, while the decrease in 2001-02, \$1.254m, was due to the wind-up of the Kentish-Latrobe Joint Authority. The Authority officially ceased in April 2002, however the employees and assets had been 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 was 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. Non-current borrowings increased again in 2003-04 by \$0.294m due to the draw-down of a new loan of \$0.500m.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 606	6 195	6 455	6 645	7 201
Payments to suppliers and employees	(4 887)	(5 359)	(5 818)	(5 829)	(6 297)
Interest received	90	145	120	128	158
Borrowing costs	(81)	(87)	(91)	(106)	(112)
Cash from operations	728	894	666	838	950
Proceeds from investments	83	88	580	160	140
Payments for investments	(100)	(303)	(554)	(139)	(109)
Payments for property, plant and equipment	(2 362)	(2 720)	(2 130)	(2 538)	(2 388)
Proceeds from sale of property, plant and equipment	37	72	134	322	544
Cash used in investing activities	(2 342)	(2 863)	(1 970)	(2 195)	(1 813)
Proceeds from borrowings	200	200	200	200	500
Repayment of borrowings	(129)	(139)	(156)	(209)	(266)
Cash from financing activities	71	61	44	(9)	234
Cash Flows from Government	1 364	1 886	1 028	1 239	1 078
Net increase/(decrease) in cash	(179)	(22)	(232)	(127)	449
Cash at the beginning of the period	1 274	1 095	1 073	841	714
Cash at the end of the period	1 095	1 073	841	714	1 163

Comment

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

The proceeds from sale of assets in 2003-04, \$0.544m, related to \$0.173m for plant sales and \$0.311m for land sales at the Latrobe and Port Sorell Industrial Estates.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		941	1 557	244	451	189
Operating margin	>1.0	1.15	1.24	1.04	1.06	1.02
Financial Management						
Current ratio	>1	2.00	1.85	2.26	1.91	1.58
Cost of debt	7.5%	6.3%	6.4%	6.4%	6.3%	6.2%
Debt service ratio		3.0%	2.8%	3.4%	4.1%	4.6%
Debt collection	30 days	18	15	14	16	10
Creditor turnover	30 days	19	29	17	22	45
Capital Exp/Depreciation	100%	197.49%	211.84%	134.38%	150.18%	127.29%
Other Information						
Employee costs as % of operating expenses		8.28%	14.52%	22.12%	25.63%	27.65%
Staff numbers FTEs		9	19	46	45	52
Average staff costs (\$'000s)		57	49	36	41	43

Comment

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

Council's Current ratio was above the benchmark for the past five years and indicated that the Council was able to meet all short-term liabilities.

The Cost of debt remained fairly consistent throughout the five-year period.

The Debt collection ratio was below the benchmark of 30 days for the past five years. The Creditor turnover figure was greater than 30 days in 2003-04 due to a number of large invoices for capital works outstanding at 30 June.

The capital expenditure to depreciation ratio was above the benchmark of 100% in all five years under review. A ratio of 211.84% was recorded in 2000-01 due to significant expenditure on road infrastructure assets. Grant funding of \$0.700m was received in 1999-00 for Bakers Beach Road, the majority of which was expended in 2000-01.

Employee costs as a % of operating expenses and average staff costs for the three years to 30 June 2002 were distorted by the transfer of staff between the Council and the Joint Authority.

OVERALL COMMENT

In the period under review, Council recorded a total operating surplus (excluding non-operating items) of \$3.382m.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2004, with amended statements received on 28 October 2004. An unqualified audit report was issued on 29 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	5 411	5 221	5 441	5 638	6 017
User charges	548	962	871	992	1 152
Grants	3 874	5 344	4 202	4 513	5 487
Other operating revenue	1 066	1 061	1 209	1 318	1 476
Non-operating revenue	78	0	0	0	0
Total Revenue	10 977	12 588	11 723	12 461	14 132
Employee costs	2 163	2 448	2 580	2 804	3 010
Borrowing costs	33	0	0	0	0
Depreciation	3 753	3 731	3 205	3 215	3 592
Other operating expenses	3 385	4 237	4 415	4 456	4 407
Non-operating expenses	224	472	1 258	482	358
Total Expenses	9 558	10 888	11 458	10 957	11 367
Result from Ordinary Activities	1 419	1 700	265	1 504	2 765

Comment

Revenue from Rates, and user charges increased steadily during the period under review. The increase in grant revenue from 1999-00 to 2000-01, \$1.470m, was mainly due to the receipt of \$1.077m under the Clean Quality Water Program. Grant revenue in 2003-04, \$5.487m, included \$1.049m in Roads to Recovery funding, \$0.400m for water treatment, \$0.222m for the Longford Flood Mitigation Project and \$0.160m in Networking the Nation funding.

The decrease in depreciation expense from 2000-01 to 2001-02, \$0.526m was 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. In 2003-04, depreciation expense increased by \$0.377m due mainly to an increase of \$0.292m relating to Sewerage infrastructure assets. The useful lives of sewerage infrastructure assets were reviewed as part of a revaluation effective 1 July 2003. The expected life of some classes of sewer pipe was reduced from 70 years to 45 years, resulting in an increase in depreciation expense.

No Borrowing costs were recorded since 1999-00 due to the repayment of borrowings in that year. The increase in Employee costs and Other operating expenses from 1999-00 to 2000-01 was 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 recorded surpluses from ordinary activities in all five years under review. The total Result from Ordinary Activities for the five years was a surplus of \$7.679m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 276	327	264	290	656
Receivables	718	888	647	974	677
Investments	6 508	10 513	12 127	9 854	6 335
Inventories	17	28	32	21	11
Other	40	32	32	70	32
Total Current Assets	8 559	11 788	13 102	11 209	7 711
Payables	701	307	585	438	691
Borrowings	0	0	0	0	0
Provisions	456	481	520	560	620
Other	142	119	147	139	326
Total Current Liabilities	1 299	907	1 252	1 137	1 637
Working Capital	7 260	10 881	11 850	10 072	6 074
Property, plant and equipment	99 109	98 251	137 392	140 786	156 409
Receivables	0	0	0	0	126
Other	778	446	64	32	0
Total Non-Current Assets	99 887	98 697	137 456	140 818	156 535
Borrowings	0	0	0	0	0
Provisions	48	83	92	134	170
Total Non-Current Liabilities	48	83	92	134	170
Net Assets	107 099	109 495	149 214	150 756	162 439
Reserves	25	721	40 174	40 213	49 130
Retained surpluses	107 074	108 774	109 040	110 543	113 309
Total Equity	107 099	109 495	149 214	150 756	162 439

Comment

The increase in Receivables in 2002-03 of \$0.327m was 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 and 2003-04 was 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, was due mainly to the revaluation of road assets effective from 1 July 2001. The revaluation also resulted in a similar increase in the Asset Revaluation Reserve, \$39.453m.

Property, plant and equipment increased by \$15.623m in 2003-04. The increase was mainly due to revaluation increments relating to Sewerage, Water, Stormwater and Bridge assets totalling \$8.918m and an increase

in work-in-progress balances of \$7.485m. The increase in work-in-progress was principally due to the construction of the Longford water treatment plant.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 775	7 041	7 813	8 057	9 529
Payments to suppliers and employees	(4 931)	(6 952)	(7 215)	(8 280)	(8 026)
Interest received	474	722	627	670	479
Borrowing costs	(48)	0	0	0	0
Cash from operations	2 270	811	1 225	447	1 982
Proceeds from investments	0	0	0	2 273	3 518
Payments for investments	(1 001)	(4 005)	(1 614)	0	0
Payments for property, plant and equipment	(4 100)	(3 405)	(4 090)	(7 022)	(10 713)
Proceeds from sale of property, plant and equipment	236	290	194	103	280
Cash used in investing activities	(4 865)	(7 120)	(5 510)	(4 646)	(6 915)
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	(440)	0	0	0	0
Cash from financing activities	(440)	0	0	0	0
Cash Flows from Government	3 874	5 360	4 222	4 225	5 299
Net increase/(decrease) in cash	839	(949)	(63)	26	366
Cash at the beginning of the period	437	1 276	327	264	290
Cash at the end of the period	1 276	327	264	290	656

Comment

Council made significant investments in capital works in 2002-03 and 2003-04 totalling \$17.735m, predominantly for the construction of the Longford water treatment plant, \$8.890m, Clean Quality Water upgrades of \$1.660m at Campbell Town, Cressy, Perth and Evandale, and completion of the Barton Road Bridge at \$0.566m.

During these two years investments totalling \$5.791m were drawn upon to assist fund this capital expenditure.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		1 565	2 172	1 523	1 986	3 123
Operating margin	>1.0	1.17	1.21	1.15	1.19	1.28
Financial Management						
Current ratio	>1	6.59	13.00	10.46	9.86	4.71
Cost of debt	7.5%	-	-	-	-	-
Debt Service Ratio		-	-	-	-	-
Debt collection	30 days	19	32	34	33	20
Creditor turnover	30 days	34	15	25	14	17
Capital Exp/Depreciation	100%	109.25%	91.26%	127.61%	218.41%	298.25%
Other information						
Employee costs as % of operating expenses		23.17%	23.50%	25.29%	26.77%	27.34%
Staff numbers FTEs		53	65	64	64	69
Average staff costs (\$'000s)		41	38	40	44	44

Comment

The financial performance ratios showed that Council recorded operating surpluses in the last five years. The total result from operations for the period under review was \$10.395m.

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 was due mainly to the higher investment balance combined with a reduction in creditor balances. The expenditure on capital works in the past two years lead to a decrease in the current ratio to 4.71 at 30 June 2004.

Cost of debt and Debt service ratios were not calculated as Council repaid its borrowings during the 1999-00 year.

The Debt collection ratio was above the benchmark of 30 days for three of the five years under review due to the impact of water by measure charges being raised in June. The water by measure charges were raised in May 2004 resulting in a debt collection ratio of 20 days for 2003-04.

The Creditor turnover figure was below the benchmark of 30 days for all years except 1999-00 (34 days). The relatively high turnover figure in 1999-00 was due to a number of large invoices outstanding at 30 June 2000 relating to capital works.

The employee costs as a percentage of operating expenses and average staff costs were relatively stable for the five years under review.

OVERALL COMMENT

Council recorded a total surplus from operations in the five years under review of \$10.395m.

The 2003-04 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 acquired a portion of the former Richmond Council when it was absorbed by Clarence City Council, but had to surrender from South of Dunalley to Eagle Hawk Neck to the Tasman Council. The population serviced by the Sorell Council is of the order of 11 000 people.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

The financial statements of the Sorell Council were received on 29 October 2004 and the final phase of the audit was being undertaken at the time of completing this Report. The audit report has not yet been issued. The figures in the following tables are unaudited for 2003-04 and therefore only limited commentary in respect of 2003-04 has been provided.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	5 530	5 530	5 847	6 167	6 537
User Charges	1 230	1 516	889	1 170	1 389
Grants	1 758	1 948	2 308	2 487	2 471
Other operating revenue	316	313	398	424	475
Non-operating revenue	188	324	410	203	285
Total Revenue	9 022	9 631	9 852	10 451	11 157
Employee Costs	2 290	2 486	2 790	3 215	3 830
Borrowing costs	204	231	269	236	217
Depreciation	1 875	2 032	2 062	3 854	3 991
Other operating expenses	4 014	4 567	4 199	4 007	4 210
Non-operating expenses	78	291	291	698	264
Total Expenses	8 461	9 607	9 611	12 010	12 512
Result from Ordinary Activities	561	24	241	(1 559)	(1 355)

Comment

With increased activity revenue from Rates increased steadily since 2000-01. The higher User charges in 2000-01 were due to contributions towards the Copping tip site received from the other two constituent

councils. User charges declined in 2001-02 due to a number of factors including reduced water consumption, a fall in activity for parents' fees, building fees, inspection fees and a number of other items. From 2002-03 onwards these items recorded growth along with other user charges, such as subdivision fees and reservoir contributions.

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

Non-operating revenue generally reflected the proceeds from the disposal of non-current assets and non-cash contributions, such as subdivision roads.

Higher Other operating expenses in 2000-01 were related to expenditure on the Copping Waste Management Site and the Orielton Lagoon project.

Depreciation expense increased significantly in 2002-03 due to the revaluation of roads and was, along with large increases in payroll costs, particularly in 2003-04, the main reasons why Council incurred deficits in each of these two financial years. Reasons for increases in employee costs are set out under the Cash Position section of this report.

Non-operating expenses generally reflected the carrying value of plant and equipment disposals and in 2002-03 included a revaluation expense related to Council's investment in the Hobart Regional Water Authority of \$0.539m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	28	336	16	206	39
Receivables	1 101	973	739	676	608
Investments	2 823	3 230	3 052	2 873	3 724
Inventories	6	6	22	32	27
Other	77	63	128	203	222
Total Current Assets	4 035	4 608	3 957	3 990	4 620
Payables	22	1 267	465	400	595
Borrowings	509	512	518	652	381
Provisions	449	444	672	768	937
Other	509	174	442	347	171
Total Current Liabilities	1 489	2 397	2 097	2 167	2 084
Working Capital	2 546	2 211	1 860	1 823	2 536
Property, plant and equipment	39 242	45 159	45 035	80 482	78 455
Investments	2 978	2 978	2 978	2 439	2 594
Other	443	328	433	710	932
Total Non-Current Assets	42 663	48 465	48 446	83 631	81 981
Borrowings	3 067	2 970	2 556	2 419	2 706
Provisions	100	97	67	67	92
Other	72	36	0	0	0
Total Non-Current Liabilities	3 239	3 103	2 623	2 486	2 798
Net Assets	41 970	47 573	47 683	82 968	81 719
Reserves	3 831	8 957	8 885	45 411	45 386
Retained surpluses	38 139	38 616	38 798	37 557	36 333
Total Equity	41 970	47 573	47 683	82 968	81 719

Comment

Receivables have declined over the five-year period of review. The higher amount in 1999-00 was due to the reimbursement of costs amounting to \$0.280m from the other two participating councils for preliminary work done on the Copping Waste Management Project. From this high level, a continued reduction was evident demonstrating Council's active management of outstanding accounts.

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

A revaluation of roads and bridges in 2002-03 amounting to \$36.666m resulted in a significant increase in the value of Property, plant and equipment, and was also reflected in the increase in the asset revaluation reserve to \$45.411m.

Non-current investments represented Council's interest in the Hobart Regional Water Authority. During 2002-03 Council's interest in Hobart Water declined \$0.539m due to market valuations, as referred to earlier in this segment of the Report.

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

The increase in the current Provisions over the last three years was principally due to increases in the value of accrued employee annual leave and long service leave benefits.

Other current liabilities increased in 1999-00 by \$0.316m, which was 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.

Council Reserves consist primarily of the Asset Revaluation Reserve.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 462	8 022	7 277	7 410	8 240
Payments to suppliers and employees	(6 468)	(6 469)	(7 093)	(7 317)	(8 338)
Interest received	334	298	151	186	193
Borrowing costs	(203)	(210)	(269)	(236)	(217)
Cash from operations	125	1 641	66	43	(122)
Payments for property, plant and equipment	(2 754)	(2 698)	(3 152)	(2 623)	(2 018)
Proceeds from sale of property, plant and equipment	188	324	410	203	285
Cash used in investing activities	(2 566)	(2 374)	(2 742)	(2 420)	(1 733)
Proceeds from borrowings	513	511	538	529	723
Repayment of borrowings	(597)	(594)	(908)	(502)	(655)
Cash from financing activities	(84)	(83)	(370)	27	68
Cash Flows from Government	1 758	1 949	2 547	2 361	2 471
Net increase/(decrease) in cash	(767)	1 133	(499)	11	684
Cash at the beginning of the period	3 201	2 434	3 567	3 068	3 079
Cash at end of the period	2 434	3 567	3 068	3 079	3 763

Comment

Council maintained cash balances at an average of \$3.182m over the five-year period. The decrease in cash noted for 1999-00 was due to increased expenditure on the Orielton Lagoon project.

The significant increase in cash holdings in 2000-01 resulted mainly from higher user charges of \$1.516m in that year. This included funding for works at the Copping tip site received from the other two constituent Councils. In 2001-02, the reduced cash from operations was partially offset by an increase in grant funding of \$0.598m. However a resultant drop in receipts from customers caused a decrease in cash in that year.

During the 2002-03 financial year, there was an increase in payments to suppliers and employees. This was a result of staff resigning, retiring or having Council terminate their employment. Employee costs continued to rise in 2003-04 reflecting a full year impact of increased salaries and wages, contributing to the further rise in payments to suppliers and employees.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		451	(9)	122	(1 064)	(1 376)
Operating margin	>1.0	1.05	1.00	1.01	0.91	0.89
Financial Management						
Current ratio	>1	2.71	1.92	1.89	1.84	2.22
Cost of debt	7.5%	5.7%	6.6%	8.8%	7.7%	7.0%
Debt service ratio		9.1%	8.6%	12.5%	7.2%	8.0%
Debt collection	30 days	69	61	43	37	32
Creditor turnover	30 days	2	101	40	36	52
Capital Exp/Depreciation	100%	147%	133%	153%	68%	51%
Other information						
Employee costs as a % of operating expenses		27%	27%	30%	28%	31%
Staff numbers FTEs		64	61	70	69	70
Average staff costs (\$'000s)		36	41	40	47	55

Comment

The deficits from operations in the last two years resulted from Council not budgeting to cover the full costs of increased depreciation expense following a revaluation of roads and bridges and contributed towards Council falling below the operating margin benchmark.

During 2001-02 Council restructured some of its borrowings portfolio resulting in the higher Cost of debt and Debt service ratios.

The Debt collection ratio consistently exceeded the benchmark of 30 days, however it is showing a downward trend. During 2000-01, it was noted that there had been a change in policy over the management of debtors as Council endeavoured to lower outstanding debts.

A sharp increase in Creditor turnover in 2000-01 was caused by the late forwarding of significant invoices referred to earlier in this segment of the Report. Creditor turnover has continued to remain above the benchmark since that period.

The high ratio of capital expenditure to depreciation expense in the first three years under review was a result of significant expenditure

associated with the Copping Waste Disposal Site and the Orielton Lagoon project. However in the last two years capital expenditure did not keep pace with depreciation in the road network following revaluation of roads in 2002-03.

OVERALL COMMENT

The audit of the 2003-04 financial statements was nearing finalisation at the time of preparation of this Report.

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 was a fully owned subsidiary of Council.

As a result of a review conducted by the Tasmanian Government of all state funded medical and health related organisations in the North-West and Western areas of the state the majority of the operations of WCH&CS are being transferred back to the State Government during the 2004-05 year.

A number of non-profit services, which were unable to be transferred to State control due to funding restrictions, were transferred to form part of the community services department of Council on 1 July 2004. These include West Coast Crisis Accommodation, Family Support and Lil Possums Childcare Centre.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2004 with amended statements received on 29 October 2004. The audit of the financial statements is currently in progress.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	3 736	4 003	4 434	4 641	4 961
User Charges	642	655	857	853	760
Grants	2 605	3 136	3 933	6 119	4 018
Other operating revenue	392	408	252	225	375
Non-operating revenue	686	133	137	167	111
Total Revenue	8 061	8 335	9 613	12 005	10 225
Employee Costs	2 929	3 212	3 682	4 062	4 262
Borrowing costs	116	152	175	212	216
Depreciation	1 448	1 476	1 439	1 526	1 600
Other operating expenses	3 291	3 427	3 384	3 682	4 351
Non-operating expenses	502	45	154	132	118
Total Expenses	8 286	8 312	8 834	9 614	10 547
Result from Ordinary Activities	(225)	23	779	2 391	(322)

Comment

Revenue from Rates, and user charges increased by \$1.225m over the five-year period under review. This represented an average annual increase of approximately 7.5%.

Grant revenue increased by \$0.531m during 2002-03 primarily 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 due to funding from the Clean Quality Water and Riverwork Programs of \$0.900m for a Strahan Wastewater treatment upgrade. Grant income in 2002-03 increased by \$2.186m as a result of a State Government grant of \$2.5m to assist in the completion of the Strahan Wastewater treatment upgrade.

Staff costs increased by 46% over the period under review primarily due to additional staff engaged by WCH&CS particularly in 2001-02 to 2003-04.

Non-operating revenue and expenses included the gross proceeds from sale and carrying values of assets sold respectively.

The 1999-2000 Non-operating revenue balance included consideration, \$0.605m relating to the sale of the Strahan Caravan Park. The Non-operating expenditure included the written down value of the park, comprising land totalling \$0.139m and buildings, \$0.255m.

In the first year under review, the Council incurred a loss from ordinary activities. The loss primarily reflected Council's 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 the Strahan sewerage scheme. The surplus for 2002-03 of \$2.391m was again attributable to funding for the upgrade of the Strahan sewerage scheme, totalling \$2.500m. The expenditure of the funding, being of a capital nature, was not reflected in the operating result for either 2001-02 or 2002-03.

A loss from ordinary activities was incurred during 2003-04. This was caused by a combination of a loss incurred by Council of \$0.173m and a loss incurred by WCH&CS totalling \$0.149m. Greater operational costs in sewerage schemes, bridge maintenance, community amenities and community services along with decreased grant funding contributed to the loss during the current year.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	964	1 554	983	185	699
Receivables	809	1 044	1 365	1 403	903
Investments	224	564	1 304	604	62
Inventories	25	16	16	15	15
Other	51	39	37	16	107
Total Current Assets	2 073	3 217	3 705	2 223	1 786
Payables	266	493	369	630	489
Borrowings	369	480	390	402	389
Provisions	401	400	471	559	715
Other	175	282	222	262	595
Total Current Liabilities	1 211	1 655	1 452	1 853	2 188
Working Capital	862	1 562	2 253	370	(402)
Property, plant and equipment	44 977	44 929	45 617	49 942	50 003
Investments	28	0	0	0	0
Total Non-Current Assets	45 005	44 929	45 617	49 942	50 003
Borrowings	1 567	2 204	2 813	2 908	2 519
Provisions	88	81	72	128	128
Other	29	0	0	0	0
Total Non-Current Liabilities	1 684	2 285	2 885	3 036	2 647
Net Assets	44 183	44 206	44 985	47 276	46 954
Reserves	3 701	3 701	3 701	3 701	3 701
Retained surpluses	40 482	40 505	41 284	43 575	43 253
Total Equity	44 183	44 206	44 985	47 276	46 954

Comment

The balance of receivables increased by \$0.321m in 2001-02, due to increased rate debtors. The balance remained constant in 2002-03. A significant reduction in rate debtors was noted during 2003-04. This was partially due to the write-off of bad debts of \$0.256m and Section 137 property sales held by the Council during the financial year to recover unpaid rates. Council continued to undertake appropriate action in an attempt to reduce the balance outstanding.

The balance of Property, plant and equipment 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 related 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 included an amount of \$0.134m payable to Civil Construction Services Corporation for capital works for the Braddon Street bridge. In addition, a further \$0.053m was 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 represented \$0.249m in capital creditors. In particular, \$0.096m related to works on the Wilsdon Street bridge and \$0.049m in road works.

Other current liabilities included the payroll accrual, which varied depending upon the date of the final payroll to 30 June, the loan interest accrual and Council's GST liability at balance date. Other liabilities at 30 June 2004 included funds held in trust totalling \$0.431m from the Section 137 sale of properties for unpaid rate debts.

Council's Borrowings increased over the period under review. In 1999-00, Council entered into a finance lease agreement to purchase a truck, \$0.137m and borrowed \$0.558m to fund the 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. No new borrowings were taken out during 2003-04.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 756	5 068	5 563	5 618	6 942
Payments to suppliers and employees	(6 205)	(6 621)	(7 675)	(8 245)	(9 365)
Interest received	62	76	94	84	47
Borrowing costs	(130)	(140)	(162)	(181)	(229)
Cash from operations	(1 517)	(1 617)	(2 180)	(2 724)	(2 605)
Proceeds from investments	0	0	0	699	543
Payments for investments	0	(340)	(740)	0	0
Payments for property, plant and equipment	(1 240)	(1 469)	(2 281)	(5 741)	(1 869)
Proceeds from sale of property, plant and equipment	664	49	119	165	108
Cash used in investing activities	(576)	(1 760)	(2 902)	(4 877)	(1 218)
Proceeds from borrowings	695	1 058	1 000	500	0
Repayment of borrowings	(291)	(351)	(422)	(392)	(364)
Cash from financing activities	404	707	578	108	(364)
Cash Flows from Government	2 526	3 260	3 933	6 693	4 269
Net increase/(decrease) in cash	837	590	(571)	(800)	82
Cash at the beginning of the period	127	964	1 554	983	183
Cash at the end of the period	964	1 554	983	183	265

Comment

Receipts from customers during 2003-04 included an increase in rate receipts of \$0.924m over the prior year. This was primarily due to Council's continued efforts at collecting outstanding rate debts from prior years.

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

The 2003-04 Payments to suppliers and employees increased primarily due to increases in Council operating costs in areas such as sewerage and water treatment plants and road maintenance.

The outflows in Payments for property, plant and equipment during 2000-01 represented 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 included \$0.723m relating to works in progress for the Strahan wastewater treatment upgrade and the upgrade of the Rosebery sewerage treatment plant totalling \$0.777m.

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

In 1999-2000, the balance of proceeds from sale of assets included \$0.605m for the sale of the Strahan caravan park.

Significant new borrowings were received over the first four years under review. The new borrowings are detailed in the Financial Position section earlier in this segment of the Report.

Council's cash position decreased significantly in the later years under review primarily as a result of the abovementioned outflows on property, plant and equipment.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(409)	(65)	796	2 356	(315)
Operating margin	>1.0	0.95	0.99	1.09	1.25	0.97
Financial Management						
Current ratio	>1	1.71	1.94	2.55	1.20	0.82
Cost of debt	7.5%	6.0%	7.1%	6.9%	6.3%	6.3%
Debt service ratio		5.7%	6.0%	6.2%	4.8%	5.9%
Debt collection	30 days	67	82	94	93	58
Creditor turnover	30 days	21	37	24	24	29
Capital Exp/Depreciation	100%	86%	100%	159%	376%	117%
Other information						
Employee costs as a % of operating expenses		38%	39%	42%	43%	41%
Staff numbers FTEs		75	75	78	86	95
Average staff costs (\$'000s)		39	43	47	48	45

Comment

Council was below the Operating margin benchmark for the initial two years under review due to recording a deficit from operations in each of those periods. The losses could not be attributed to any particular events, but also reflected 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 was of a capital nature, was not reflected in the operating results. A further loss from operations during 2003-04 was due to the combined losses incurred by both Council and WCH&CS discussed in the Financial Performance section earlier in this segment of the Report.

The Cost of debt ratio improved over the last two years. This was the result of older loans being repaid during the period, whilst new loans drawn were able to take advantage of the lower interest rates in the financial market.

The Debt collection ratio was consistently above the benchmark of 30 days. The gradual increase was due to increased rate debtors at the end of each financial period. As noted previously, Council attempted to address problems in the recovery of longer-term rate debtors, which has reflected in the improved debt collection ratio for 2003-04.

The Creditor turnover ratio was lower than 30 days for four of the five years under review. The 2000-01 and 2002-03 ratios reflected material capital creditors, which were outstanding at each balance date.

Council's capital expenditure to depreciation ratio was at least at benchmark for the last four years under review. The 2002-03 ratio was significantly higher due to payments for the completion of the Strahan sewerage scheme upgrade.

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

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of \$2.363m.

The 2003-04 audit is currently in progress.

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 \$5.500m.

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	3 866	1 691	619	4 417	2 688	1 631	2 665	1 534
User charges	1 035	1 612	168	1 172	419	845	586	481
Grants	2 478	2 009	1 694	3 933	1 791	1 452	3 647	3 102
Other operating revenue	422	607	687	1 052	237	248	288	373
Non-operating revenue	0	410	5	0	183	41	279	183
Total Revenue	7 801	6 329	3 173	10 574	5 318	4 217	7 465	5 673
Employee costs	2 240	1 489	756	3 385	1 104	1 407	1 724	2 563
Borrowing costs	114	0	0	205	37	26	115	57
Depreciation	2 000	2 795	1 381	1 525	1 220	1 221	2 444	633
Other operating expenses	3 379	1 978	1 221	4 478	2 522	1 482	2 367	1 901
Non-operating expenses	633	1 714	0	197	297	19	420	129
Total Expenses	8 366	7 976	3 358	9 790	5 180	4 155	7 070	5 283
Result from Ordinary Activities	(565)	(1 647)	(185)	784	138	62	395	390

Comment

Revenue from Rates ranged from \$0.619m (Flinders) to \$4.417m (Glamorgan-Spring Bay). The higher revenues recorded by Glamorgan-

Spring Bay and Break O'Day were due to their larger population bases. On average, revenue from Rates represented 39% of total operating revenue for the eight councils for 2003-04.

Government grants and subsidies represented 44% of total operating revenue recorded by the eight councils. All of the councils derived over 34% of their operating revenue for 2003-04 from government sources, with Flinders and Tasman recording the highest percentages of 68% and 61% respectively. Break O'Day recorded the lowest proportion, with 34% of revenue being derived from government sources.

On average, borrowing costs represented 1.2% of total operating expenditure, whilst depreciation accounted for 28% of total operating expenditure. Both Flinders and Central Highlands had no borrowing costs during 2003-04.

Central Highlands recorded Non-operating expenses of \$1.714m, which reflected the disposal of the written down value of 10 kilometres of Hollow Tree Road.

Five of the eight councils returned a positive Result from Ordinary Activities. Only Central Highlands and Break O'Day recorded material operating deficits. Central Highlands' deficit was primarily the result of the abovementioned disposal of Hollow Tree Road. Break O'Day's deficit related to losses incurred on the sale of property, plant and equipment, totalling \$0.633m.

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	4 530	3 292	505	239	2 992	252	370	116
Receivables	421	195	128	298	82	307	429	255
Investments	621	0	4 154	0	0	1 829	2 824	257
Inventories	144	29	146	86	0	365	202	0
Other	252	97	138	6	98	245	0	0
Total Current Assets	5 968	3 613	5 071	629	3 172	2 998	3 825	628
Payables	782	124	121	681	388	110	254	469
Borrowings	162	14	0	285	105	54	151	137
Provisions	524	492	117	462	137	572	395	222
Other	0	62	44	85	131	264	91	121
Total Current Liabilities	1 468	692	282	1 513	761	1 000	891	949
Working Capital	4 500	2 921	4 789	(884)	2 411	1 998	2 934	(321)
Property, plant and equipment	50 558	59 604	36 052	49 524	27 751	19 594	65 997	12 874
Investments	0	0	0	0	1 057	0	0	0
Other	36	31	234	0	76	0	144	0
Total Non-Current Assets	50 594	59 635	36 286	49 524	28 884	19 594	66 141	12 874
Borrowings	1 429	29	0	3 597	296	386	1 436	1 063
Provisions	39	47	111	95	31	33	63	32
Other	36	0	0	881	0	0	66	0
Total Non-Current Liabilities	1 504	76	111	4 573	327	419	1 565	1 095
Net Assets	53 590	62 480	40 964	44 067	30 968	21 173	67 510	11 458
Reserves	56 468	34 345	4 562	12 508	32 057	2 310	33 374	1
Retained Surpluses	(2 878)	28 135	36 402	31 559	(1 089)	18 863	34 136	11 457
Total Equity	53 590	62 480	40 964	44 067	30 968	21 173	67 510	11 458

Comment

With the exceptions of Glamorgan-Spring Bay and Tasman, all of the councils had a positive working capital position. The negative working capital position for both Councils is the result of significant capital works in recent years, which led to a reduction in the balance of cash held.

The level of Borrowings was low for all councils, with the proportion of debt to equity at 30 June 2004 being less than 5% for all Councils except Glamorgan-Spring-Bay and Tasman whose debts represent 8.8% and 10.4% of total equity, respectively.

Kentish had a non-current investment balance of \$1.057m, which related to its ownership interest in Cradle Coast Water, which provides bulk water services to the municipality.

Glamorgan-Spring Bay had a non-current other liability balance of \$0.881m which represented accommodation bonds held by May Shaw Nursing Home.

The balance of net assets ranged from \$11.458m (Tasman) to \$67.510m (Southern Midlands). The higher asset balance recorded by Southern Midlands was attributable to that Council being responsible for one of the longest road lengths within the State.

CASH POSITION

	Break O'Day \$'000s	Central Highlands \$'000s	Flinders \$'000s	Glamorgan- Spring Bay \$'000s	Kentish \$'000s	King Island \$'000s	Southern Midlands \$'000s	Tasman \$'000s
Receipts from customers	5 457	4 488	1 721	7 041	3 347	2 759	3 857	2 788
Payments to suppliers and employees	(6 044)	(4 076)	(4 013)	(8 191)	(3 617)	(3 051)	(4 309)	(4 969)
Interest received	265	168	208	60	185	100	177	39
Borrowing costs	(104)	0	0	(205)	(37)	(22)	(116)	(57)
Cash from operations	(426)	580	(2 084)	(1 295)	(122)	(214)	(391)	(2 199)
Proceeds from investments	0	7	1 379	664	5	109	0	0
Payments for investments	(192)	0	0	(99)	0	0	(1 154)	0
Payments for property, plant and equipment	(1 346)	(2 063)	(464)	(5 251)	(1 987)	(1 657)	(2 192)	(1 778)
Proceeds from sale of property, plant and equipment	449	410	36	96	183	219	279	183
Cash used in investing activities	(1 089)	(1 646)	951	(4 590)	(1 799)	(1 329)	(3 067)	(1 595)
Proceeds from borrowings	300	0	0	1 200	0	160	0	350
Repayment of borrowings	(150)	(14)	0	(266)	(98)	(65)	(205)	(102)
Cash from financing activities	150	(14)	0	934	(98)	95	(205)	248
Cash flows from Government	2 478	1 830	1 582	3 940	1 791	1 452	3 647	3 106
Net increase/(decrease) in cash	1 113	750	449	(1 011)	(228)	4	(16)	(440)
Cash at the beginning of the period	3 417	2 542	56	1 250	3 220	248	386	813
Cash at end of the period	4 530	3 292	505	239	2 992	252	370	373

Comment

Four of the eight councils had net increases in cash balances. Of the four councils that recorded a decrease in cash balances, the major movement related to Glamorgan-Spring Bay. The decrease of \$1.011m related to

significant capital payments in 2003-04 of \$5.251m, which included \$1.067m for the Bicheno Water Treatment Plant, \$0.978m for the Stage 2A redevelopment, and \$0.484m relating to the construction of three independent living units for the May Shaw Nursing Home. The expenditure was offset by new loans of \$1.200m drawn down in 2003-04 for the capital works.

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)		68	(343)	(190)	981	252	40	536	366
Operating margin	>1.0	1.01	0.95	0.94	1.10	1.05	1.01	1.08	1.07
Financial Management									
Current ratio	>1	4.07	5.22	17.98	0.42	4.17	3.00	4.29	0.66
Cost of debt	7.5%	6.6%	0.0%	0.0%	6.3%	7.5%	5.5%	6.5%	4.8%
Debt service ratio		3.3%	0.2%	0.0%	4.5%	2.6%	2.1%	4.5%	2.9%
Debt collection	30 days	25	22	59	19	10	45	48	40
Creditor turnover	30 days	16	19	36	26	31	27	21	72
Capital Exp/Depreciation		67%	74%	34%	344%	163%	136%	90%	281%
Other information									
Employee costs as % of operating expenses		29%	24%	23%	35%	23%	34%	26%	50%
Staff numbers		50	32	18	60	23	28	45	50
Average staff costs (\$'000s)		45	50	42	56	48	50	43	47

Comment

The majority of the councils recorded positive Results from operations and Operating margins. Both Central Highlands and Flinders recorded operating deficits, which primarily related to the total depreciation expenses not being fully covered in the rating process. This resulted in low operating margins, which were below the benchmark.

The majority of the councils recorded a positive Current ratio. Glamorgan-Spring Bay and Tasman recorded Current ratios below the benchmark, which has been previously explained under the Financial Position section of this narrative.

For these councils, which have loan debt, it is noted that all the Cost of debt ratios were within the benchmark rate of 7.5% and no unusual issues were noted from the Debt service ratio.

The average debt collection period was 33 days. However, a number of the councils were significantly above the average, primarily due to the high level of outstanding rate debtors held by these councils. The average creditor turnover was 31 days although Tasman recorded a creditor turnover ratio of 72 days due to the impact of capital creditors and the possibility that it was slow in paying its suppliers.

The Capital Exp/Depreciation ratio for Flinders is considered very low and indicates that it may not be maintaining its present infrastructure capability by reinvesting in, or renewing long-lived infrastructure assets. In comparison, both Glamorgan-Spring Bay and Tasman undertook significant capital works during the period, which was reflected in their high ratios.

The average staff cost for councils was \$0.045m, which equated to an average of 31% of operating expenditure. The employee costs as a percentage of operating expenses for Tasman was considerably above the average due to the impact of employing staff at the Nubeena Nursing Home, which is operated by Council.

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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 30 August 2004, with amended statements received on 7 September 2004. An unqualified audit report was issued on 16 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	3 237	3 288	3 517	3 659	3 866
User charges	499	509	521	884	1 035
Grants	1 603	2 058	2 378	2 972	2 478
Other operating revenue	231	237	259	236	422
Non-operating revenue	0	10	0	69	0
Total Revenue	5 570	6 102	6 675	7 820	7 801
Employee costs	1 632	1 786	1 949	1 928	2 240
Borrowing costs	185	117	101	121	114
Depreciation	1 664	1 631	1 852	1 968	2 000
Other operating expenses	2 507	2 513	2 906	2 874	3 379
Non-operating expenses	24	0	46	0	633
Total Expenses	6 012	6 047	6 854	6 891	8 366
Result from Ordinary Activities	(442)	55	(179)	929	(565)

Comment

The increase in User charges revenue in both 2002-03 (\$0.363m) and 2003-04 (\$0.151m) was mainly due to increased revenue from water-by-measure charges and planning and building fees. The increase in grant revenue from 2001-02 to 2002-03 of \$0.594m was 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. Non-operating revenue in 2000-01 and 2002-03 related to gains on the sale of property, plant and equipment.

Other operating expenses rose by \$0.393m in 2001-02 due to a decision by Council to write-off a number of work-in-progress jobs to expenditure, rather than capitalise them to non-current assets. The increase in other operating expenses in 2003-04 of \$0.505m was due to a number of factors including increased payments for contractor services, a larger number of grants provided to outside organisations and the write-off of capital projects that did not proceed.

The increase in depreciation expense of \$0.221m in 2001-02 was due primarily to the revaluation of road assets, including a reassessment of useful lives. Non-operating expenses in 1999-00, 2001-02 and 2003-04 related to losses incurred on the sale of property, plant and equipment.

Losses from ordinary activities totalling \$0.202m were incurred in the five years under review.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	379	1 006	1 669	3 417	4 530
Receivables	614	907	541	342	421
Investments	352	2	2	2	621
Inventories	168	99	91	103	144
Other	386	451	275	256	252
Total Current Assets	1 899	2 465	2 578	4 120	5 968
Payables	183	326	395	398	782
Borrowings	288	233	214	150	162
Provisions	405	338	317	412	524
Other	0	0	0	0	0
Total Current Liabilities	876	897	926	960	1 468
Working Capital	1 023	1 568	1 652	3 160	4 500
Property, plant and equipment	50 561	49 822	50 687	49 963	50 558
Investments	4	0	0	0	0
Other	0	0	126	90	36
Total Non-Current Assets	50 565	49 822	50 813	50 053	50 594
Borrowings	1 840	1 586	1 355	1 292	1 429
Provisions	14	15	37	17	39
Other	0	0	126	90	36
Total Non-Current Liabilities	1 854	1 601	1 518	1 399	1 504
Net Assets	49 734	49 789	50 947	51 814	53 590
Reserves	49 164	49 129	50 007	53 146	56 468
Retained surpluses	570	660	940	(1 332)	(2 878)
Total Equity	49 734	49 789	50 947	51 814	53 590

Comment

The balance of cash and investment assets increased from \$1.671m at 30 June 2002 to \$5.151m at 30 June 2004. The increase was mainly attributable to increased revenue from government grants and fees and charges and a concerted effort by Council to recover outstanding debts.

The level of Borrowings reduced from \$2.128m at 30 June 2000 to \$1.591m at 30 June 2004. New Borrowings totalling \$0.300m were drawn down in June 2004 to finance the St Helens Sewage Treatment Plant project.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 781	3 996	4 820	5 268	5 457
Payments to suppliers and employees	(4 232)	(4 483)	(5 122)	(5 153)	(6 044)
Interest received	74	67	85	169	265
Borrowing costs	(177)	(148)	(117)	(123)	(104)
Cash from operations	(554)	(568)	(334)	161	(426)
Proceeds from investments	750	350	0	0	0
Payments for investments	0	0	0	0	(192)
Payments for property, plant and equipment	(1 385)	(1 155)	(1 382)	(1 348)	(1 346)
Proceeds from sale of property, plant and equipment	216	294	222	184	449
Cash used in investing activities	(419)	(511)	(1 160)	(1 164)	(1 089)
Proceeds from borrowings	0	0	0	0	300
Repayment of borrowings	(364)	(270)	(303)	(221)	(150)
Cash from financing activities	(364)	(270)	(303)	(221)	150
Cash Flows from Government	1 603	1 976	2 460	2 972	2 478
Net increase/(decrease) in cash	266	627	663	1 748	1 113
Cash at the beginning of the period	113	379	1 006	1 669	3 417
Cash at the end of the period	379	1 006	1 669	3 417	4 530

Comment

The Council recorded cash deficits from operations in four of the five years under review. A cash deficit of \$0.426m was recorded in 2003-04, which was mainly due to increased operating expenses, as detailed in the Financial Performance section of this Report.

Payments for property, plant and equipment remained fairly stable over the past five years. The increase in sale proceeds in 2003-04 was due to the sale of land, which was classified as Land held for resale in Council's financial statements.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(418)	45	(133)	860	68
Operating margin	>1.0	0.93	1.01	0.98	1.12	1.01
Financial Management						
Current ratio	>1	2.17	2.75	2.78	4.29	4.07
Cost of debt	7.5%	8.7%	8.3%	7.6%	7.1%	6.6%
Debt service ratio		9.7%	6.9%	6.3%	4.4%	3.3%
Debt collection	30 days	72	73	67	28	25
Creditor turnover	30 days	5	16	19	21	16
Capital Exp/Depreciation	100%	83%	71%	75%	68%	67%
Other information						
Employee costs as % of operating expenses		27%	30%	29%	28%	29%
Staff numbers FTEs		48	47	46	45	50
Average staff costs (\$'000s)		34	38	42	43	45

Comment

The financial performance ratios show that Council incurred operating profits in three of the five years under review.

Council's Current ratio increased from 2.17 at 30 June 2000 to 4.07 at 30 June 2004 due to Council's increased cash balance. The ratio indicated that Council is able to meet all short-term liabilities. The increased cash position is linked to the ratio of capital expenditure to depreciation, which was less than 100% for the five years under review. The level of capital expenditure is expected to increase in the near future, due to work on the St Helens Sewage Treatment Plant project.

The Cost of debt gradually reduced from 8.7% in 1999-00 to 6.6% in 2003-04. The Debt service ratio reduced to 3.3%, reflecting the reduction in Council's overall borrowings.

The Debt collection ratio reduced significantly in 2002-03 due to a concerted effort by Council to recover long outstanding rate debts. The ratio reduced again in 2003-04, reflecting Council's continued focus on debt recovery.

Average staff costs increased steadily over the period under review.

OVERALL COMMENT

In the five years to 30 June 2004, Council recorded a total operating surplus (excluding non-operating items) of \$0.422m.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 21 September 2004 and an unqualified audit report was issued on 29 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	1 439	1 451	1 523	1 570	1 691
User charges	405	498	465	426	1 612
Grants	1 476	1 790	2 071	3 356	2 009
Other operating revenue	276	249	298	256	607
Non-operating revenue	488	273	273	116	410
Total Revenue	4 084	4 261	4 630	5 724	6 329
Employee costs	1 200	1 277	1 318	1 365	1 489
Borrowing costs	1	1	0	0	0
Depreciation	2 363	2 376	2 369	3 051	2 795
Other operating expenses	1 878	2 081	2 023	2 195	1 978
Non-operating expenses	298	289	362	177	1 714
Total Expenses	5 740	6 024	6 072	6 788	7 976
Result from Ordinary Activities	(1 656)	(1 763)	(1 442)	(1 064)	(1 647)

Comment

Revenue from Rates increased steadily during the period under review, resulting in an increase \$0.252m, or 18%, over the five year period.

User charges increased by \$1.186m in 2003-04 primarily due to Council receiving special funding of \$1.052m. These funds form part of a partnership agreement between the Council and the State Government for a Shack Sites road works project. The majority of the expenditure for the road works will be undertaken in 2004-05.

Grant revenue increased during 2002-03 to \$3.356m, 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 were received during the year.

Other operating revenue in 2003-04 increased by \$0.351m, which was primarily attributable to Council recognising the transfer of sewerage assets for Flintstone Drive at Arthur's Lake, totalling \$0.270m.

Non-operating revenue and Non-operating expenses generally reflected the proceeds from disposals and the carrying values of non-current assets disposed of in any given year. In 2003-04, the significant increase in Non-operating expenses from \$1.537m to \$1.714m reflected the disposal of the written down value of 10 kilometres of Hollow Tree Road. The Council reconstructed the road and capitalised \$1.415 during 2003-04

Depreciation expense increased during 2002-033 by \$0.682m predominantly due to the revaluation of roads, bridges, drainage, sewerage, water, footpaths, kerbs and gutter assets including a reassessment of useful lives.

Council recorded consistent deficits in the past five-year period, which was predominantly a result of it not budgeting to cover all operating expenses, particularly depreciation.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	967	1 910	2 056	2 542	3 292
Receivables	317	290	353	191	195
Investments	923	0	0	0	0
Inventories	49	52	39	38	29
Other	48	94	79	114	97
Total Current Assets	2 304	2 346	2 527	2 885	3 613
Payables	85	52	203	82	124
Borrowings	0	0	14	14	14
Provisions	470	471	513	485	492
Other	52	29	23	37	62
Total Current Liabilities	607	552	753	618	692
Working Capital	1 697	1 794	1 774	2 267	2 921
Property, plant and equipment	35 270	33 451	32 099	61 916	59 604
Other	93	43	37	30	31
Total Non-Current Assets	35 363	33 494	32 136	61 946	59 635
Borrowings	11	0	58	43	29
Provisions	30	32	38	43	47
Total Non-Current Liabilities	41	32	96	86	76
Net Assets	37 019	35 256	33 814	64 127	62 480
Reserves	2 265	2 457	2 301	33 652	34 345
Retained surpluses	34 754	32 799	31 513	30 475	28 135
Total Equity	37 019	35 256	33 814	64 127	62 480

Comment

The movements in cash and investment balances from 1999-00 to 2000-01 were 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 decrease in Receivables from \$0.353m in 2001-02 to \$0.191m in 2002-03 was due largely the result of Council actively pursuing rate debtors.

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

During 2001-02 Council repaid all its secured borrowings. The balances in current and non-current Borrowings from 2001-02 to 2003-04 represented a financing agreement for the supply of Council's computer system.

Despite operating at an annual net deficit, Council had a positive working capital for each of the five years under review, mainly because each year's loss was well short of the annual depreciation charge. At 30 June 2004 the working capital was \$2.921m, giving a current ratio of 5.22, which represented a solid liquidity position.

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.

Reserves 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

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 055	2 512	2 593	2 847	4 488
Payments to suppliers and employees	(3 100)	(3 739)	(3 453)	(4 125)	(4 076)
Interest received	117	128	146	129	168
Borrowing costs	(1)	(1)	0	0	0
Cash from operations	(929)	(1 100)	(714)	(1 149)	580
Proceeds from investments	0	2	4	4	7
Payments for property, plant and equipment	(613)	(542)	(1 307)	(1 647)	(2 063)
Proceeds from sale of property, plant and equipment	21	73	273	116	410
Cash used in investing activities	(592)	(467)	(1 030)	(1 527)	(1 646)
Repayment of borrowings	(2)	(13)	0	(13)	(14)
Cash from financing activities	(2)	(13)	0	(13)	(14)
Cash Flows from Government	1 476	1 600	1 890	3 175	1 830
Net increase/(decrease) in cash	(47)	20	146	486	750
Cash at the beginning of the period	1 937	1 890	1 910	2 056	2 542
Cash at the end of the period	1 890	1 910	2 056	2 542	3 292

Comment

Council produced deficit cash flows from operations in four of the five years under review. The positive cash flow in 2003-04 was the result of the receipt of funding for Shack Sites roadwork, of \$1.052m, which will be expended in 2004-05. However, Council increased its cash position in each of the last four years due to cash flows from Government and in view of its relatively limited capital investment program.

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.

Payments for property, plant and equipment increased in 2001-02 by \$0.765m due to plant purchases of \$0.564m, road works of \$0.318m and

other infrastructure expenditure of \$0.172m. In 2002-03, Council increased its capital works expenditure by \$0.340m to \$1.647m which included the Hamilton water upgrade of \$0.273m and Hollow Tree roadwork of \$0.742m. In 2003-04 Council increased capital expenditure by a further \$0.416m to \$2.063m which funded the completion of works on Hollow Tree Rd of \$0.673m, plant purchases including a backhoe and excavator of \$0.303m and the Bothwell sewerage upgrade totalling \$0.386m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(1 846)	(1 747)	(1 353)	(1 003)	(343)
Operating margin	>1.0	0.66	0.70	0.76	0.85	0.95
Financial Management						
Current ratio	>1	3.80	4.25	3.36	4.67	5.22
Cost of debt	7.5%	9.1%	-	-	-	-
Debt service ratio		0.1%	0.4%	0.0%	0.2%	0.2%
Debt collection	30 days	63	54	62	32	22
Creditor turnover	30 days	12	7	22	8	19
Capital Exp/Depreciation	100%	26%	23%	55%	54%	74%
Other information						
Employee costs as % of operating expenses		22%	22%	23%	21%	24%
Staff numbers FTEs		35	34	34	35	32
Average staff costs (\$'000s)		37	39	42	45	50

Comment

The financial performance ratios show that Council did not record an operating surplus in any of the years under review. This primarily related to the depreciation charge not being covered in the rating process. This resulted in low operating margins, which were well below the benchmark. The Operating margin improved in recent years, due mainly to increases in grant funding received. With the Council's low population base, it was difficult for the Council to raise additional funding through rate increases.

Council's Current ratio was consistently above the benchmark indicating that Council was able to meet all short-term liabilities.

The high Debt collection ratio for the period 1999-00 to 2001-02 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 ratio decreased significantly in the 2002-03 year due to the collection of substantial rate debts.

Council significantly increased capital expenditure in the past three years, however the current level of expenditure was still well below annual depreciation charges.

Employee costs, as a percentage of operating expenses was stable over the five-year period under review, with average staff costs increasing in line with general enterprise bargaining increases over the period. The increase in 2003-04 was greater than other periods because two employees, who retired during the year, were not included in the year-end staff FTE numbers.

OVERALL COMMENT

In the five years under review, Council recorded total operating deficits (excluding non-operating items) of \$6.292m, although its net assets increased by \$25.461m over this period to \$62.480m, as a result of asset revaluations of \$32.080m.

Deterioration of non current assets represented by depreciation expense of \$12.954m over the five-year period exceeded investment in property, plant and equipment of \$6.172m.

This provides sufficient evidence to suggest that the Council should monitor its future operations to ensure its long-term financial viability.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 26 October 2004 and an unqualified audit report was issued on 29 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	477	519	561	588	619
User charges	234	184	194	183	168
Grants	1 220	957	1 177	2 685	1 694
Other operating revenue	390	429	513	646	687
Non-operating revenue	31	0	47	12	5
Total Revenue	2 352	2 089	2 492	4 114	3 173
Employee costs	612	648	740	758	756
Borrowing costs	0	0	0	0	0
Depreciation	883	1 039	1 433	1 386	1 381
Other operating expenses	885	899	1 037	2 835	1 221
Non-operating expenses	0	13	0	0	0
Total Expenses	2 380	2 599	3 210	4 979	3 358
Result from Ordinary Activities	(28)	(510)	(718)	(865)	(185)

Comment

Revenue from Rates increased steadily during the period under review, resulting in a \$0.142m increase over the five-year period.

The increase in grant revenue in 2002-03 was due mainly to the receipt of a Networking the Nation grant of \$1.590m. Non-operating revenue in 2001-02, \$0.047m, related to the gain on sale of property, plant and equipment.

The increase in depreciation expense in 2001-02, \$0.394m, was 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.

Council incurred losses from ordinary activities in all of the past five years. The total loss from ordinary activities for the period under review amounted to \$2.306m, which equated to an average loss of \$0.461m per annum.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	44	145	151	138	505
Receivables	226	147	101	166	128
Investments	2 823	2 958	3 663	5 533	4 154
Inventories	286	232	190	159	146
Other	37	52	71	40	138
Total Current Assets	3 416	3 534	4 176	6 036	5 071
Payables	56	84	206	164	121
Borrowings	281	0	0	82	0
Provisions	99	97	109	134	117
Other	45	59	39	1 635	44
Total Current Liabilities	481	240	354	2 015	282
Working Capital	2 935	3 294	3 822	4 021	4 789
Property, plant and equipment	38 713	39 485	38 258	37 181	36 052
Investments	0	0	0	0	0
Other	39	30	21	54	234
Total Non-Current Assets	38 752	39 515	38 279	37 235	36 286
Borrowings	0	0	0	0	0
Provisions	53	62	72	106	111
Total Non-Current Liabilities	53	62	72	106	111
Net Assets	41 634	42 747	42 029	41 150	40 964
Capital	0	0	0	0	0
Reserves	2 843	4 467	4 679	4 657	4 562
Retained surpluses	38 791	38 280	37 350	36 493	36 402
Total Equity	41 634	42 747	42 029	41 150	40 964

Comment

The significant investment balance of \$5.533m held at 30 June 2003 was primarily 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, was mainly attributable to an outstanding invoice for the purchase of an item of major plant.

Council repaid its outstanding Borrowings in 1998-99. The balance of current borrowings at 30 June 2000 and 2003 represented the Council's trading account being in overdraft. The corresponding cash balances in these year represented deposits on call held by Council.

Other non-current assets represented Council work in progress, which included \$0.219m in bridge work not capitalised at 30 June 2004.

The increase in reserve balances from 1999-00 to 2000-01 of \$1.624m was 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 of \$1.040m.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	843	1 032	1 256	1 373	1 721
Payments to suppliers and employees	(1 369)	(1 557)	(1 847)	(2 071)	(4 013)
Interest received	149	169	143	190	208
Borrowing costs	0	0	0	0	0
Cash from operations	(377)	(356)	(448)	(508)	(2 084)
Proceeds from investments	0	0	0	0	1 379
Payments for investments	(200)	(135)	(705)	(1 870)	0
Payments for property, plant and equipment	(837)	(271)	(69)	(422)	(464)
Proceeds from sale of property, plant and equipment	104	77	50	20	36
Cash used in investing activities	(933)	(329)	(724)	(2 272)	951
Cash Flows from Government	1 125	1 067	1 178	2 685	1 582
Net increase/(decrease) in cash	(185)	382	6	(95)	449
Cash at the beginning of the period	(52)	(237)	145	151	56
Cash at the end of the period	(237)	145	151	56	505

Comment

The net cash outflows from Cash from operations remained fairly constant over the initial four-year period under review. The significant increase in 2003-04 was due to the payment of \$1.600m to Telstra for the construction of four mobile base facilities under the Networking the nation program.

Payments for investments 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 Proceeds from investments cash flow in 2003-04 was the corresponding reduction in the investment balance as the funds were expended.

Payments for property, plant and equipment amounted to \$0.837m in 1999-00, which included sealing the airport runway.

Networking the Nation grants of \$1.590m increased cash flows from government for 2002-03.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(59)	(497)	(765)	(877)	(190)
Operating margin	>1.0	0.98	0.81	0.76	0.82	0.94
Financial Management						
Current ratio	>1	7.10	14.73	11.80	3.00	17.98
Debt collection	30 days	65	76	49	53	59
Creditor turnover	30 days	20	24	71	20	36
Capital Exp/Depreciation		95%	26%	5%	30%	34%
Other information						
Employee costs as % of operating expenses		26%	25%	23%	15%	23%
Staff numbers FTEs		17	17	18	18	18
Average staff costs (\$'000s)		36	38	41	42	42

Comment

The financial performance ratios show that Council incurred operating losses for the five years to 30 June 2004. The total losses for this period amount to \$2.388m. As a result, the operating margin was below the benchmark for each of the years in the analysis.

Council's Current ratio was well above the benchmark in all five years indicating that it was able to meet all short-term liabilities.

A cost of debt was not calculated as Council repaid its outstanding borrowings in 1998-99.

The Debt collection ratio was consistently above the benchmark of 30 days. However, it decreased significantly in 2001-02 due to the sale of the Flinders Island Lodge, which resulted in settlement of significant rate arrears. However, longer term rate debtors continued to keep the ratio above the benchmark.

The creditor turnover figure was significantly greater than the 30-day benchmark in 2001-02 (71 days) as a result of the creditors balance including an outstanding invoice at year-end relating to the purchase of a major plant item.

The Capital Exp/Depreciation ratio was very low in the last four years under review indicating that Council was not maintaining its present infrastructure capability by reinvesting in, or renewing long-lived infrastructure assets. The majority (78%) of Council's non-current assets are the roads and streets network on Flinders and Cape Barren Islands amounting to a written down value of \$28.377m.

Average staff costs were stable over the period under review, except in 2002-03, where the ratio was distorted by Other operating expenses including \$1.600m for the Networking the Nation program expense.

The increase in average staff costs from \$0.038m in 2000-01 to \$0.041m in 2001-02 was 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. In general the increase in staff costs reflected general EBA increases.

OVERALL COMMENT

In the five years under review, Council recorded total operating deficits (excluding non-operating items) of \$2.490m. Council will need to monitor its financial position as it was apparent that there was a considerable reliance on grant funding to maintain the current levels of activity.

Council will also need to significantly increase reinvestment in its network of roads and streets if these assets are to be maintained at present condition levels in the long term.

The 2003-04 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 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 (the 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. The Council revoked the Authority as a single authority on 30 June 2004. From 1 July, the Authority became an incorporated body known as the May Shaw Health Centre Incorporated and was totally independent of Council. Financial information relating to the Authority can be located in Section 4.5 of this Report.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements for 2003-04 were received on 30 September 2004. The audit of the financial statements is currently in progress.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	3 099	3 358	3 476	3 865	4 417
User charges	620	650	753	778	1 172
Grants	2 641	3 009	3 006	4 724	3 933
Other operating revenue	444	700	749	1 351	1 052
Non-operating revenue	88	45	76	0	0
Total Revenue	6 892	7 762	8 060	10 718	10 574
Employee costs	2 634	2 654	3 161	3 229	3 385
Borrowing costs	125	112	158	194	205
Depreciation	1 942	1 409	1 446	1 474	1 525
Other operating expenses	2 707	3 328	3 829	3 892	4 478
Non-operating expenses	92	13 778	100	5	197
Total Expenses	7 500	21 281	8 694	8 794	9 790
Result from Ordinary Activities	(608)	(13 519)	(634)	1 924	784

Comment

Revenue from rates increased by \$0.552m in 2003-04 due to an increase in the general rate of 10%, an increase in the Bicheno and Swansea sewerage rates to fund effluent reuse schemes and an increase in the Bicheno water charge to fund the water treatment project.

The increase in User charges in 2003-04, \$0.394m was mainly attributable to an increase in resident, acute and emergency bed day fees relating to the Authority.

Grant revenue increased by \$1.718m in 2002-03, which was mainly attributable to the receipt of \$1.302m by the Authority for capital works and \$0.450m received by Council under the Clean Quality Water Program. The Authority received a further \$1.025m in capital grants during 2003-04.

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

The items of Non-operating revenue and Non-operating expenses generally reflected 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 was 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 was 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

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	17	67	2 902	1 250	239
Receivables	286	446	346	303	298
Investments	2 439	2 336	0	0	0
Inventories	0	0	0	0	86
Other	0	0	0	0	6
Total Current Assets	2 742	2 849	3 248	1 553	629
Payables	363	438	519	519	681
Borrowings	206	228	277	252	285
Provisions	394	307	388	385	462
Other	197	131	20	20	85
Total Current Liabilities	1 160	1 104	1 204	1 176	1 513
Working Capital	1 582	1 745	2 044	377	(884)
Property, plant and equipment	42 960	41 676	42 716	46 067	49 524
Other	81	60	42	22	0
Total Non-Current Assets	43 041	41 736	42 758	46 089	49 524
Borrowings	1 358	1 528	2 951	2 696	3 597
Provisions	43	94	127	133	95
Other	59	162	296	353	881
Total Non-Current Liabilities	1 460	1 784	3 374	3 182	4 573
Net Assets	43 163	41 697	41 428	43 284	44 067
Reserves	868	12 849	12 979	12 979	12 508
Retained surpluses	42 295	28 848	28 449	30 305	31 559
Total Equity	43 163	41 697	41 428	43 284	44 067

Comment

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 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. The increase in Property, plant and equipment in 2003-04, \$3.457m, was principally due to capital works relating to the Bicheno Water Treatment Plant, \$1.067m, the Stage 2A redevelopment at the Authority, \$0.978m and the construction of three independent living units by the Authority, \$0.484m.

In total, Council Borrowings increased by \$1.472m from 2000-01 to 2001-02. The increase was the result of new borrowings, \$1.699m, offset by principal repayments of \$0.227m. The new borrowings were comprised

of a \$1.000m loan for the Triabunna call centre and a \$0.699m loan for sewage reuse projects. Borrowings increased again in 2003-04 by \$0.934m due to new borrowings of \$1.200m, offset by principal repayments of \$0.266m. The new borrowings were drawn down for capital projects, principally the sewage reuse schemes.

The increase in Reserves in 2000-01, \$11.981m was 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

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	4 163	4 590	5 480	6 232	7 041
Payments to suppliers and employees	(5 041)	(6 023)	(7 312)	(7 890)	(8 191)
Interest received	134	144	139	159	60
Borrowing costs	(125)	(112)	(158)	(194)	(205)
Cash from operations	(869)	(1 401)	(1 851)	(1 693)	(1 295)
Proceeds from accommodation bonds	0	0	0	140	664
Payments for accommodation bonds	0	0	0	(41)	(99)
Payments for property, plant and equipment	(1 073)	(1 925)	(2 202)	(4 612)	(5 251)
Proceeds from sale of property, plant and equipment	88	91	76	32	96
Cash used in investing activities	(985)	(1 834)	(2 126)	(4 481)	(4 590)
Proceeds from borrowings	223	400	1 699	0	1 200
Repayment of borrowings	(183)	(227)	(228)	(280)	(266)
Cash from financing activities	40	173	1 471	(280)	934
Cash Flows from Government	2 793	3 009	3 005	4 802	3 940
Net increase/(decrease) in cash	979	(53)	499	(1 652)	(1 011)
Cash at the beginning of the period	1 477	2 456	2 403	2 902	1 250
Cash at the end of the period	2 456	2 403	2 902	1 250	239

Comment

Payments for property, plant and equipment totalling \$2.202m in 2001-02 included almost \$1.000m relating to the Triabunna call centre. Payments in 2002-03 of \$4.612m included the Authority Stage 1A construction works of \$1.778m and \$1.400m relating to the sewage reuse schemes. The 2003-04 capital payments of \$5.251m included \$1.067m for the Bicheno Water Treatment Plant, \$0.978m for the Stage 2A redevelopment at the Authority and \$0.484m relating to the construction of three independent living units.

As previously noted, Council drew down \$1.699m in new loans in 2001-02, of which \$1.000m related to the Triabunna call centre. A further \$1.200m was drawn down in 2003-04 for capital works.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(604)	214	(610)	1 929	981
Operating margin	>1.0	0.92	1.03	0.93	1.22	1.10
Financial Management						
Current ratio	>1	2.36	2.58	2.70	1.32	0.42
Cost of debt	7.5%	8.7%	8.7%	7.1%	6.8%	6.3%
Debt service ratio		4.5%	4.4%	4.8%	4.4%	4.5%
Debt collection	30 days	28	41	30	24	19
Creditor turnover	30 days	35	30	24	20	26
Capital Exp/Depreciation	100%	55%	137%	152%	313%	344%
Other information						
Employee costs as % of operating expenses		36%	35%	37%	37%	35%
Staff numbers FTEs		55	56	62	61	60
Average staff costs (\$'000s)		48	47	51	53	56

Comment

Council recorded operating surpluses in three of the five years under review, the exceptions being an operating deficit of \$0.604m in 1999-00 and \$0.610m in 2001-02. The increased operating surplus in 2002-03, \$1.929m was due mainly to the receipt of \$1.302m in capital funding by the Authority.

Council's Current ratio was above the benchmark in all years, except 2003-04 when the ratio decreased to 0.42. It was noted that both the Council and the Authority undertook significant capital works in recent years, which led to a reduction in the balance of cash held and negative net working capital.

Council's Debt collection ratio was equal to or below the benchmark of 30 days for four of the five years under review.

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 call centre has been unoccupied since its construction, and Council has been negotiating with the Government for the transfer of the building and the associated loan. The transfer is due to be finalised in 2004-05.

The 2003-04 audit is currently in progress.

4.5 KENTISH COUNCIL

INTRODUCTION

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

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

The Premier dismissed the Councillors of the Kentish Council on 21 August 2002 and appointed an Administrator until 21 August 2003. 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 on 25 June 2003.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2004, with amended statements received on 14 October 2004. An unqualified audit report was issued on 28 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	1 756	1 946	2 211	2 402	2 688
User charges	227	172	175	319	419
Grants	1 593	2 239	1 974	1 923	1 791
Other operating revenue	107	161	162	141	237
Non-operating revenue	916	19	37	23	183
Total Revenue	4 599	4 537	4 559	4 808	5 318
Employee costs	165	492	691	882	1 104
Borrowing costs	69	61	60	44	37
Depreciation	719	1 115	1 277	1 316	1 220
Other operating expenses	2 519	2 368	2 544	2 270	2 522
Non-operating expenses	17	24	72	21	297
Total Expenses	3 489	4 060	4 644	4 533	5 180
Result from Ordinary Activities	1 110	477	(85)	275	138

Comment

Revenue from Rates increased by 53% from \$1.756m in 1999-00 to \$2.688m in 2003-04, the majority of which related 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 2000-01 Grants included 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 generally represented proceeds on the sale of property, plant and equipment assets. The 1999-00 year also included \$0.900m, which reflected Council's 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 acquisition.

The increase in employee costs of \$0.222m in 2003-04 was predominately due to an increase in staff numbers.

The depreciation expense in 2000-01 increased by \$0.396m from the previous financial year. The depreciation of road assets 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 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. A further review of useful lives was conducted during 2003-04 resulting in a decrease in depreciation expense during this year.

Non-operating expenses comprise the written down value of assets at the time of disposal. The 2003-04 amount included the disposal of road assets totalling \$0.164m.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	746	1 264	2 033	3 220	2 992
Receivables	128	235	229	149	82
Other	0	70	39	25	98
Total Current Assets	874	1 569	2 301	3 394	3 172
Payables	156	281	181	288	388
Borrowings	144	81	88	52	105
Provisions	10	16	49	88	137
Other	1	1	11	13	131
Total Current Liabilities	311	379	329	441	761
Working Capital	563	1 190	1 972	2 953	2 411
Property, plant and equipment	22 553	22 575	27 987	27 240	27 751
Investments	1 737	1 737	900	900	1 057
Other	86	83	81	81	76
Total Non-Current Assets	24 376	24 395	28 968	28 221	28 884
Borrowings	670	589	501	447	296
Provisions	37	33	31	54	31
Other	0	0	0	0	0
Total Non-Current Liabilities	707	622	532	501	327
Net Assets	24 232	24 963	30 408	30 673	30 968
Reserves	26 091	26 291	31 900	31 900	32 057
Retained surpluses	(1 859)	(1 328)	(1 492)	(1 227)	(1 089)
Total Equity	24 232	24 963	30 408	30 673	30 968

Comment

The increase in the cash balances at 30 June 2002 principally reflected Council holding unexpended grant funds totalling \$0.095m, and the receipt of \$0.386m from the winding up of the Kentish/Latrobe Joint Authority (the 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 represented amounts owing to Council in relation to GST, and 2003-04 included prepaid expenses of \$0.059m.

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 Joint Authority was made in 1997-98 by the equity contribution of cash and assets. While the Joint 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 financial statements. 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 reflected 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.

Leave balances increased by \$0.031m during 2001-02 to recognise Council's liability for this entitlement following the transfer of employees back to the Council after the wind up of the Joint Authority.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 002	2 175	2 791	3 015	3 347
Payments to suppliers and employees	(2 826)	(3 105)	(3 404)	(3 176)	(3 617)
Interest received	35	63	78	127	185
Borrowing costs	(69)	(61)	(55)	(44)	(37)
Cash from operations	(858)	(928)	(590)	(78)	(122)
Proceeds from investments	0	0	389	0	5
Payments for investments	0	0	0	0	0
Payments for property, plant and equipment	(569)	(669)	(960)	(590)	(1 987)
Proceeds from sale of property, plant and equipment	16	19	37	23	183
Cash used in investing activities	(553)	(650)	(534)	(567)	(1 799)
Proceeds from borrowings	240	0	0	0	0
Repayment of borrowings	(141)	(143)	(81)	(91)	(98)
Cash from financing activities	99	(143)	(81)	(91)	(98)
Cash Flows from Government	1 593	2 239	1 974	1 923	1 791
Net increase in cash	281	518	769	1 187	(228)
Cash at the beginning of the period	465	746	1 264	2 033	3 220
Cash at the end of the period	746	1 264	2 033	3 220	2 992

Comment

Council 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 reducing to \$0.078m. However, Cash Flows from Government more than compensated for this in all years except 2003-04 when expenditure on capital works was much higher (\$1.987m) than normal. Major infrastructure projects during this year included the Sheffield Waste Water Treatment Plant and Railton Re-use Scheme as well as a large amount of road capital works.

In 2001-02, \$0.386m was included in 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	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		211	482	(50)	273	252
Operating margin	>1.0	1.06	1.12	0.99	1.06	1.05
Financial Management						
Current ratio	>1	2.81	4.14	6.99	7.70	4.17
Cost of debt	7.5%	8.5%	8.6%	8.2%	7.9%	7.5%
Debt service ratio		5.7%	4.5%	3.0%	2.8%	2.6%
Debt collection	30 days	24	40	35	20	10
Creditor turnover	30 days	18	34	20	37	31
Capital Exp/Depreciation	100%	79%	60%	75%	45%	163%
Other information						
Employee costs as a % of operating expenses		5%	12%	15%	20%	23%
Staff numbers FTEs		9	8	16	19	23
Average staff costs (\$'000s)		18	55	43	45	48

Comment

The financial performance ratios show that the Council returned positive results from operations during four of the five years under review. Council's operating margin was around the benchmark in all years.

Council was above the benchmark Current ratio in all five years under review. The increase in cash balances held significantly improved Council's liquidity position.

Due to increased rate debtors at 30 June 2001 and at 30 June 2002, the Debt collection ratio for these periods was above the benchmark. However, Council took action to recover the outstanding debtors and in the final two years under review the Debt collection ratio was again below the benchmark.

In April 2000, the corporate services functions, including 9 FTE, previously undertaken by the Joint Authority were transferred back to Council. This distorted the full year effect of average staff costs for 1999-00. The average staff costs for 2001-02 were below 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.

In more recent years average staff costs have stabilised.

OVERALL COMMENT

In the five years under review, Council recorded a total operating surplus (excluding non-operating items) of \$1.168m.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 29 August 2004 and an unqualified audit report was issued on 26 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	1 346	1 373	1 452	1 534	1 631
User charges	801	809	880	910	845
Grants	3 347	1 915	1 924	1 620	1 452
Other operating revenue	274	360	362	423	248
Non-operating revenue	0	1	8	58	41
Total Revenue	5 768	4 458	4 626	4 545	4 217
Employee costs	1 214	1 180	1 277	1 396	1 407
Borrowing costs	15	11	6	6	26
Depreciation	1 102	1 138	1 169	1 191	1 221
Other operating expenses	1 459	3 681	2 163	2 982	1 482
Non-operating expenses	30	47	41	25	19
Total Expenses	3 820	6 057	4 656	5 600	4 155
Result from Ordinary Activities	1 948	(1 599)	(30)	(1 055)	62

Comment

Revenue from rates increased steadily during the period under review, resulting in a \$0.285m increase over the five-year period. Grant revenue in 1999-00 included a specific grant, totalling \$1.660m for the Networking the Nation project.

Other operating expenses in 2000-01, \$3.681m increased by \$2.222m, with the majority of the increase attributable to a one-off expense of \$1.660m for costs associated with the Networking the Nation project. Corresponding grant funding was received during the previous year.

Other operating expenses in 2002-03, \$2.982m increased by \$0.819m from 2001-02 due to Council expending \$0.289m on repainting the Currie Lighthouse and expenditure relating to the King Island Natural Resource Management Group taking full control of its operations from Council. The Resource Group's grant funds totalling \$0.725m were partially expended during 2002-03, with the balance of \$0.488m paid to the Group.

Results from operations 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 was attributable the distribution of funds held on behalf of the King Island Natural Resource Management Group and the expenditure on repainting the Currie Lighthouse, as mentioned above.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	80	754	318	248	252
Receivables	388	318	425	427	307
Investments	3 228	3 150	2 490	1 954	1 829
Inventories	404	399	367	312	365
Other	59	32	35	77	245
Total Current Assets	4 159	4 653	3 635	3 018	2 998
Payables	135	1 767	109	124	110
Borrowings	35	36	39	75	54
Provisions	299	314	369	497	572
Other	116	147	253	269	264
Total Current Liabilities	585	2 264	770	965	1 000
Working Capital	3 574	2 389	2 865	2 053	1 998
Property, plant and equipment	19 965	19 510	19 440	19 354	19 594
Investments	486	486	0	0	0
Other	28	14	0	0	0
Total Non-Current Assets	20 479	20 010	19 440	19 354	19 594
Borrowings	128	92	45	269	386
Provisions	39	34	31	27	33
Other	28	14	0	0	0
Total Non-Current Liabilities	195	140	76	296	419
Net Assets	23 858	22 259	22 229	21 111	21 173
Reserves	1 522	1 700	1 803	1 679	2 310
Retained surpluses	22 336	20 559	20 426	19 432	18 863
Total Equity	23 858	22 259	22 229	21 111	21 173

Comment

The balance of cash assets decreased from \$0.754m at 30 June 2001 to \$0.318m at 30 June 2002. However, this reduction included \$1.146m from the current and non-current investment balances, which decreased from \$3.636m to \$2.490m. The decrease was 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.

Other current assets increased by \$0.168m in 2003-04 to \$0.245m. The increase was attributable to the accrual of \$0.043m relating to a material private works project and \$0.037m accrued for a diesel fuel rebate.

The increase in Payables between 1999-00 and 2000-01, \$1.632m, was predominantly due to expenditure associated with Networking the Nation.

Borrowings decreased over the first three-year period under review. However, Council borrowed \$0.300m during 2002-03 to assist in the purchase of a major plant item. An additional \$0.160m was borrowed in 2003-04 to fund capital works on the Currie Sewerage Treatment Wetlands.

The balance of current Provisions increased by \$0.128m in 2003-04 primarily as a result of Council applying full on-costs in calculating employee entitlements, as required by the revised AASB 1028 "Employee Benefits." In addition, the employee entitlement balances increased due to a number of employees accruing significant employee entitlements.

Other current liabilities include monies held in trust. At 30 June 2004, Council held \$0.175m to be expended for a number of specific purposes.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 201	2 593	2 808	2 937	2 759
Payments to suppliers and employees	(2 851)	(3 481)	(5 436)	(4 509)	(3 051)
Interest received	108	227	124	173	100
Borrowing costs	(19)	(11)	(6)	(7)	(22)
Cash from operations	(561)	(672)	(2 510)	(1 406)	(214)
Proceeds from investments	0	148	1 256	497	109
Payments for investments	(1 955)	0	0	0	0
Payments for property, plant and equipment	(898)	(849)	(1 337)	(1 322)	(1 657)
Proceeds from sale of property, plant and equipment	134	163	239	264	219
Cash used in investing activities	(2 719)	(538)	158	(561)	(1 329)
Proceeds from borrowings	0	0	0	300	160
Repayment of borrowings	(147)	(35)	(28)	(39)	(65)
Cash from financing activities	(147)	(35)	(28)	261	95
Cash Flows from Government	3 347	1 919	1 944	1 636	1 452
Net increase/(decrease) in cash	(80)	674	(436)	(70)	4
Cash at the beginning of the period	160	80	754	318	248
Cash at the end of the period	80	754	318	248	252

Comment

Cash at the end of 2003-04 equalled \$0.252m, however Council also held current investments of \$1.829m.

In 2001-02, net cash outflows from operations increased by \$1.838m, due to a deficit of \$2.510m, resulting from an increase of \$1.955m in payments to suppliers and employees predominantly due to the expenditure of Networking the Nation project funds. The grant funds were received from Government in 1999-00 and held in an investment account.

The deficit of \$1.406m in the net cash outflow from operations in 2002-03 related 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.

The above transactions are responsible for the pattern of investment movements disclosed in Proceeds from investments and Payments for investments. Over the five-year period under review, investment balances reduced by \$0.055m.

Payments for property, plant and equipment remained fairly constant over the initial two 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 included the purchase of a new track loader for \$0.462m, capital expenditure on the Currie Sewerage Wetlands project of \$0.195m and various road works (including bridges) of \$0.327m. During 2003-04 Council expended \$0.542m on plant, including the purchase of a new grader for \$0.328m and undertook works on the Currie Sewerage Treatment Wetlands, totalling \$0.396m. In addition, Council undertook various road works, totalling \$0.624m

Council borrowed \$0.300m during 2002-03 to assist in the purchase of a major plant item. An additional \$0.160m was borrowed in 2003-04 to fund capital works on the Currie Sewerage Treatment Wetlands.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		1 978	(1 553)	3	(1 088)	40
Operating margin	>1.0	1.52	0.74	1.00	0.80	1.01
Financial Management						
Current ratio	>1	7.11	2.06	4.72	3.13	3.00
Cost of debt	7.5%	6.5%	6.5%	6.5%	5.3%	5.5%
Debt service ratio		2.9%	1.0%	0.7%	1.0%	2.1%
Debt collection	30 days	66	53	67	64	45
Creditor turnover	30 days	21	142	11	10	27
Capital Exp/Depreciation		81%	75%	114%	111%	136%
Other information						
Employee costs as % of operating expenses		32%	20%	28%	25%	34%
Staff numbers FTEs		28	26	28	29	28
Average staff costs (\$'000s)		43	45	46	48	50

Comment

Council's results from operations 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, being restricted funds held 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 was above benchmark for all years and indicated that it was able to meet all short-term liabilities. The 1999-00 ratio was significantly greater than comparative years due to additional investment funds relating to unexpended grants.

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

The Debt collection ratio was consistently above the benchmark of 30 days. However, Council had policies in place to pursue outstanding debts and was pursuing all longer-term debtors.

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

In analysing capital expenditure to the depreciation expense, it was pleasing to see that Council continued to fund a sufficient level of capital expenditure, to ensure that asset replacement was consistent with the depreciation charges being incurred.

The review of employee costs as a percentage of operating expenses reveals considerable fluctuations in the five-year period. The ratio for 2000-01 was low due to the expenditure on the Networking the Nation project, as previously mentioned. Again, in 2002-03, the ratio was affected by additional expenditure to distribute grants held for the King Island Natural Resource Management Group, repaint the Currie Lighthouse and finalise the upgrading of the initial work undertaken on the Networking the Nation project.

Staff costs were 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 deficit from operations (excluding non-operating items) of \$0.620m, and its net assets decreased by 11% over this period to \$21.173m. This provided sufficient evidence to suggest that Council must take steps to improve its financial position.

The 2003-04 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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2004 and an unqualified audit report was issued on 27 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	2 373	2 481	2 434	2 577	2 665
User charges	719	679	578	577	586
Grants	3 964	4 111	3 798	3 108	3 647
Other operating revenue	228	189	131	275	288
Non-operating revenue	606	157	481	284	279
Total Revenue	7 890	7 617	7 422	6 821	7 465
Employee costs	1 311	1 550	1 572	1 420	1 724
Borrowing costs	124	107	105	97	115
Depreciation	1 794	2 497	2 485	2 595	2 444
Other operating expenses	4 001	3 663	3 423	2 931	2 367
Non-operating expenses	689	251	775	1 736	420
Total Expenses	7 919	8 068	8 360	8 779	7 070
Result from Ordinary Activities	(29)	(451)	(938)	(1 958)	395

Comment

Revenue from rates increased by 12% from \$2.373m in 1999-00 to \$2.665m in 2003-04, an increase over the five year period under review of \$0.292m.

Grant revenue was higher during the first two years under review as the Council operated the Midlands Multi-Purpose Health Centre (MMPHC). On

1 December 2001 the operations of the MMPHC were transferred back to the Department of Health and Human Services (DHHS), 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 that year. Grant revenue for 2003-04 included increased roads to recovery funding, which provided the majority of the increase from the prior year.

Council undertook a revaluation of its road assets 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. A further revaluation of road infrastructure was completed at 1 July 2003. This contributed to the decrease in depreciation expense for the 2003-04 year.

Non-operating revenues and Non-operating expenses generally reflected 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 of, with the main item being \$0.670m for the MMPHC, and \$0.432m for a loss on revaluation of land and buildings during that year.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	561	451	441	386	370
Receivables	598	731	500	560	429
Investments	1 750	2 535	1 674	1 670	2 824
Inventories	163	159	193	216	202
Other	10	49	51	27	0
Total Current Assets	3 082	3 925	2 859	2 859	3 825
Payables	368	404	308	215	254
Borrowings	168	181	174	205	151
Provisions	192	220	241	331	395
Other	253	229	126	89	91
Total Current Liabilities	981	1 034	849	840	891
Working Capital	2 101	2 891	2 010	2 019	2 934
Property, plant and equipment	38 846	67 878	67 654	65 948	65 997
Investments	0	0	0	0	0
Other	29	15	0	184	144
Total Non-Current Assets	38 875	67 893	67 654	66 132	66 141
Borrowings	1 382	1 400	1 222	1 587	1 436
Provisions	14	32	28	64	63
Other	0	0	0	73	66
Total Non-Current Liabilities	1 396	1 432	1 250	1 724	1 565
Net Assets	39 580	69 352	68 414	66 427	67 510
Reserves	2 262	32 775	32 247	32 081	33 374
Retained surpluses	37 318	36 577	36 167	34 346	34 136
Total Equity	39 580	69 352	68 414	66 427	67 510

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 increase in receivables noted in the earlier years under analysis. Rate debts continued to decrease as Council took steps to turn receivables into cash.

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. Surplus cash generated in 2003-04 was invested bringing the closing investment balance at 30 June 2004 to \$2.824m, an increase of \$1.154m above the prior year.

From 1999-00 to 2000-01, the balance of Property, plant and equipment increased by \$29.032m, the majority of which was 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 are depreciated over 30 years (50 years in prior years) and unsealed roads were depreciated over 60 years (100 years in prior years).

Property, plant and equipment reduced by \$1.706m during the 2002-03 year, primarily due to a downward revaluation of land and buildings of \$0.432m and the disposal of the MMPHC, \$0.670m.

Revaluations of road, water, sewerage and stormwater infrastructure were undertaken at 1 July 2003. The net impact of these revaluations was an increase in the infrastructure assets and the asset revaluation reserve of \$0.688m.

Both Current and Non-current Borrowings increased during 2002-03 as a result of new borrowings amounting to \$0.570m, which were raised to fund the Bagdad/Mangalore Water Scheme – new pump station, \$0.180m, Campania Water Reticulation Works, \$0.090m, and the Woodsdale Road construction and seal program, \$0.300m. No new borrowings were taken out during the 2003-04 financial year.

Other Non-current liabilities represented the deferred expenditure portion of the cost of the Municipal Property Valuation carried out by the Valuer-General in 2002-03.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 024	3 295	3 749	3 625	3 857
Payments to suppliers and employees	(4 969)	(5 445)	(5 525)	(4 895)	(4 309)
Interest received	113	162	110	112	177
Borrowing costs	(134)	(110)	(107)	(97)	(116)
Cash from operations	(1 966)	(2 098)	(1 773)	(1 255)	(391)
Proceeds from investments	0	0	861	4	0
Payments for investments	(250)	(785)	0	0	(1 154)
Payments for property, plant and equipment	(1 887)	(1 542)	(3 022)	(2 592)	(2 192)
Proceeds from sale of property, plant and equipment	606	157	481	284	279
Cash used in investing activities	(1 531)	(2 170)	(1 680)	(2 304)	(3 067)
Proceeds from borrowings	160	200	0	570	0
Repayment of borrowings	(198)	(169)	(185)	(174)	(205)
Cash from financing activities	(38)	31	(185)	396	(205)
Cash Flows from Government	3 640	4 127	3 628	3 108	3 647
Net increase/(decrease) in cash	105	(110)	(10)	(55)	(16)
Cash at the beginning of the period	456	561	451	441	386
Cash at end of the period	561	451	441	386	370

Comment

Cash from operations remained fairly stable over the first four years under review. The increase in 2003-04 was the result of greater receipts than the prior year and less operational expenditure. Receipts were stronger due to rate increases and higher recoveries from debtors.

Borrowing costs were gradually decreasing for the first four years under review, reflecting the reduction in the level of borrowings outstanding. Due to the timing of the new borrowings during 2002-03 there was minimal impact on the Borrowing costs for that year with a full year impact in 2003-04.

Net surplus funds of \$1.324m were invested during the five years under review.

Payments for property, plant and equipment amounted to \$1.887m in 1999-00 and included the purchase of two trucks, a grader and a backhoe. Trade-in of similar items of plant was reflected in the higher than normal proceeds from sale. Payments for property, plant and equipment in 2001-02 amounted to \$3.022m, the highest level in the five-year period under review. Capital works for this year included road additions, \$1.434m, bridge reconstructions, \$0.573m, and the purchase of plant and equipment totalling \$0.736m. Increased trade-ins and sales of plant items resulted in proceeds from sale rising to \$0.481m for the 2001-02 year.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		54	(357)	(644)	(506)	536
Operating margin	>1.0	1.01	0.95	0.92	0.93	1.08
Financial Management						
Current ratio	>1	3.14	3.80	3.37	3.40	4.29
Cost of debt	7.5%	8.0%	7.0%	7.0%	6.5%	6.5%
Debt service ratio		4.6%	3.7%	4.2%	4.1%	4.5%
Debt collection	30 days	71	84	61	65	48
Creditor turnover	30 days	23	29	18	14	21
Capital Exp/Depreciation	100%	105%	62%	122%	100%	90%
Other information						
Employee costs as a % of operating expenses		18%	20%	21%	20%	26%
Staff numbers FTEs		37	43	49	45	45
Average staff costs (\$'000s)		35	36	35	37	43

Comment

The financial performance ratios show that Council 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, and in 2003-04, when an operating result of \$0.536m was recorded due to a number of factors including increased grant revenue and a lower than anticipated depreciation expense due to the revaluations of infrastructure assets.

Council's Operating margin was fairly consistent with the benchmark for the five years under review.

The Debt collection ratio was consistently above the benchmark of 30 days. The increase in 2000-01 was due to higher 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. This trend continued in 2003-04 with a decrease in total debtors of \$0.131m from the prior year.

OVERALL COMMENT

In the five years under review Council recorded a total deficit result from operations (excluding non-operating items) of \$0.917m.

The 2003-04 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, following 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

Further to the Auditor-General's Report No. 2 for 2002-03, Volume 3, page 202 the signed statements for 2002-03 were received on 7 November 2003 and an unqualified audit report was issued on 3 December 2003.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 29 October 2004 and an unqualified audit report was issued on the same day.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	1 030	1 115	1 148	1 274	1 534
User charges	448	512	528	420	481
Grants	1 700	2 011	2 647	3 442	3 102
Other operating revenue	114	182	297	349	373
Non-operating revenue	179	142	145	133	183
Total Revenue	3 471	3 962	4 765	5 618	5 673
Employee costs	1 596	1 610	1 910	2 134	2 563
Borrowing costs	29	30	39	52	57
Depreciation	1 009	1 231	571	588	633
Other operating expenses	1 425	1 596	1 511	1 556	1 901
Non-operating expenses	76	113	7 173	140	129
Total Expenses	4 135	4 580	11 204	4 470	5 283
Result from Ordinary Activities	(664)	(618)	(6 439)	1 148	390

Comment

During the five-year period Council returned a total deficit from Ordinary Activities of \$6.183m. In 2001-02, due to a write-down of road and bridge assets of \$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 that year. This would have resulted in an average result over the five year period of a \$0.172m surplus.

The increase in rates revenue in 2003-04 to \$1.534m was mainly due to Council charging a waste management charge for the first time in this year and a slight increase in the general rate.

The increase in Government grants for 2001-02, \$0.636m was due principally to funding received for reconstruction of the Tasman Nursing Home at Nubeena, \$0.300m, and increased funding for roads and bridges projects, \$0.250m. Additional grant revenues received in 2002-03 were due to capital works for the Nubeena Sewerage Treatment Plant, \$0.376m, and the Tasman Multi Purpose Service (previously the Tasman Nursing Home), \$0.419.

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

The increase in employee costs for 2003-04 resulted from the Council employing additional nursing staff at the Tasman Multi Purpose Service.

The increase in Other operating expenses of \$0.345m in 2003-04 included the cost of the new waste management collection service noted above.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	523	725	235	284	116
Receivables	240	296	390	284	255
Investments	495	412	501	529	257
Other	30	0	5	0	0
Total Current Assets	1 288	1 433	1 131	1 097	628
Payables	177	295	657	568	469
Borrowings	35	52	74	102	137
Provisions	315	259	261	222	222
Other	47	55	55	118	121
Total Current Liabilities	574	661	1 047	1 010	949
Working Capital	714	772	84	87	(321)
Property, plant and equipment	16 797	16 239	10 589	11 843	12 874
Other	0	31	21	10	0
Total Non-Current Assets	16 797	16 270	10 610	11 853	12 874
Borrowings	399	546	722	849	1 063
Provisions	43	48	42	23	32
Other	92	83	10	0	0
Total Non-Current Liabilities	534	677	774	872	1 095
Net Assets	16 977	16 365	9 920	11 068	11 458
Reserves	37	1	1	1	1
Retained surpluses	16 940	16 364	9 919	11 067	11 457
Total Equity	16 977	16 365	9 920	11 068	11 458

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. The increase in Property, plant and equipment of \$1.031 in 2003-04 included a CDMA mobile phone tower, \$0.295m, the purchase of 10 vehicles, \$0.272m and expenditure of \$0.285m on a sewerage treatment plant.

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 re-development of the Tasman Nursing Home.

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. In response to a tightening cash position in 2003-04, \$0.350m was borrowed to fund expenditure on the sewerage treatment plant.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	1 584	1 919	2 096	2 383	2 788
Payments to suppliers and employees	(2 798)	(3 323)	(3 449)	(3 985)	(4 969)
Interest received	50	45	31	36	39
Borrowing costs	(26)	(31)	(39)	(52)	(57)
Cash from operations	(1 190)	(1 390)	(1 361)	(1 618)	(2 199)
Payments for property, plant and equipment	(500)	(818)	(2 021)	(2 036)	(1 778)
Proceeds from sale of property, plant and equipment	127	142	145	133	183
Cash used in investing activities	(373)	(676)	(1 876)	(1 903)	(1 595)
Proceeds from borrowings	0	200	250	230	350
Repayment of borrowings	(32)	(35)	(52)	(74)	(102)
Cash from financing activities	(32)	165	198	156	248
Cash Flows from Government	1 619	2 011	2 647	3 442	3 106
Net increase/(decrease) in cash	24	110	(392)	77	(440)
Cash at the beginning of the period	994	1 018	1 128	736	813
Cash at end of the period	1 018	1 128	736	813	373

Comment

During the 2002-03 financial year there was a significant increase in payments to suppliers and employees. This was a result of a number of staff resigning, retiring or Council terminating their employment. The further increase in 2003-04 was the result of the employment of additional nursing staff at the Tasman Multi Purpose Service, and the new waste collection service.

The significant increase in Payments for property, plant and equipment in the past three years was attributable to additional capital expenditure as noted previously, including the Tasman Multi Purpose Service, the sewerage treatment works and numerous other items. Some of these works were partly funded by grants, which was reflected in the higher cash inflows from Government.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		(767)	(647)	589	1 155	336
Operating margin	>1.0	0.81	0.86	1.15	1.27	1.07
Financial Management						
Current ratio	>1	2.24	2.17	1.08	1.09	0.66
Cost of debt	7.5%	6.7%	5.0%	4.9%	5.5%	4.8%
Debt service ratio		1.8%	1.7%	2.0%	2.3%	2.9%
Debt collection	30 days	44	36	74	52	40
Creditor turnover	30 days	39	29	129	117	72
Capital Exp/Depreciation	100%	50%	66%	354%	346%	281%
Other information						
Employee costs as a % of operating expenses		39%	36%	47%	49%	50%
Staff numbers FTEs		32	34	31	41	50
Average staff costs (\$'000s)		45	45	52	47	47

Comment

The trend of reporting a deficit from operations reversed in 2001-02 due to increased revenue; particularly grant receipts, and a decrease in depreciation, as a result of a revaluation. This improvement has continued, and the highest result of \$1.155m in 2002-03 was due to a further increase in government grants.

The current ratio of 1.08 for 2001-02, although still above the benchmark, decreased noticeably compared to the previous year, due to an increase in payables relating to the construction of the Tasman Multi Purpose Service. In 2003-04 there was a further decline, primarily driven by Council's diminished cash holdings due to extensive capital works.

High capital creditors also had a negative effect on Creditor turnover, particularly in 2001-02 and in 2002-03. Creditor turnover has improved since 2001-02 however it still remains more than twice the benchmark, suggesting that Council may be slow in paying its suppliers.

The Debt collection ratio was consistently high over the five-year period of review, as Council took a lenient approach to local ratepayers 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.

Increased capital expenditure in the past three years, as mentioned earlier in this summary, is reflected in the higher capital expenditure to depreciation ratios, with the ratio trebling in 2001-02 and 2002-03.

Employee costs as a % of operating expenses increased steadily over the years of review, and staff departures in 2001-02 caused an increase in the average staffing cost of that year.

OVERALL COMMENT

The 2003-04 audit was completed with satisfactory results.

5 LOCAL GOVERNMENT BUSINESS UNITS

INTRODUCTION

Section 30 of the *Local Government Act 1993* (the Act) 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 functions or exercise any powers of a council under the Act or any other legislation.

Currently there are four joint authorities operating in Tasmania:

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

In addition, the West Coast Council has created a separate company, known as 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 in the activities undertaken by each entity, it was not considered useful to undertake a full comparison of all these business units. However, as Cradle Coast Water, Esk Water and Hobart Water perform similar functions, a comparison of financial information for 2003-04 was completed.

In July 2004, the Government Prices Oversight Commission (GPOC) handed down its final report "Investigation into the Pricing Policies of Hobart Regional Water Authority, Esk Water Authority and Cradle Coast Water." The report provides recommendations for maximum prices and pricing principles for each water authority for the three-year period commencing 1 July 2004.

In the report, GPOC recommended maximum revenues and minimum target revenues. For each of the Authorities, projected sales revenue was below the minimum recommended targets in each of the three years. The report noted:

"In summary, none of the authorities receives a commercial rate of return from its projected revenue. To achieve the recommended

minimum rate of return (4.5% on pre-1998 assets and 7% on post 1998 assets), the projected revenues need to be raised by around 15 per cent for Hobart Water, 25 per cent for Esk Water and 11 per cent for Cradle Coast...”

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Cradle Coast Water \$'000s	Esk Water \$'000s	Hobart Water \$'000s
Operating revenue	8 409	9 429	21 363
Non-operating revenue	34	72	546
Total Revenue	8 443	9 501	21 909
Borrowing costs	1 314	478	2 309
Depreciation	1 291	2 262	4 766
Other operating expenses	4 547	4 023	10 834
Non-operating expenses	32	119	198
Total Expenses	7 184	6 882	18 107
Result from ordinary activities	1 259	2 619	3 802
Income tax expense	(123)	(839)	(1 068)
Result after taxation	1 136	1 780	2 734

Comment

The majority of Operating revenue was received from bulk water sales to constituent councils. Hobart Water’s operating revenue was significantly greater than the other two Authorities because it supplies to eight councils, in particular, the major population areas of Hobart, Glenorchy and Clarence. Cradle Coast Water services the majority of the north west coast, with major users including Waratah-Wynyard, Central Coast, Devonport City and Latrobe Councils. Esk Water provides water to the major northern councils, including Launceston City, West Tamar, Meander Valley and George Town.

On average, Other operating expenses represented 49% of operating revenue. All three Authorities recorded positive Results from Ordinary Activities after taxation. The Authorities’ profits before income tax averaged 20% of operating revenue.

FINANCIAL POSITION

	Cradle Coast Water	Esk Water	Hobart Water
	\$'000s	\$'000s	\$'000s
Cash	0	3 093	4 118
Receivables	475	589	4 998
Investments	1 740	0	0
Inventories	155	211	1 103
Other	383	825	636
Total Current Assets	2 753	4 718	10 855
Payables	295	177	2 300
Borrowings	1 395	0	10 000
Provisions	621	430	1 235
Other	965	290	0
Total Current Liabilities	3 276	897	13 535
Working Capital	(523)	3 821	(2 680)
Property, plant and equipment	61 504	100 754	167 904
Other	933	525	1 289
Total Non-Current Assets	62 437	101 279	169 193
Borrowings	20 199	2 000	23 198
Provisions	458	1 289	3 017
Other	0	4 349	3 975
Total Non-Current Liabilities	20 657	7 638	30 190
Net Assets	41 257	97 462	136 323
Capital	0	83 102	5 974
Reserves	31 937	13 267	119 369
Retained profits	9 320	1 093	10 980
Total Equity	41 257	97 462	136 323

Comment

The Receivables balance for Hobart Water was considerably greater than the other two Authorities, with the balance of \$4.998m including \$4.891m outstanding from Joint Authority members.

Other current assets included interest revenue accruals and prepayments for each Authority.

Hobart Water's Payables balance of \$2.300m included accrued interest of \$0.750m. Cradle Coast Water accrued interest payable at 30 June 2004 of \$0.451m, which was recorded under Other current liabilities.

The Hobart Water's balance of current loan debt totalled \$10.000m due to the Authority's portfolio management activities designed to minimise

interest costs. The Esk Water does not have a current loan debt, as there is no principal loan maturing in 2004-05.

The majority of the Property, plant and equipment balance for each Authority reflected infrastructure assets in the treatment and supply of bulk water. As noted previously Hobart Water supplies the major population centres and consequently requires a greater level of infrastructure.

Other Non-current assets included deferred tax assets, which are available to be utilised to offset future profits. The balance of this asset varied from year to year according to the Result from ordinary activities.

Current and Non-current provision balances reflected amounts relating to employee entitlements, including superannuation. The balances for Hobart Water were considerably larger than the other two Authorities due to it having a greater number of employees.

Non-current Other balances for Esk Water and Hobart Water represented deferred taxation equivalent liabilities. The liabilities related 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	8 231	8 946	22 152
Payments to suppliers and employees	(4 693)	(3 952)	(12 181)
Interest received	43	352	2 523
Borrowing costs	(1 324)	(485)	(4 635)
Taxation paid	0	0	0
Cash from operations	2 257	4 861	7 859
Payments for property, plant and equipment	(1 814)	(1 123)	(2 911)
Proceeds from sale of property, plant and equipment	34	72	214
Cash used in investing activities	(1 780)	(1 051)	(2 697)
Proceeds from borrowings	4 870	0	25 000
Repayment of borrowings	(4 911)	(5 000)	(25 000)
Dividends paid	(595)	(2 048)	(3 000)
Cash from financing activities	(636)	(7 048)	(3 000)
Net increase/(decrease) in cash	(159)	(3 238)	2 162
Cash at the beginning of the period	1 631	6 331	1 956
Cash at end of the period	1 472	3 093	4 118

Comment

All three Authorities had positive cash flows from operations. Only Hobart Water recorded a net increase in cash, with the other two Authorities recording decreases in their cash balances.

The cash deficits related to Cradle Coast Water expending a significant amount on Payments for property plant and equipment in the year, whilst Esk Water made a material principal loan repayment of \$5.000m.

Hobart Water actively manages its debt portfolio in order to minimise interest costs. This resulted in material repayments and borrowings each financial period which is reflected in the cash flows from financing, reporting \$25.000m in proceeds from borrowings and the same amount in repayments during 2003-04.

FINANCIAL ANALYSIS

	Bench Mark	Cradle Coast Water	Esk Water	Hobart Water
Financial Performance				
Result from operations (\$'000s)		1 257	2 666	3 454
EBIT (\$'000s)		2 573	3 097	6 111
Operating margin	>1.0	1.18	1.39	1.19
Return on assets		4.0%	3.0%	3.5%
Return on equity		2.8%	1.9%	2.1%
Financial Management				
Debt to equity		52.3%	2.1%	24.4%
Debt to total assets		33.1%	1.9%	18.4%
Interest cover	>3	2.0	6.5	2.8
Current ratio	>1	0.8	5.3	0.8
Cost of debt	7.5%	6.1%	6.0%	6.5%
Debt service ratio		74%	58%	22%
Debt collection	30 days	21	24	84
Creditor turnover	30 days	23	21	15
Capital Exp/Depreciation		141%	50%	61%
Returns to Shareholders				
Dividends paid or payable (\$'000s)		629	1 780	2 800
Dividend payout ratio	50%	55.4%	100.0%	102.4%
Dividend to equity ratio		1.5%	1.9%	2.1%
Income tax paid or payable (\$'000s)		0	0	0
Effective tax rate	30%	-	-	-
Total return to the State (\$'000s)		629	1 780	2 800
Total return to equity ratio		1.5%	1.9%	2.1%
Other information				
Staff numbers FTEs		28	27	69
Average staff costs (\$'000s)		61	64	63

Comment

The three Authorities all recorded operating profits, which was 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 52.3% and Debt to total assets ratio of 33.1% were considerably higher than the other Authorities. The corresponding ratios for Esk Water reduced considerably in 2003-04 with the repayment of \$5.000m decreasing its overall debt balance to \$2.000m, which was significantly below the other two Authorities.

The Cost of debt for all three Authorities was consistent and below the benchmark. However, the Debt service ratio for Esk Water was unusually high due to the principal loan repayment of \$5.000m during 2003-04. Conversely, the Hobart Water's Debt service ratio was lower than expected as a result of principal loan repayments being offset by corresponding new loan borrowings. As there was no net effect on loan debt, principal repayments were excluded from the ratio.

Both Hobart Water and Cradle Coast Water recorded current ratios below the benchmark of 1. As noted previously, Hobart Water recorded a significant current borrowings balance of \$10.000m, which impacted upon its ratio. Significant capital works reducing cash reserves affected the current ratio for Cradle Coast Water. Both entities are confident that they are able to meet all short-term liabilities.

Hobart Water had a debt collection period of 84 days due because the receivables balance included three months of water sales for each constituent council.

As noted previously, Cradle Coast Water undertook considerable capital works during 2003-04, which is reflected in its capital expenditure to depreciation ratio. Most of the capital expenditure related to a program to roof the majority of its reservoirs.

While the capital expenditure to depreciation ratios for both Esk Water and Hobart Water were low, Hobart Water's ratio averaged 94% over the last five years. The ratio for Esk Water averaged 45% over the last five years, however it recently completed a strategic asset management plan that reviewed the age profile of assets and highlighted that a major replacement will be due in 2040, when two major pipelines will theoretically reach the end of their useful lives. Therefore, expenditure by Esk Water on asset replacement is likely to remain low for most of the period until that time.

The three Authorities had dividend payout ratios above the benchmark of 50%. Both Esk Water and Hobart Water are returning the majority of their operating surpluses to the constituent councils.

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

The staff costs of the three Authorities were similar, with an overall average of \$0.063m.

OVERALL COMMENT

The three Authorities recorded operating profits and have provided for a dividend payment to their shareholders. As noted by the GPOC review the return on equity for all three Authorities remains low.

5.1 CRADLE COAST WATER

INTRODUCTION

The North West Water Authority (the 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 the Authority all the prescribed property, obligations and liabilities of the North West Regional Water Authority.

The entity is administered by a five person Board of Management. The Authority originally 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.

The responsible Minister is the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements of Cradle Coast Water were received on 24 September 2004 and an unqualified audit report was issued on 18 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	7 709	7 863	7 487	7 813	8 062
Interest revenue	74	103	81	54	42
Other operating revenue	52	45	176	224	305
Non-operating revenue	91	126	141	113	34
Total Revenue	7 926	8 137	7 885	8 204	8 443
Borrowing costs	1 468	1 451	1 393	1 351	1 314
Depreciation	1 225	1 227	1 270	1 240	1 291
Cost of sales (less depreciation)	1 681	1 819	2 136	2 138	2 183
Other operating expenses	2 157	2 097	2 067	2 151	2 364
Non-operating expenses	78	153	163	134	32
Total Expenses	6 609	6 747	7 029	7 014	7 184
Result from ordinary activities	1 317	1 390	856	1 190	1 259
Income tax expense	206	104	49	39	123
Result after taxation	1 111	1 286	807	1 151	1 136

Comment

The majority of the Authority's revenue is derived from bulk water sales to municipal consumers. This is shown as sales revenue in the above table.

The main component of Other operating revenue was external contract works which increased over the period under review as the Authority expanded its business activities. The Authority commenced irrigation sales during 2002-03 resulting in revenue of \$0.082m during that year. During 2003-04 irrigation sales revenue increased to \$0.116m.

Non-operating revenue consisted of proceeds from the sale of non-current assets and varied each year depending on the items sold.

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

The Cost of sales represented the production costs associated with collecting, conserving and treating water to a saleable point. During the five years under review, cost of sales varied between 22% and 29% of sales revenue. Depreciation is recorded as a separate item in the above table, but the Authority included a portion of depreciation as a 'cost of sales' within its financial report.

Other operating expenses included administration, occupancy and distribution expenses.

Non-operating expenses represented the written down value of non-current assets sold by the Authority.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	0	0	0	43	0
Receivables	62	475	395	369	475
Investments	1 708	2 374	1 700	1 588	1 740
Inventories	112	112	129	124	155
Other	427	227	358	393	383
Total Current Assets	2 309	3 188	2 582	2 517	2 753
Payables	179	332	307	487	295
Borrowings	622	662	695	711	1 395
Provisions	894	881	791	447	621
Other	870	751	846	1 074	965
Total Current Liabilities	2 565	2 626	2 639	2 719	3 276
Working Capital	(256)	562	(57)	(202)	(523)
Property, plant and equipment	55 865	56 796	57 402	60 463	61 504
Deferred tax equivalent asset	1 249	1 144	1 095	1 056	933
Total Non-Current Assets	57 114	57 940	58 497	61 519	62 437
Borrowings	22 659	22 034	21 367	20 656	20 199
Provisions	136	416	451	495	458
Total Non-Current Liabilities	22 795	22 450	21 818	21 151	20 657
Net Assets	34 063	36 052	36 622	40 166	41 257
Capital					
Reserves	27 529	28 746	28 937	31 387	31 937
Retained profits	6 534	7 306	7 685	8 779	9 320
Total Equity	34 063	36 052	36 622	40 166	41 257

Comment

Receivables increased by \$0.413m for the 2000-01 year, as it included \$0.398m due from the local councils supplied by the Authority (1999-00 \$0.020m). As at 30 June 2004, councils supplied by the Authority owed \$0.354m.

The composition of inventories is chemicals and water on hand as well as pipe and water fitting spares.

Deferred tax equivalent assets represented net timing differences between accounting and taxation balances.

The total borrowings balance decreased by \$1.955m, from \$23.281m in 1999-00 to \$21.326m in 2003-04. One of the loans held by the Authority was refinanced during the 2003-04 year resulting in a small decrease of \$0.041m in loan debt during that year. This was offset by a bank overdraft, amounting to \$0.268m.

The application of revised Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" was 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. The provision balance at 30 June 2004 was consistent with the prior year.

Other current liabilities represented accrued expenses at the end of the reporting period. At 30 June 2004 this included \$0.451m for accrued interest on loan borrowings (2003, \$0.461m).

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 408	7 961	7 726	8 109	8 231
Payments to suppliers and employees	(5 375)	(4 126)	(4 249)	(4 118)	(4 693)
Interest received	85	100	84	55	43
Borrowing costs	(1 304)	(1 400)	(1 418)	(1 366)	(1 324)
Cash from operations	814	2 535	2 143	2 680	2 257
Payments for property, plant and equipment	(612)	(1 065)	(1 809)	(1 739)	(1 814)
Proceeds from sale of property, plant and equipment	123	126	141	113	34
Cash used in investing activities	(489)	(939)	(1 668)	(1 626)	(1 780)
Proceeds from borrowings	0	0	0	0	4 870
Repayment of borrowings	(551)	(587)	(626)	(667)	(4 911)
Dividends paid	0	(345)	(514)	(428)	(595)
Cash from financing activities	(551)	(932)	(1 140)	(1 095)	(636)
Net increase/(decrease) in cash	(226)	664	(665)	(41)	(159)
Cash at the beginning of the period	1 899	1 673	2 337	1 672	1 631
Cash at end of the period	1 673	2 337	1 672	1 631	1 472

Comment

Receipts from customers remained fairly stable over the five-year period. Payments to suppliers and employees increased from \$4.126m in 2000-01 to \$4.693m in 2003-04. In 1999-00 payments were unusually high due to the payment of RBF entitlements (\$1.712m) to employees who elected to leave the scheme following the establishment of the Authority as a local government joint authority.

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, 2002-03 and 2003-04 and accounted for the majority of the expenditure on property, plant and equipment in those years.

A loan was refinanced during the 2003-04 year and is shown as proceeds from borrowings of \$4.870m. Loan repayments for this year totalled \$4.911m, resulting in a net debt reduction of \$0.041m.

Dividends paid for the five-year period under review totalled \$1.882m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		1 304	1 417	878	1 211	1 257
EBIT (\$'000s)		2 785	2 841	2 249	2 541	2 573
Operating margin	>1.0	1.20	1.21	1.13	1.18	1.18
Return on assets		4.6%	4.7%	3.7%	4.1%	4.0%
Return on equity		3.3%	3.7%	2.2%	3.0%	2.8%
Financial Management						
Current ratio	>1	0.90	1.21	0.98	0.93	0.84
Debt to equity		68.3%	63.0%	60.2%	53.2%	52.3%
Debt to total assets		39.2%	37.1%	36.1%	33.4%	33.1%
Interest cover	>3	1.9	2.0	1.6	1.9	2.0
Cost of debt	7.5%	6.2%	6.3%	6.2%	6.2%	6.1%
Debt service ratio		24%	25%	26%	25%	74%
Debt collection	30 days	3	22	19	17	21
Creditor turnover	30 days	20	33	24	39	23
Capital Exp/Depreciation		50%	87%	142%	140%	141%
Returns to Shareholders						
Dividends paid or payable (\$'000s)		345	514	428	595	629
Dividend payout ratio	50%	31.1%	40.0%	53.0%	51.7%	55.4%
Dividend to equity ratio		1.0%	1.5%	1.2%	1.5%	1.5%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		345	514	428	595	629
Total return to equity ratio		1.0%	1.5%	1.2%	1.5%	1.5%
Other information						
Staff numbers FTEs		23	24	24	25	28
Average staff costs (\$'000s)		55	54	53	58	61

Comment

The result from operations was positive in all years. The return on equity and asset ratios remained fairly consistent over the five-year period under review.

The Debt to equity and Debt to total assets ratios decreased over the five-year period in line with increases in retained profits and a reduction in the level of borrowings, which decreased from \$23.281m in 1999-00 to \$21.326m in 2003-04.

The Current ratio 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 for the 1999-00 year resulting in a lower debt collection ratio. The ratios for the last four years under review were higher due to the increased debt owed by local councils, but were still within benchmark.

The Creditor turnover ratio was around the benchmark for all years except 2002-03 when the balance of payables included material amounts for capital items, which distorted the ratio. The entity complies with its policy of paying creditors within applicable terms.

The capital expenditure to depreciation ratio was above the benchmark of 100% for the last three years under review. During these years the Authority had significant capital expenditure with the majority relating to the \$6.200m roofing of reservoirs program that commenced in 2001 and is scheduled for completion during the 2004-05 financial year. The program includes twenty-six reservoirs spread over seven river systems.

Dividends paid or payable since 1999-00 were in accordance with Part 3A of the *Local Government Act 1993*.

As Cradle Coast Water has 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 of \$6.012m, (after tax \$5.491m).

The 2003-04 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 loans 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 Minister Assisting the Premier on Local Government.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Subsequent to the Auditor-General's Report No. 2 for 2002-03, Volume 3, page 222 the final signed financial statements for 2002-03 were received on 3 December 2003. An unqualified audit report was issued on 12 December 2003.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

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

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	1 150	1 315	1 296	1 457	1 550
Non-operating revenue	0	0	0	0	0
Total Revenue	1 150	1 315	1 296	1 457	1 550
Borrowing costs	73	65	66	52	71
Depreciation	74	128	87	75	76
Other operating expenses	988	984	1 145	1 232	1 584
Non-operating expenses	0	0	0	0	0
Total Expenses	1 135	1 177	1 298	1 359	1 731
Result from ordinary activities	15	138	(2)	98	(181)
Income tax expense	0	25	0	40	0
Result after taxation	15	113	(2)	58	(181)

Comment

Operating revenue increased steadily over the past five years, which was due mainly to increased revenue from user charges at the waste disposal facility. Operating revenue for 2000-01, \$1.315m included 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 Authority used these funds for capital purposes.

Operating expenses increased steadily over the initial four-year period, in line with increased activity by the disposal facility. In 2003-04, the expenses increased by \$0.362m primarily due to increased site works expenditure. In particular, costs increased for waste cells by \$0.141m, controlled cells by \$0.065m, roads by \$0.053m and compost facilities by \$0.029m. The abnormally high level of rainfall during the winter period contributed to the additional site works expenditure.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	138	127	211	0	0
Receivables	247	345	284	395	281
Total Current Assets	385	472	495	395	281
Bank Overdraft	0	0	0	1	216
Payables	96	23	169	31	39
Other	2	7	9	37	37
Total Current Liabilities	98	30	178	69	292
Working Capital	287	442	317	326	(11)
Property, plant and equipment	1 414	1 308	1 418	1 515	1 701
Other	0	1	0	0	0
Total Non-Current Assets	1 414	1 309	1 418	1 515	1 701
Borrowings	1 046	1 046	1 046	1 046	1 046
Other	0	35	32	45	45
Total Non-Current Liabilities	1 046	1 081	1 078	1 091	1 091
Net Assets	655	670	657	750	599
Reserves	677	572	682	778	1 056
Retained profits	(22)	98	(25)	(28)	(457)
Total Equity	655	670	657	750	599

Comment

The Authority's cash balance decreased by \$0.427m from 2001-02 to 2003-04. Details of the cash movements are provided in the Cash Position section below.

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.

Property, plant and equipment was fairly stable over the period under review, however the balance increased by \$0.186m in 2003-04 to \$1.701m. Major capital works in 2003-04 included a leachate lagoon, totalling \$0.074m, a plant shed/crib room, \$0.165m and infrastructure piping of \$0.041m.

The balance of borrowings in the statement of financial position comprised loan funds provided to the Authority by the member councils. The balance did not change during the period under review as the Authority intends to repay the loans when funds become available in future years. Interest was paid to the four councils based on the outstanding balances.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	1 108	1 220	1 351	1 343	1 658
Payments to suppliers and employees	(996)	(1 171)	(998)	(1 371)	(1 574)
Interest received	7	6	5	3	6
Borrowing costs	(73)	(65)	(66)	(52)	(71)
Taxation expense	0	0	0	0	0
Cash from operations	46	(10)	292	(77)	19
Payments for property, plant and equipment	(192)	(1)	(208)	(135)	(234)
Proceeds from sale of property, plant and equipment	0	0	0	0	0
Cash used in investing activities	(192)	(1)	(208)	(135)	(234)
Cash from financing activities	0	0	0	0	0
Net increase/(decrease) in cash	(146)	(11)	84	(212)	(215)
Cash at the beginning of the period	284	138	127	211	(1)
Cash at end of the period	138	127	211	(1)	(216)

Comment

As noted previously, the Authority's cash position decreased by \$0.427m during the past two financial periods. The decrease was the result of low Cash from operations including a deficit cash flow of \$0.077m in 2002-03. This combined with cash used for investing activities led to an overdraft position of \$0.216m at 30 June 2004.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		15	138	(2)	98	(181)
EBIT (\$'000s)		88	203	64	150	(110)
Operating margin	>1.0	1.01	1.12	1.00	1.07	0.90
Return on assets		4.9%	11.3%	3.5%	7.8%	-5.7%
Return on equity	12%	2.3%	17.1%	-0.3%	8.2%	-26.8%
Financial Management						
Debt to equity		159.7%	156.1%	159.2%	139.5%	174.6%
Debt to total assets		58.1%	58.7%	54.7%	54.8%	52.8%
Interest cover	>3	1.21	3.12	0.97	2.88	(1.55)
Current ratio	>1	3.93	15.73	2.78	5.72	0.96
Cost of debt	7.5%	7.0%	6.2%	6.3%	6.2%	6.3%
Debt collection	30 days	78	104	80	99	66
Creditor turnover	30 days	30	9	46	8	8
Capital Exp/Depreciation		259%	1%	239%	180%	308%
Returns to Shareholders						
Dividends paid or payable (\$'000s)		0	0	0	0	0
Income tax paid or payable (\$'000s)		0	0	0	0	0
Total return to the State (\$'000s)		0	0	0	0	0
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 produced positive operating results and margins in the initial four years 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 increase in expenditure in 2003-04, as noted previously and the subsequent operating deficit had a significant effect on the operations. This is highlighted in the negative return on assets and equity ratios.

The Debt to equity and asset ratios were 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 did not change over the five-year period, as the Authority did not make principal repayments to the participating councils.

The Current ratio was consistently above the benchmark, however the effect of the 2003-04 operating deficit and cash flows resulted in current assets being below current liabilities.

The Debt collection ratio was 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 was 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.

Capital expenditure was significantly greater than the depreciation expense in four of the five years under review. The impact of the capital works had a significant impact on the Authority's cash flows and it would appear the pricing structure does not fully incorporate the need to generate sufficient funds to meet both operating and capital requirements.

As mentioned previously, the councils have waived the need for tax and dividend payments.

The calculations relating to staff costs were not applicable, as the Authority does not employ any staff.

OVERALL COMMENT

For the five years under review, the Authority recorded a total surplus from operations before income tax of \$0.068m. It would appear the financial position of the entity is declining due to revenue from operations not meeting its operating and capital requirements. As the four participating councils are the major customers, action is needed to address the current deficit and poor cash positions.

The figures for 2003-04 were 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. The 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 comprised of four directors, to manage the resources of the Authority and be responsible for the collection, treatment, conservation and supply of water in bulk.

The responsible Minister is the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 30 August 2004 and an unqualified audit report was issued on 6 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	7 107	8 011	8 598	8 943	8 949
Interest revenue	236	96	139	241	360
Other operating revenue	63	72	57	73	120
Non-operating revenue	172	106	65	81	72
Total Revenue	7 578	8 285	8 859	9 338	9 501
Borrowing costs	851	606	552	487	478
Depreciation	2 081	2 106	2 194	2 201	2 262
Cost of sales (less depreciation)	2 095	2 004	2 102	2 165	2 285
Other operating expenses	1 320	1 483	1 394	1 475	1 738
Non-operating expenses	22	136	71	84	119
Total Expenses	6 369	6 335	6 313	6 412	6 882
Result from ordinary activities	1 209	1 950	2 546	2 926	2 619
Income tax expense	345	613	875	914	839
Result after taxation	864	1 337	1 671	2 012	1 780

Comment

The majority of the Authority's revenue was derived from bulk water sales to municipal, industrial and wayside consumers. During 1999-00, municipal revenue was \$6.138m and increased steadily in subsequent years to the 2003-04 level of \$8.011m. 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.

Non-operating revenue consisted of proceeds from the sale of non-current assets with the exception of 1999-00 which also included \$0.156m relating to a write-down of a superannuation provision.

The level of borrowings reduced from \$13.000m at 1 July 1999 to \$2.000m at 30 June 2004. Borrowing costs correspondingly reduced each year, with a decrease between the 1999-00 and 2003-04 financial years of \$0.373m.

Cost of sales represented the production costs associated with collecting, conserving and treating the water to a saleable point. Depreciation is recorded as a separate item above, but the Authority includes the majority of depreciation as a 'cost of sales' item.

Other operating expenses included administration, engineering and distribution expenses.

Non-operating expenses represented the written down value of non-current assets sold by the Authority.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 936	2 042	3 974	6 331	3 093
Receivables	42	384	634	229	589
Inventories	168	180	186	200	211
Other	596	638	978	778	825
Total Current Assets	3 742	3 244	5 772	7 538	4 718
Payables	117	93	43	65	177
Borrowings	3 000	0	1 000	5 000	0
Provisions	854	1 182	1 411	364	430
Other	527	572	362	632	290
Total Current Liabilities	4 498	1 847	2 816	6 061	897
Working Capital	(756)	1 397	2 956	1 477	3 821
Property, plant and equipment	96 256	98 179	96 576	92 377	100 754
Deferred tax equivalent asset	333	370	394	442	519
Other	6	6	6	6	6
Total Non-Current Assets	96 595	98 555	96 976	92 825	101 279
Borrowings	8 000	8 000	7 000	2 000	2 000
Deferred tax equivalent liabilities	932	1 583	2 482	3 433	4 349
Provisions	847	963	1 016	1 104	1 289
Total Non-Current Liabilities	9 779	10 546	10 498	6 537	7 638
Net Assets	86 060	89 406	89 434	87 765	97 462
Capital	83 102	83 102	83 102	83 102	83 102
Reserves	2 688	6 034	6 062	3 302	13 267
Retained profits	270	270	270	1 361	1 093
Total Equity	86 060	89 406	89 434	87 765	97 462

Comment

The cash balance held at 30 June 2003 totalled \$6.331m. Borrowings of \$5.000m were repaid during June 2004, reducing the balance held at 30 June. The 30 June 2004 cash balance also reduced due to the increased investment of \$1.123m in capital assets and the payment of \$2.048m in dividends.

Receivables for 1999-00 were lower than usual due to the early payment of May water charges by the local councils supplied by the Authority.

The composition of the inventories balance at 30 June 2000 was different to subsequent years. The inventories balance for the 1999-00 year comprised of sundry spares and chemicals on hand. The application of revised Australian Accounting Standard AASB 1018 "Statement of Financial Performance" during 2001 required the Authority to report Cost of Sales, resulting in the inclusion of water on hand as inventory.

Deferred tax equivalent assets represented net timing differences between accounting and taxation balances.

Current provisions for the first three years under review included a provision for final dividend. Due to the adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" at 1 July 2002, a provision for dividend was not made in the financial statements for the final dividend payment for the 2002-03 and 2003-04 years, therefore provisions for these years included employee benefits only.

Current Borrowings reduced to nil at 30 June 2004 as the Authority repaid \$5.000m during June 2004. Non-current borrowings remained at \$2.000m as these funds are not due to be repaid until 2006.

Deferred tax equivalent liabilities totalled \$4.349m at 30 June 2004. The deferred tax equivalent liabilities were 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 (AVO). The revaluation decrement primarily related to the downsizing of a major pipeline in accordance with the deprival valuation methodology. A revaluation increment of \$9.965m was processed during 2003-04, with the majority relating to the System Infrastructure class of assets. This was performed by the application of industry indices supplied by the AVO to the Authority's property, plant and equipment balances. The revaluation increment in the year primarily reflected increases in construction costs. The next full revaluation is scheduled to occur with an effective date of 30 June 2006.

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 was maintained during the subsequent two years with all annual operating profits returned to shareholders as dividend payments. Due to the adoption of AASB 1044 at 1 July 2002, the retained profits balance was higher, as the final dividend payment was not transferred to a provision at the end of the financial year. The dividend policy of the Authority remains to return all annual operating profits to shareholders. All that has changed was the timing of the recognition of the final dividend for accounting purposes. The amount of the unrecognised final dividend recommended by the Board of the Authority at 30 June 2004 was \$0.847m (2003, \$1.115m).

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	7 544	7 879	8 283	9 817	8 946
Payments to suppliers and employees	(4 648)	(3 371)	(3 855)	(3 711)	(3 952)
Interest received	230	108	136	234	352
Borrowing costs	(885)	(579)	(552)	(519)	(485)
Cash from operations	2 241	4 037	4 012	5 821	4 861
Payments for property, plant and equipment	(1 591)	(987)	(661)	(534)	(1 123)
Proceeds from sale of property, plant and equipment	16	72	65	81	72
Cash used in investing activities	(1 575)	(915)	(596)	(453)	(1 051)
Repayment of borrowings	(2 000)	(3 000)	0	(1 000)	(5 000)
Dividends paid	(198)	(1 016)	(1 484)	(2 011)	(2 048)
Cash from financing activities	(2 198)	(4 016)	(1 484)	(3 011)	(7 048)
Net increase/(decrease) in cash	(1 532)	(894)	1 932	2 357	(3 238)
Cash at the beginning of the period	4 468	2 936	2 042	3 974	6 331
Cash at end of the period	2 936	2 042	3 974	6 331	3 093

Comment

Payments to suppliers and employees were inflated for the 1999-00 year by a \$1.424m ex-gratia payment to the West Tamar Council as a result of a claim made by the Council during 1997-98 that the transfer of assets on the formation of the Authority 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 Minister for Local Government approved the amendments to the Rules.

The amount was recognised as an extraordinary expense during the 1998-99 year and payment in settlement of the claim was made in July 1999.

Expenditure on Property, plant and equipment during 1999-00 of \$1.591m included the construction of concrete reservoirs, roofing of existing reservoirs, pipeline construction and treatment plant works. Payments during 2003-04, totalling \$1.123m, primarily related to works at the Authority's treatment plants, with one major item being filter upgrades at the Reatta Road Treatment Plant.

A significant amount of borrowings, totalling \$11.000m were repaid during the years under review, including \$5.000m during 2003-04. 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.

Dividends paid for the five-year period totalled \$6.757m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		1 059	1 980	2 552	2 929	2 666
EBIT (\$'000s)		2 060	2 556	3 098	3 413	3 097
Operating margin	>1.0	1.17	1.32	1.41	1.46	1.39
Return on assets		2.0%	2.5%	3.0%	3.4%	3.0%
Return on equity		1.0%	1.5%	1.9%	2.3%	1.9%
Financial Management						
Current ratio	>1	0.83	1.76	2.05	1.24	5.26
Debt to equity		12.8%	8.9%	8.9%	8.0%	2.1%
Debt to total assets		11.0%	7.9%	7.8%	7.0%	1.9%
Interest cover	>3	2.4	4.2	5.6	7.0	6.5
Cost of debt	7.5%	7.1%	6.9%	6.9%	6.9%	6.0%
Debt service ratio		39%	44%	6%	16%	58%
Debt collection	30 days	2	17	27	9	24
Creditor turnover	30 days	13	12	7	10	21
Capital Exp/Depreciation		76%	47%	30%	24%	50%
Returns to Shareholders						
Dividends paid or payable (\$'000s)		594	1 337	1 683	2 012	1 780
Dividend payout ratio	50%	68.8%	100.0%	100.7%	100.0%	100.0%
Dividend to equity ratio		0.7%	1.5%	1.9%	2.3%	1.9%
Income tax paid or payable (\$'000s)		-	-	-	-	-
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		594	1 337	1 683	2 012	1 780
Total return to equity ratio		0.7%	1.5%	1.9%	2.3%	1.9%
Other information						
Staff numbers FTEs		26	27	26	26	27
Average staff costs (\$'000s)		52	53	57	59	64

Comment

The Authority's Operating margin remained above benchmark for all years under review.

The Debt to equity and Debt to total asset ratios decreased as the outstanding liability decreased. The substantial reduction recorded in the 2003-04 year was due to the \$5.000m loan repayment during this year.

The Current ratio for 1999-00 was below benchmark due to the impending payment of \$3.000m of the loan portfolio, thereby increasing current liabilities for that year. The Current ratio for subsequent years was consistent with benchmark with the exception of the 2003-04 year. As there is no debt due to be repaid during the 2004-05 financial year, current liabilities were significantly less than current assets resulting in an increase in the current ratio to well above benchmark.

The Debt collection turnover was low for the 1999-00 year due to the early payment of June invoices by the member councils. The 2001-02 and 2003-04 Debt collection turnovers increased due to the later payment of May invoices by some of the member councils. These payments were received in early July in both years. In other years the comparable May

invoices had been paid in June. The turnover rate was still within the Authority's terms of payment for this class of customer.

The capital expenditure to depreciation ratio was low, with the highest amount of 76%, being recorded in 1999-2000. The Authority recently completed a strategic asset management plan that included an asset replacement schedule based on the age profile of its assets. This plan highlighted that a major asset replacement is due near 2040, when two major pipelines will theoretically reach the end of their useful lives. Expenditure on asset replacement is therefore expected to remain below depreciation for most of the period until then.

Average staff costs were consistent over the period with increases reflecting general increases in salary and wages costs.

As the Authority has carried forward tax losses, no tax equivalent payments were made.

OVERALL COMMENT

In the five years under review Esk Water Authority recorded a total surplus before tax of \$11.250m, (after tax \$7.644m) and paid \$6.757m in dividends to participating owner councils.

The 2003-04 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 Authority is a joint authority trading under the name of Hobart Water. It 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 on Local Government.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

An unqualified audit report was issued on 18 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	19 048	19 223	18 485	20 591	21 363
Non-operating revenue	220	583	384	309	546
Total Revenue	19 268	19 806	18 869	20 900	21 909
Borrowing costs	2 107	2 187	1 939	2 177	2 309
Depreciation	4 421	4 547	4 568	4 697	4 766
Other operating expenses	9 944	10 243	9 024	10 531	10 834
Non-operating expenses	39	294	65	75	198
Total Expenses	16 511	17 271	15 596	17 480	18 107
Result from ordinary activities	2 757	2 535	3 273	3 420	3 802
Income tax expense	944	675	892	407	1 068
Result after taxation	1 813	1 860	2 381	3 013	2 734

Comment

Bulk water sales to constituent councils represented approximately 98% of normal operating revenue for each year under review. Operating revenue fluctuates in accordance with consumption, noting recent years' figures reflect drier conditions and growth in some areas.

Non-operating revenue excluded interest received on derivative trading undertaken as part of the Authority's debt management activity and swap gains/losses. In 2003-04 interest received from this activity amounted to \$2.128m (2002-03: \$2.291m) and swap gains in 2003-04 were \$0.289m (2002-03: \$0.401m). The net fair value of unrecognised swaps at 30 June 2004 was a net balance of \$0.713m loss (\$1.327m loss as at 30 June 2003).

Borrowing costs shown in the table included 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 \$2.144m.

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

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	36	1 014	1 964	1 956	4 118
Receivables and Prepayments	4 581	4 644	5 670	5 199	5 634
Investments	2 200	0	0	0	0
Inventories	751	817	1 089	1 062	1 103
Total Current Assets	7 568	6 475	8 723	8 217	10 855
Payables	2 433	1 814	2 572	2 274	2 300
Borrowings	16 000	9 900	10 900	10 000	10 000
Provisions	3 569	3 894	3 445	1 339	1 235
Total Current Liabilities	22 002	15 608	16 917	13 613	13 535
Working Capital	(14 434)	(9 133)	(8 194)	(5 396)	(2 680)
Property, plant and equipment	162 314	161 686	161 046	159 984	167 904
Other	1 263	1 254	1 244	1 226	1 289
Total Non-Current Assets	163 577	162 940	162 290	161 210	169 193
Borrowings	18 298	23 298	22 298	23 198	23 198
Provisions	4 118	4 313	5 320	5 684	6 992
Total Non-Current Liabilities	22 416	27 611	27 618	28 882	30 190
Net Assets	126 727	126 196	126 478	126 932	136 323
Capital	5 974	5 974	5 974	5 974	5 974
Reserves	112 359	112 368	112 359	109 801	119 369
Retained profits	8 394	7 854	8 145	11 157	10 980
Total Equity	126 727	126 196	126 478	126 932	136 323

Comment

Cash in 2000-01 and subsequent years represented both the general cash bank account and the cash management account held with Tasmanian Public Finance Corporation (Tascorp). In previous years, the balance with Tascorp was shown as an investment. This classification change was in line with revised Australian Accounting Standards that required all cash and cash equivalents to be disclosed together. Cash increased in 2003-04 due to lower capital expenditure payments than in prior years.

Receivables for 2003-04 comprised normal bulk water accounts to the Joint Authority members, \$4.891m (2002-03: \$4.538m), accrued interest of \$0.394m (2002-03: \$0.318m), and other receivables, \$0.037m (2002-03: \$0.097m).

Inventories increased in 2001-02 due principally to the recognition of treated water stock held ready for sale of \$0.325m brought to account for the first time.

The Authority's net working capital, while still negative, improved significantly during the five years under review primarily due to:

- Improved cash flow, particularly in 2003-04;
- Growth in receivables;
- More employee provisions being non-current; and
- More debt being non-current.

Other Non-current assets included future income tax benefits resulting from significant tax losses, which were 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 were made despite Hobart Water recording income tax expenses. This was due to the carried forward tax losses.

An increase in Property, plant and equipment occurred during 2003-04 due to capital works worth \$3.227m undertaken during the period, along with an upward revaluation of \$9.657m due to indexation, which also affected the asset revaluation reserve.

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

Borrowings varied significantly between current and non-current from 1999-00 to 2000-01 reflecting the positioning of the debt portfolio. The Authority appointed Macquarie Risk Advisory Services in 1999-00 to actively manage its loan portfolio in order to minimise interest cost. No reduction to debt was made since 2001-02.

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

Due to changes in Australian Accounting Standards, no provision was included for dividends payable since 2002-03 because the dividend had not been declared prior to 30 June, and this was reflected in the current provision balances for these years.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	18 405	19 524	19 017	22 161	22 152
Payments to suppliers and employees	(9 907)	(10 633)	(10 416)	(11 980)	(12 181)
Interest received	200	556	2 578	2 906	2 523
Borrowing costs	(2 081)	(2 583)	(3 998)	(4 838)	(4 635)
Cash from operations	6 617	6 864	7 181	8 249	7 859
Payments for property, plant and equipment	(3 570)	(4 791)	(3 993)	(6 258)	(2 911)
Proceeds from sale of property, plant and equipment	220	305	161	102	214
Cash used in investing activities	(3 350)	(4 486)	(3 832)	(6 156)	(2 697)
Proceeds from borrowings	48 977	15 000	11 900	58 300	25 000
Repayment of borrowings	(50 077)	(16 100)	(11 900)	(58 300)	(25 000)
Dividends paid	(2 200)	(2 500)	(2 400)	(2 100)	(3 000)
Cash from financing activities	(3 300)	(3 600)	(2 400)	(2 100)	(3 000)
Net increase/(decrease) in cash	(33)	(1 222)	949	(7)	2 162
Cash at the beginning of the period	2 269	2 236	1 014	1 963	1 956
Cash at end of the period	2 236	1 014	1 963	1 956	4 118

Comment

Movements in Receipts from customers and Payments to suppliers and employees were consistent with variations noted in operating revenues and expenses. The tabulated amount for payments to suppliers and employees included the payments to the State Government for the water royalty of \$1.145m in 2003-04 (\$1.136m in 2002-03).

Interest received included swap interest and increased since 2000-01, as Hobart Water continued its activities in relation to derivatives designed to minimise net borrowing costs.

Borrowing costs in the table were similarly grossed up for interest paid on swaps. Debt was restructured prior to the period under review.

The increase in Payments for property, plant and equipment in 2002-03 were predominantly due to major infrastructure replacements and improvements such as sections of the Lake Fenton Pipeline.

Significant dividend payments totalling \$12.200m were made to member councils over the five-year period.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		2 576	2 246	2 954	3 186	3 454
EBIT (\$'000s)		4 864	4 340	5 212	5 597	6 111
Operating margin	>1.0	1.16	1.13	1.19	1.18	1.19
Return on assets		2.8%	2.5%	3.1%	3.3%	3.5%
Return on equity		1.4%	1.5%	1.9%	2.4%	2.1%
Financial Management						
Debt to equity		27.1%	26.3%	26.2%	26.2%	24.4%
Debt to total assets		20.0%	19.6%	19.4%	19.6%	18.4%
Interest cover	>3	2.3	2.0	2.5	2.6	2.8
Current ratio	>1	0.3	0.4	0.5	0.6	0.8
Cost of debt	7.5%	6.0%	5.3%	6.6%	6.4%	6.5%
Debt service ratio		11%	13%	22%	23%	22%
Debt collection	30 days	86	88	98	82	84
Creditor turnover	30 days	30	22	36	16	15
Capital Exp/Depreciation		81%	105%	87%	133%	61%
Returns to Shareholders						
Dividends paid or payable (\$'000s)		2 500	2 400	2 100	3 000	2 800
Dividend payout ratio	50%	137.9%	129.0%	88.2%	99.6%	102.4%
Dividend to equity ratio		2.0%	1.9%	1.7%	2.4%	2.1%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		2 500	2 400	2 100	3 000	2 800
Total return to equity ratio		2.0%	1.9%	1.7%	2.4%	2.1%
Other information						
Staff numbers FTEs		58	62	63	65	69
Average staff costs (\$'000s)		54	56	58	56	63

Comment

Over the past five years, Hobart Water consistently recorded significant results from operations, and as a result, operating margins were above the benchmark. However, due to its large equity base, returns on equity were quite low.

The Current ratio, whilst improving, remained below the 1:1 benchmark. This ratio was strongly influenced by current borrowings, which were actively managed and maintained throughout the year.

Cost of debt since 2001-02 remained fairly steady.

The Debt collection ratio was well above the 30-day benchmark reflecting at least a full quarter's water sales for each member council due to the terms of quarterly billing cycles. Collection of these debts has never been of concern to the Authority, and therefore the Debt collection ratio is somewhat misleading.

The Authority continued to pay dividends each financial year, but once again, due to the high level of equity and the utilisation of tax losses to

offset tax equivalent payments, the total return to equity ratio was quite low.

OVERALL COMMENT

The audit of the financial statements for the 2003-04 year was completed with satisfactory results, with no major issues outstanding.

5.5 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 2001-02 represented the period 3 October 2001 to 30 June 2002.

The Glamorgan Spring Bay Council revoked the May Shaw Nursing Centre Authority as a single authority of Council on 30 June 2004. The Authority became an incorporated body on 1 July 2004, known as the May Shaw Health Centre Incorporated. The incorporated entity is now totally independent of Council.

The responsible Minister is the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Draft financial statements were received on 6 October 2004 the audit of which is currently in progress.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s
Government grants	882	2 582	2 665
User charges	251	380	573
Other operating revenue	71	367	83
Non-operating revenue	0	0	0
Total Revenue	1 204	3 329	3 321
Employee costs	879	1 345	1 509
Depreciation	48	77	158
Other operating expenses	254	437	516
Non-operating expenses	3	5	2
Total Expenses	1 184	1 864	2 185
Result from ordinary activities	20	1 465	1 136

Comment

The major item of revenue for the Authority was government grants, which totalled \$2.665m in 2003-04. Of this amount, \$1.025m related to the receipt of grant funding for capital works.

The increase in User charges of \$0.193m in 2003-04 was mainly attributable to an increase in revenue from acute fees, emergency bed day fees and resident fees. Other revenue in 2002-03, \$0.367m, included \$0.230m relating to the transfer of land and buildings from the State Government in August 2002.

The major operating expense was employee costs, which increased from \$1.345m in 2002-03 to \$1.509m in 2003-04.

FINANCIAL POSITION

	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s
Cash	36	19	6
Receivables	13	15	55
Investments	0	10	10
Other	3	5	0
Total Current Assets	52	49	71
Payables	80	185	91
Borrowings	0	209	31
Provisions	56	98	123
Other	41	0	85
Total Current Liabilities	177	492	330
Working Capital	(125)	(443)	(259)
Property, plant and equipment	1 577	3 752	5 326
Investments	426	147	53
Total Non-Current Assets	2 003	3 899	5 379
Provisions	68	63	64
Other	235	353	881
Total Non-Current Liabilities	303	416	945
Net Assets	1 575	3 040	4 175
Retained profits	1 575	3 040	4 175
Total Equity	1 575	3 040	4 175

Comment

The increase in Property, plant and equipment in 2002-03 of \$2.175m was primarily due to 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.

Property, plant and equipment increased by \$1.574m in 2003-04. The increase was principally due to the Stage 2A construction works, \$0.978m, and the completion of the independent living units, \$0.484m. The Stage 2A construction provided for six new low care beds, a palliative care counselling room and three rooms for respite care.

The decrease in the Non-current investment balance in 2002-03 of \$0.279m was due to the capital works undertaken during that year. The balance of Current borrowings represented an overdraft facility established during 2002-03.

The balance of Other non-current liabilities related to accommodation bonds repayable by the Authority. The increase in the liability of \$0.528m in 2003-04 was mainly due to the receipt of bonds totalling \$0.413m for the independent living units, which were completed during 2003-04.

CASH POSITION

	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s
Receipts from Government grants and customers	1 194	3 133	3 246
Payments to suppliers and employees	(1 097)	(1 720)	(2 013)
Interest received	1	3	1
Cash from operations	98	1 416	1 234
Proceeds from accommodation bonds	194	158	670
Payments for accommodation bonds	(43)	(41)	(99)
Proceeds from investments	0	278	94
Payments for investments	(208)	0	0
Payments for property, plant and equipment	(152)	(2 059)	(1 775)
Proceeds from sale of property, plant and equipment	18	32	42
Cash used in investing activities	(191)	(1 632)	(1 068)
Net increase/(decrease) in cash	(93)	(216)	166
Cash at the beginning of the period	129	36	(180)
Cash at end of the period	36	(180)	(14)

Comment

Receipts from customers in 2003-04, \$3.246m, mainly comprised funding from government grants, \$2.672m. As previously mentioned, the Payments for property, plant and equipment in 2002-03 and 2003-04 were principally due to Stage 1A and 2A redevelopment and extensions and the construction of three independent living units.

The proceeds from accommodation bonds in 2003-04, \$0.670m included bond receipts for the three independent living units of \$0.413m and \$0.250m for other resident accommodation bonds.

FINANCIAL ANALYSIS

	Bench Mark	2001-02	2002-03	2003-04
Financial Performance				
Result from operations (\$'000s)		23	1 470	1 138
Operating margin	>1.0	1.02	1.79	1.52
Financial Management				
Current ratio	>1	0.29	0.10	0.22
Cost of debt	7.5%	-	-	-
Debt collection	30 days	14	14	35
Creditor turnover	30 days	15	10	8
Capital Exp/Depreciation	100%	316.67%	2674.03%	1123.42%
Other information				
Staff numbers FTEs		26	25	28
Average staff costs (\$'000s)		46	53	54

Comment

The Authority recorded a surplus from operations of \$1.138m in 2003-04 compared with a surplus of \$1.470m in 2002-03. As previously mentioned, the surpluses were principally due to the receipt of funding for capital works totalling \$1.025m and \$1.302m respectively.

The Current ratio was well below the benchmark of 1 in all three financial periods. Although the Authority recorded surpluses in each period under review, its continued operations are dependent upon grant funds from both State and Federal Governments. It was also noted that the Authority undertook significant capital works during the past two financial years and an overdraft facility was established in 2002-03 to facilitate payment for the capital works. The balance of cash held decreased during 2003-04 following the completion of Stage 2A and the independent living units.

The Authority's Debt collection ratio was above the benchmark of 30 days in 2003-04 due to a significant debtor balance at 30 June 2004. The Authority received payment in relation to this debtor in early July. The Creditor turnover ratio was below the benchmark of 30 days in all three periods.

OVERALL COMMENT

The Authority recorded a surplus from ordinary activities for 2003-04 of \$1.136m.

The 2003-04 audit is currently in progress.

5.6 WEST COAST HEALTH AND COMMUNITY SERVICES PTY LTD

INTRODUCTION

On 6 August 1997, the West Coast Council created a company, limited by guarantee, known as West Coast Health and Community Services Pty Ltd, (the Company), to take over the operations of the Rosebery Hospital. In addition, the Council transferred control of its community services activities to the Company. Six Directors manage the Company.

During 2002-03, the Tasmanian Government commenced a review of all state funded medical and health related organisations in the Northwest and Western areas of the state.

The review determined that the needs of the community would best be served if the State Government were to manage health services. As a result, progressively from 1 July 2004 the State Government has provided health services in the region.

Agreements are in place to transfer the operations of the Company to the State Government. The majority of the personnel employed by the Company transferred to State Government employment on 1 July 2004.

A number of non-profit services, which were unable to be transferred to State control due to funding restrictions, were transferred to form part of the community services department of Council on 1 July 2004. These include West Coast Crisis Accommodation, Family Support and Lil Possums Childcare Centre.

The Responsible Minister is the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Financial statements of the Company, signed by two Directors, were received on 30 September 2004 with amended statements received on 22 October 2004. An unqualified audit report was issued on 29 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Fees and charges	113	169	239	211	200
Grants	1 398	1 565	1 749	1 936	2 099
Other operating revenue	218	255	182	146	135
Non-operating revenue	1	0	0	16	0
Total Revenue	1 730	1 989	2 170	2 309	2 434
Employee costs	909	1 007	1 158	1 525	1 596
Depreciation	23	23	24	74	41
Other operating expenses	704	924	833	765	929
Non-operating expenses	4	4	12	0	17
Total Expenses	1 640	1 958	2 027	2 364	2 583
Result from Ordinary Activities	90	31	143	(55)	(149)

Comment

The majority of the Company's revenue was received through government grants. In 2002-03 a loss of \$0.055m was recorded which was 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 in that year.

Other operating expenses increased by \$0.220m for the 2000-01 year over the prior year. The increase was attributable to an increase of \$0.202m in materials and contracts expenditure. 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.

An increase in employee costs of \$0.367m was noted in 2002-03. This increase included the employment of five employees to conduct Primary Care functions, which included social work, mental health care and youth work. The additional expenditure was funded by increased grant revenue.

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

Payroll costs increased by 76% over the five-year period as a result of a 58% increase in staff numbers from 19 to 30, with the majority of the increase occurring in the last two years. During the five-year period revenues increased by only 40%, while total expenses increased by 58%, putting pressure on profitability and working capital.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	132	318	155	19	239
Receivables	28	70	27	47	41
Investments	6	16	271	343	42
Inventories	25	16	16	15	15
Other	3	23	1	0	0
Total Current Assets	194	443	470	424	337
Payables	24	58	35	32	73
Provisions	39	84	92	132	144
Other	141	303	189	155	170
Total Current Liabilities	204	445	316	319	387
Working Capital	(10)	(2)	154	105	(50)
Property, plant and equipment	150	152	144	141	151
Total Non-Current Assets	150	152	144	141	151
Provisions	42	20	25	50	54
Total Non-Current Liabilities	42	20	25	50	54
Net Assets	98	130	273	196	47
Capital	72	72	72	72	72
Retained profits	26	58	201	124	(25)
Total Equity	98	130	273	196	47

Comment

The cash balance increased by \$0.186m in 2000-01 and included cash payable to the Council for payments made on behalf of the Company. In Other current liabilities, a balance of \$0.152m was recorded as owing to Council. The cash balance at 30 June 2003 significantly reduced from the prior year due to a corresponding increase in investments. This position reversed at 30 June 2004 with the majority of funds held in cash rather than investments.

The Receivables balance increased by \$0.042m in 2000-01 to \$0.070m, as the result of a significant increase in housing debtors, which totalled \$0.046m at 30 June 2001.

The balance of \$0.023m in Other assets for 2000-01 represented GST recoverable at balance date.

Other current liabilities included the payroll accrual, trust fund monies and amounts payable to Council to reimburse expenditure incurred on behalf of the Company at the end of each year. In 2000-01, the liability totalled \$0.303m and was significantly greater than any of the other periods under review.

The loss of \$0.149m during 2003-04 resulted in the Company moving from a retained profits position of \$0.124m in 2002-03 to an accumulated loss of \$0.025m at 30 June 2004.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	332	378	509	337	342
Payments to suppliers and employees	(1 583)	(1 814)	(2 301)	(2 512)	(2 673)
Interest received	1	1	6	22	8
Cash from operations	(1 250)	(1 435)	(1 786)	(2 153)	(2 323)
Proceeds from investments	0	0	0	0	302
Payments for investments	0	(10)	(256)	(72)	0
Payments for property, plant and equipment	(60)	(63)	(58)	(99)	(142)
Proceeds from sale of property, plant and equipment	56	33	30	59	74
Cash used in investing activities	(4)	(40)	(284)	(112)	234
Cash Flows from Government	1 319	1 661	1 907	2 129	2 309
Net increase/(decrease) in cash	65	186	(163)	(136)	220
Cash at the beginning of the period	65	130	316	153	17
Cash at end of the period	130	316	153	17	237

Comment

Outflows from Cash from operations increased by \$1.073m from 1999-00 to 2003-04. These increases were offset by corresponding increases in cash flows from Government grants of \$0.990m over the same period.

The Payments for property, plant and equipment were mainly attributable to the purchase of motor vehicles by the Company. Proceeds from the sale of property plant and equipment generally reflected the trade-in consideration for vehicles disposed of in purchasing the new vehicles.

Funds held in investments by the Company increased during 2001-02 due to surplus funds on hand from increased grant funding. This was reflected in the payments for investments outflow of \$0.256m. The majority of funds under investment were transferred back to cash at bank during 2003-04 as noted by the \$0.302m proceeds from investments.

Cash at the end of the period varies from cash in the Statement of Financial Position each year by the amount of trust funds held by the Company. These funds were not included in the statement of cash flows.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations (\$'000s)		93	35	155	(71)	(132)
Operating margin	>1.0	1.06	1.02	1.08	0.97	0.95
Financial Management						
Current ratio	>1	0.95	1.00	1.49	1.33	0.87
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	31	60	23	48	45
Creditor turnover	30 days	11	21	14	14	25
Capital Exp/ Depreciation	100%	261%	274%	242%	134%	346%
Other information						
Staff numbers FTEs		19	20	23	27	30
Average staff costs (\$'000s)		48	50	51	50	48

Comment

Additional grant funds and concessions from DHHS assisted in the general profitability of the Company during the first three years under review.

The Company's Operating margin was fairly consistent with the benchmark over the five-year period under review, although it is noted that losses from operations were made in the 2002-03 and 2003-04 years.

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. There was a decrease in the current ratio during 2003-04 due to lower cash balances held at 30 June and an increase in payables, primarily the inter-company loan payable to Council.

The Company has no debt.

The Debt collection ratio was consistently above the benchmark balance of 30 days, except for 2001-02. In particular, the 60 days calculated for 2000-01 indicated delays in debt recovery. The Company experienced some problems in debt recovery in the past and wrote-off \$0.018m in bad debts during 2000-01. In general, the Company undertook regular reviews of debtors and has taken appropriate action where necessary.

The Company's capital expense to depreciation ratio exceeded benchmark in all years under review. The majority of the Company's asset purchases are motor vehicles that are changed over on a regular basis.

Average staff costs remained consistent over the period.

OVERALL COMMENT

In the five years under review, the Company recorded a total surplus from operations (excluding non-operating items) of \$0.080m. It is not subject to income tax provisions and the Council is not seeking to obtain any dividend payments.

The 2003-04 audit was completed satisfactorily with no major issues outstanding.