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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2004-2005

PART B - VOLUME THREE Local Government Authorities

November 2005

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Tasmanian Audit Office
GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6226 0100, Fax (03) 6226 0199

Email:- admin@audit.tas.gov.au

Home Page: <http://www.audit.tas.gov.au>

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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*.

LOCAL GOVERNMENT FINANCIAL REFORMS

The *State and Local Government Financial Reform Act 2003* (the Reform Act) received Royal assent on 17 November 2003, and became operational from 1 July 2004. The reform focussed on removing exemptions, subsidies and concessions that distort decision making. Local Government became subject to State Government taxes, such as payroll tax, and the State Government became subject to rating of most of its Crown land holdings. A number of levies on Local Government were also removed. The reforms were expected to be revenue neutral.

RESPONSIBLE MINISTER

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

In the Auditor-General's No. 2 Report of 2004, it was noted that the audits of three Local Government Authorities were outstanding at 11 November 2004.

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

Derwent Valley Council	25 November 2004
Glamorgan Spring Bay Council	25 November 2004
Sorell Council	17 November 2004

Without qualification to the audit opinion an emphasis of matter was included in the audit opinion for Sorell Council in relation to the valuation of Property, plant and equipment not being in accordance with Council

policy, nor the requirements of Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets".

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

The following is a summary as at 31 October 2005 of the audit status of the financial statements for the 29 Councils for the 2004-05 year.

The following six Councils had not submitted signed financial statements by 30 September 2005:

Council	Date Received	Comments
Brighton Council	28 October 2005	Drafts received in September Signed on 31 October 2005
Flinders Council	Not Received	Drafts received in October
Glamorgan-Spring Bay Council	Not Received	Drafts received in November
Kentish Council	1 November 2005	Drafts received in September
Sorell Council	Not Received	Drafts received in September
West Coast Council	Not Received	Drafts not yet received

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

- Derwent Valley Council;
- Flinders Council;
- George Town Council;
- Glamorgan Spring Bay Council;
- Kentish Council;
- King Island Council;
- Northern Midlands Council;
- Sorell Council;
- Tasman Council; and
- West Coast Council.

Results of audits completed:

Audits completed and unqualified audit reports issued	18
Audits completed and qualified audit reports issued	1

A **qualified audit report** was issued for Central Highlands Council in relation to the contravention of Section 346 of the *Local Government Act 1993*, which requires a council to invite tenders for any contract valued at or above \$50 000.

FINANCIAL RESULTS

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

- City Councils;
- Larger Urban and Rural Councils; and
- Other Councils.

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 City Councils and Large Urban and Rural Councils 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:

	Population
Burnie City Council;	19 970
Clarence City Council;	50 260
Devonport City Council;	25 000
Glenorchy City Council;	44 900
Hobart City Council; and	48 500
Launceston City Council.	60 800

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	19 079	34 797	24 987	34 594	57 200	54 366
User charges	7 870	3 733	2 404	9 059	20 049	14 863
Grants	2 754	3 456	1 977	5 723	5 075	17 689
Other operating revenue	1 260	6 795	2 676	2 269	3 125	4 470
Non-operating revenue	3 062	5 134	3 180	2 963	3 466	4 990
Total Revenue	34 025	53 915	35 224	54 608	88 915	96 378
Employee costs	10 269	10 371	10 617	15 861	31 707	26 415
Borrowing costs	351	1 737	687	1 572	783	530
Depreciation	8 773	9 228	7 931	13 230	20 655	19 937
Other operating expenses	12 371	23 637	13 704	24 745	36 393	33 529
Non-operating expenses	6 726	419	1 096	1 888	1 849	1 474
Total Expenses	38 490	45 392	34 035	57 296	91 387	81 885
Result from Ordinary Activities	(4 465)	8 523	1 189	(2 688)	(2 472)	14 493

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 2004-05 was above average due to \$9.542m received for the

construction of a grandstand extension and video scoreboard at the York Park facility.

Clarence, Devonport and Launceston recorded surpluses whilst Burnie, Glenorchy and Hobart recorded deficits for the year. Burnie was affected by the take-up of additional assets and asset revaluation decrements, included in non-operating revenues and expenses. At Glenorchy, a significant increment in the revaluation of assets resulted in an increase to depreciation of \$3.513m. The deficit result for Hobart is primarily due to high depreciation charges, which were not fully funded in its budget.

In addition to the high revenue previously mentioned, Launceston's large surplus also includes \$3.908m representing infrastructure assets not previously identified and brought to account as non-operating revenue. Clarence's surplus includes non-operating revenues of \$2.536m in subdivision infrastructure assets taken over and an increase of \$2.022m in Clarence's share in the net assets of Hobart Regional Water Authority (Hobart Water).

FINANCIAL POSITION

	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	385	16 144	6 151	3 487	2 094	662
Receivables	2 297	2 615	1 637	1 894	3 403	5 226
Investments	13 420	13 172	0	4 074	18 209	39 887
Inventories	352	238	190	307	284	865
Other	67	162	243	665	252	437
Total Current Assets	16 521	32 331	8 221	10 427	24 242	47 077
Payables	4 771	4 091	1 563	4 638	4 992	1 227
Borrowings	2 265	3 345	2 124	2 666	1 051	2 209
Provisions	1 182	2 027	1 428	3 649	2 705	5 927
Other	3 137	0	0	671	1 804	13 411
Total Current Liabilities	11 355	9 463	5 115	11 624	10 552	22 774
Working Capital	5 166	22 868	3 106	(1 197)	13 690	24 303
Property, plant and equipment	276 508	352 196	313 868	503 618	658 707	765 169
Investments	24	30 612	15 973	43 293	40 027	75 247
Other	32	183	1 506	1 995	251	434
Total Non-Current Assets	276 564	382 991	331 347	548 906	698 985	840 850
Borrowings	3 335	22 557	10 314	22 090	9 638	8 102
Provisions	589	380	1 287	1 040	6 728	933
Other	0	0	0	0	45	1 870
Total Non-Current Liabilities	3 924	22 937	11 601	23 130	16 411	10 905
Net Assets	277 806	382 922	322 852	524 579	696 264	854 248
Reserves	39 104	116 428	153 071	225 592	375 228	225 870
Retained Surpluses/(Deficit)	237 920	266 494	169 781	298 987	321 036	628 378
Outside Equity Interests	782	0	0	0	0	0
Total Equity	277 806	382 922	322 852	524 579	696 264	854 248

Comment

With the exception of Glenorchy, all councils have a positive working capital position. Although Glenorchy is holding strong cash and

investment balances, its current liabilities are unusually high because of a Council policy to accelerate the level of loan repayments, and an increase in payables in the 2004-05 year of \$0.325m.

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 three southern councils have significant non-current investment balances, which reflect their ownership interest in Hobart Water. Launceston and Devonport hold a similar non-current investment but in Esk Water and Cradle Coast Water respectively. Burnie independently owns and operates the supply of bulk water within its municipal area.

CASH POSITION

	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	28 701	39 843	30 914	46 320	84 036	76 650
Payments to suppliers and employees	(24 064)	(33 397)	(24 942)	(41 412)	(67 985)	(64 334)
Interest received	1 181	2 006	267	631	1 213	1 556
Borrowing costs	(370)	(1 737)	(733)	(1 572)	(797)	(538)
Cash from operations	5 448	6 715	5 506	3 967	16 467	13 334
Proceeds from investments	691	5 159	205	0	0	368
Payments for investments	0	(10 305)	0	0	0	(293)
Payments for property, plant and equipment	(11 333)	(8 673)	(6 152)	(9 120)	(15 755)	(26 704)
Proceeds from sale of property, plant and equipment	621	129	852	398	1 540	1 082
Proceeds from Outside Equity Interest	0	0	0	0	0	0
Cash used in investing activities	(10 021)	(13 690)	(5 095)	(8 722)	(14 215)	(25 547)
Proceeds from borrowings	53	0	2 060	1 502	1 000	2 267
Repayment of borrowings	(831)	(1 036)	(2 145)	(2 465)	(1 940)	(1 824)
Cash from financing activities	(778)	(1 036)	(85)	(963)	(940)	443
Cash flows from Government	5 728	7 065	1 977	5 723	3 718	25 840
Net increase/(decrease) in cash	377	(946)	2 303	5	5 030	14 070
Cash at the beginning of the period	8	17 090	3 848	7 556	15 273	26 479
Cash at end of the period	385	16 144	6 151	7 561	20 303	40 549

Comment

Glenorchy, Hobart and Launceston closing cash balances include cash at bank and current investment balances. Burnie and Clarence have separate current investment balances of \$13.420m and \$13.172m respectively that are not included in the balance of cash at year-end.

All the councils generated surplus cash 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. These payments for capital works totalled \$77.737m.

Clarence was the only council to reduce its cash position during the period. The reduction resulted from significant Payments for property, plant and equipment and funds transferred into investments accounts.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Clarence	Devonport	Glenorchy	Hobart	Launceston
Financial Performance							
Result from operations (\$'000s)		(801)	3 808	(895)	(3 763)	(4 089)	10 977
Operating margin	>1.0	0.97	1.08	0.97	0.93	0.95	1.14
Financial Management							
Current ratio	>1	1.45	3.42	1.61	0.90	2.30	2.07
Cost of debt	7.5%	6.3%	6.7%	6.1%	6.3%	7.1%	6.1%
Debt service ratio		3.9%	5.7%	9.0%	7.8%	3.2%	2.6%
Debt collection	30 days	31	23	22	13	16	35
Creditor turnover	30 days	68	33	29	39	5	13
Capital Exp/Depreciation		129%	94%	78%	69%	76%	134%
Other information							
Employee costs as % of Operating Expenses		32%	23%	32%	29%	35%	33%
Staff numbers		218	232	202	291	584	509
Average staff costs (\$'000s)		51	49	56	55	58	54

Comment

Burnie, Devonport, Glenorchy and Hobart recorded operating deficits, which are reflected in their Operating margin ratios being below the benchmark. This indicates a failure to budget for all operating expenses including depreciation.

With the exception of Glenorchy, all the councils had positive working capital, which is reflected in the 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 their level of capital creditors outstanding at 30 June 2005. However, it is the policy of all of these councils to settle payments within a 30-day credit period.

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

The ratio of employee costs as a percentage of operating expenses at 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 2005, Council's interest was valued at \$0.668m. 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 2005. The financial impact of the consolidation of these two subsidiaries is not material. The consolidated position is analysed below.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 26 September 2005 and an unqualified audit report was issued on 4 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	19 079	17 899	17 251	16 632	15 653
User charges	7 870	6 665	6 085	4 875	4 575
Grants	2 754	2 841	3 272	4 508	2 584
Other operating revenue	1 260	992	765	622	776
Non-operating revenue	3 062	916	10 033	5 138	791
Total Revenue	34 025	29 313	37 406	31 775	24 379
Employee costs	10 269	9 364	8 852	8 457	9 489
Borrowing costs	351	425	414	317	307
Depreciation	8 773	8 208	7 879	7 379	7 498
Other operating expenses	12 371	9 578	10 129	8 500	8 380
Non-operating expenses	6 726	990	1 357	833	1 623
Total Expenses	38 490	28 565	28 631	25 486	27 297
Result from Ordinary Activities	(4 465)	748	8 775	6 289	(2 918)

Comment

Revenue from Rates increased steadily during the period under review, resulting in a \$3.426m increase over the five-year period. Local government reforms, implemented on 1 July 2004 resulted in Council being able to rate a number of government properties previously exempt. This contributed to the \$1.180m (6.59%) increase during 2004-05.

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. The increase in user charges in 2005 of \$1.205m is attributable to a number of areas, including increases in:

- Refuse disposal fees;
- Private works revenue;
- Childcare revenue from implementing additional outside school hours care; and
- Additional reimbursements from supplying computers services and equipment to other councils.

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

Other operating revenue consists primarily of interest revenue. As noted in the Financial Position review below, Council has strengthened its investment balances over the five-year period. Funds have been set aside for capital works, in particular the Roundhill Sewerage Treatment Plant.

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.

The amount of Non-operating revenue in 2004-05 includes \$1.281m of newly identified assets in Parks and Reserves and \$1.160m of contributed assets relating to sewerage, water and roads.

The amount of Non-operating expenses for 2004-05 includes \$6.146m, relating to revaluation decrements for Stormwater and Sewerage infrastructure assets. In revaluing these asset classes at 1 July 2004, Council's Engineers reviewed replacement costs and changes in replacement techniques to determine appropriate replacement rates.

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.

The increase in employee costs of \$0.905m during 2004-05 relates, in part, to the impact of payroll tax \$0.320m. As part of the Local Government reforms process, Council became liable to pay payroll tax on 1 July 2004. The impact of Enterprise Bargaining Agreement (EBA) increases and the employment of additional employees also contributed to the increase in employee costs.

Depreciation increased by \$0.565m during 2004-05. The depreciation expense was affected by revaluations of buildings, roads, water, sewerage and stormwater assets, which were effective from 1 July 2004.

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.

In 2004-05 Operating expenses increased by \$2.793m, which is attributable to:

- The payment of land tax, \$0.341m (payable from 1 July 2004 as part of the Local Government reforms process); and
- A significant increase in maintenance expenditure relating to roads, integrated services and major maintenance.

In the first year under review, Council returned a negative result from Ordinary Activities totalling \$2.918m. 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.

Council recorded a deficit of \$4.465m from Ordinary Activities in 2004-05. As noted previously, the deficit was affected by the take-up of additional assets and asset revaluation decrements. Excluding these transactions, Council's surplus would have been \$0.400m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	385	8	372	191	65
Receivables	2 297	2 221	2 181	2 075	1 802
Investments	13 420	14 111	11 800	8 100	5 365
Inventories	352	284	327	301	318
Other	67	59	48	93	29
Total Current Assets	16 521	16 683	14 728	10 760	7 579
Payables	4 771	1 888	2 037	1 784	1 240
Borrowings	2 265	2 374	877	958	796
Provisions	1 182	1 257	1 316	1 247	1 167
Other	3 137	65	48	21	105
Total Current Liabilities	11 355	5 584	4 278	4 010	3 308
Working Capital	5 166	11 099	10 450	6 750	4 271
Property, plant and equipment	276 508	240 551	239 241	232 099	225 331
Investments	24	209	401	708	701
Other	32	60	107	137	0
Total Non-Current Assets	276 564	240 820	239 749	232 944	226 032
Borrowings	3 335	4 004	6 600	5 977	3 412
Provisions	589	555	523	338	290
Total Non-Current Liabilities	3 924	4 559	7 123	6 315	3 702
Net Assets	277 806	247 360	243 076	233 379	226 601
Reserves	39 104	28 294	24 912	23 915	29 280
Retained surpluses	237 920	218 418	217 622	208 982	197 321
Outside Equity Interests	782	648	542	482	0
Total Equity	277 806	247 360	243 076	233 379	226 601

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 investment balance decreased by \$0.691m during 2004-05, however the balance at 30 June 2005 is inflated by the receipt of grant funds, totalling \$2.500m in late June, which have been recorded as revenue in advance under Other current liabilities. The investment balance decreased in 2004-05 due to Council undertaking capital works during the year, including commencement of the Roundhill Sewerage Treatment Plant. It is expected that the investment balance will continue to decrease, with Council having capital commitments to the Treatment Plant of \$8.228m.

The Payables balance fluctuated over the five-year period, with increased amounts reflecting material creditor balances relating to capital expenditure at year-end. The Payables balance at 30 June 2005, was significantly greater than prior years due to capital creditors relating to:

- Mooreville Road Landfill, \$0.880m;
- Road reconstruction, \$0.475m;
- City Office refurbishment, \$0.204m; and
- Bridge construction, \$0.139m.

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 was to 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.

Other current liabilities have increased by \$3.072m to \$3.137m in 2004-05 as a result of Council holding grant funds paid in June 2005, for which no formal agreements had been entered into. The major grants received relate to the future operations of Creative Paper, \$1.000m and funds for the Waterfront and Surf Club development totalling \$1.500m.

The balance of Property, plant and equipment increased steadily over the initial four-year period under review. In 2001-02, 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 Burnie Airport totalling \$0.997m. These increases were offset by the impact of increases in accumulated depreciation during the period.

The balance of Property, plant and equipment increased significantly during 2004-05 due to the revaluation of a number of asset classes. Asset revaluations resulted in increments for:

- Roads infrastructure, \$19.637m;
- Water infrastructure, \$9.578m; and
- Buildings, \$4.438m.

These asset revaluation increments were partly offset by revaluation decrements relating to drainage infrastructure, \$4.671m and sewerage infrastructure of \$0.475m.

Council's Reserves decreased by \$5.365m in 2001-02 as a result of 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. In 2004-05, the Reserves balance increased by \$10.810m, to \$39.104m. The majority of the increase is attributable to the transfer of revaluation increments, \$32.516m less the write back to Retained surpluses of previous revaluation increments that are no longer available to Council, totalling \$23.915m. The transfer to write back the asset revaluation reserve should have been made in the period when Council took

advantage of the option available in Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" whereby Council could elect to deem the carrying amount of the majority of its non-current assets to be measured on the cost basis. This transfer has no effect on Council's net equity.

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

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	28 701	26 081	24 934	22 381	21 478
Payments to suppliers and employees	(24 064)	(20 259)	(19 894)	(17 520)	(19 549)
Interest received	1 181	938	752	608	899
Borrowing costs	(370)	(443)	(416)	(354)	(314)
Cash from operations	5 448	6 317	5 376	5 115	2 514
Proceeds from investments	691	0	0	0	2 049
Payments for investments	0	(2 311)	(3 700)	(2 735)	0
Payments for property, plant and equipment	(11 333)	(7 039)	(5 841)	(10 468)	(7 199)
Proceeds from sale of property, plant and equipment	621	916	532	489	695
Proceeds from Outside Equity Interest	0	10	0	490	0
Cash used in investing activities	(10 021)	(8 424)	(9 009)	(12 224)	(4 455)
Proceeds from borrowings	53	0	1 500	3 523	0
Repayment of borrowings	(831)	(1 098)	(958)	(796)	(750)
Cash from financing activities	(778)	(1 098)	542	2 727	(750)
Cash flows from Government	5 728	2 841	3 272	4 508	2 584
Net increase/(decrease) in cash	377	(364)	181	126	(107)
Cash at the beginning of the period	8	372	191	65	172
Cash at the end of the period	385	8	372	191	65

Comment

Cash at the end of 2004-05 equalled \$0.385m, however Council also holds current investments of \$13.420m.

The general increase in Receipts from customers over the five-year period was primarily due to increased receipts from user fees and charges and increases in general rate receipts due to increased rate charges. In addition, 2002-03, 2003-04 and 2004-05 include receipts from the operations of the Burnie Airport.

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. Payments to suppliers and employees increased by \$3.805m, which was attributable to Operating expenses increasing by \$2.793m and the increase in employee costs of \$0.905m. The reasons for these increases have been explained under the Financial Performance section of this report.

Council has expended a significant amount of its cash on Payments for property, plant and equipment. During 2004-05, Council expended \$1.891m on road infrastructure and \$1.224m on plant hire. In addition, Work in progress increased by \$5.532m to \$8.904m, and includes the Roundhill Sewerage Treatment Plant \$4.181m, and waste management capital works of \$3.086m.

Council borrowed \$3.523m during 2001-02, \$1.500m of which was to fund 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 capital works, in particular, the Roundhill Sewerage Treatment Plant project.

Cash flows from Government 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. The increase in Cash flows from government of \$2.887m in 2004-05 is primarily attributable to the grants in advance received in June 2005. The grants, totalling \$2.500m, relate to Creative Paper and the Waterfront and Surf Club development.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		(801)	822	99	1 984	(2 086)
Operating margin	>1.0	0.97	1.03	1.00	1.08	0.92
Financial Management						
Current ratio	>1	1.45	2.99	3.44	2.68	2.29
Cost of debt	7.5%	6.3%	6.3%	6.3%	6.8%	7.3%
Debt service ratio		3.9%	5.4%	5.0%	4.3%	4.5%
Debt collection	30 days	31	33	34	32	29
Creditor turnover	30 days	68	35	35	19	14
Capital Exp/Depreciation		129%	86%	74%	142%	96%
Other information						
Employee costs as % of operating expenses		32%	34%	32%	34%	37%
Staff numbers FTEs		218	199	193	186	193
Average staff costs (\$'000s)		51	52	50	48	53

Comment

Over the five-year period under review, Council recorded a surplus from operation of \$0.018m. The deficit of \$0.801m for 2004-05 is attributable to a number of factors affecting both revenue and expenditure for the year. As noted previously, Council increased Rate and User charges revenue, but this was offset by the impact of land tax, increased payroll costs (including payroll tax) and significantly greater expenditure on maintenance works.

Council maintained a Current ratio comfortably above the benchmark, which was the result of it holding significant investment balances. As noted previously, the investment balance is expected to reduce with the completion of major capital works projects.

The Cost of debt ratio reflected the current market rates and is 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.

The Creditor turnover ratio was consistent with the benchmark in the first four years under review. The ratio for 2004-05 is distorted due to an unusually significant amount of capital creditors at 30 June 2005. 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. Major projects at 30 June 2005 included the Roundhill Sewerage Treatment Plant and waste management capital works.

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% in 2000-01 was the result of \$1.738m paid for a number of redundancies.

OVERALL COMMENT

In the five years under review Council recorded a total operating surplus (excluding non-operating items) of \$0.018, and its net assets grew by 22% over the period to \$277.806m.

The 2004-05 audit was completed with satisfactory results.

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 50 260 people and 21 000 rateable properties.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2005, with amended statements received on 17 October 2005. An unqualified audit report was issued on 19 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	34 797	32 384	30 633	29 009	26 968
User Charges	3 733	3 442	2 873	2 705	2 881
Grants	3 456	3 163	9 669	2 395	1 948
Other operating revenue	6 795	5 458	4 683	4 582	4 000
Non-operating revenue	5 134	2 884	9 849	6 202	1 183
Total Revenue	53 915	47 331	57 707	44 893	36 980
Employee costs	10 371	9 967	8 960	8 649	8 178
Borrowing costs	1 737	1 707	1 177	1 460	1 758
Depreciation	9 228	9 097	8 840	11 658	7 653
Other operating expenses	23 637	23 124	22 351	19 964	19 383
Non-operating expenses	419	1 679	1 430	0	115
Total Expenses	45 392	45 574	42 758	41 731	37 087
Result from Ordinary Activities	8 523	1 757	14 949	3 162	(107)

Comment

Revenue from rates increased by 29% from \$26.968m in 2000-01 to \$34.797m in 2004-05, an increase over the five-year period under review of \$7.829m. Rates for 2004-05 increased by \$2.413m due to a rise in general and other infrastructure rates, and also due to additional rates revenue from the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties.

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 consisted mainly of an increase of \$0.966m for interest revenue. There was a further increase of \$1.337m in 2004-05, due to the inclusion of opening equity and revenue for the Howrah Recreation Centre (\$0.400m), increased interest revenue (\$0.129m) and an increase in other capital income related to developer headworks contributions.

The significant changes in Non-operating revenue from year to year are due to a number of factors, as detailed below:

- 2000-01: Includes contributions of Capital and assets of \$1.175m through subdivisions taken over;
- 2001-02: Contribution of \$5.000m for the first stage of the redevelopment at Bellerive Oval;
- 2002-03: Contributions for Bellerive oval continued, with a further \$7.800m being recognised and \$1.134m for the contribution of subdivision road assets;
- 2003-04: Includes an increase in the equity interest in Hobart Water of \$1.907m; and
- 2004-05: Includes contributions of Capital and assets of \$2.536m through subdivisions taken over, in addition to a further increase in the equity interest in Hobart Water of \$2.022m and in the Copping Refuse Disposal Site Joint Authority of \$0.179m.

Proceeds from the sale of non-current assets are also included as part of Non-operating revenue.

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 represent the carrying amount of assets disposed of each year.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	16 144	17 090	20 870	18 275	14 587
Receivables	2 615	2 743	3 156	3 148	3 130
Investments	13 172	8 026	4 000	2 000	2 000
Inventories	238	223	210	176	153
Other	162	500	659	767	115
Total Current Assets	32 331	28 582	28 895	24 366	19 985
Payables	4 091	4 130	4 293	3 022	2 927
Borrowings	3 345	2 994	847	16 988	16 445
Provisions	2 027	1 896	1 831	1 555	1 294
Total Current Liabilities	9 463	9 020	6 971	21 565	20 666
Working Capital	22 868	19 562	21 924	2 801	(681)
Property, plant and equipment	352 196	350 635	311 004	304 164	257 301
Investments	30 612	28 411	26 376	25 954	25 954
Other	183	204	243	307	382
Total Non-Current Assets	382 991	379 250	337 623	330 425	283 637
Borrowings	22 557	23 946	23 939	13 353	15 021
Provisions	380	467	457	258	447
Total Non-Current Liabilities	22 937	24 413	24 396	13 611	15 468
Net Assets	382 922	374 399	335 151	319 615	267 488
Reserves	116 428	113 761	81 453	71 906	22 521
Retained surpluses	266 494	260 638	253 698	247 709	244 967
Total Equity	382 922	374 399	335 151	319 615	267 488

Comment

Although Council's cash levels and current borrowings appear high, the amount in the first two 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 ceased this arrangement, with funds now managed through a long-term borrowing facility with an associated interest offset. Net working capital exceeded \$20.000m in 2002-03, resulting in a healthy financial position, which has continued since. This strong cash position has led to an increase in investments of \$5.146m in 2004-05.

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.

The increase in reserves in 2004-05 to \$116.482m is due to Council setting aside funds for future infrastructure renewal programs.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	39 843	36 316	34 246	32 327	31 280
Payments to suppliers and employees	(33 397)	(32 702)	(29 429)	(29 071)	(28 570)
Interest received	2 006	1 782	754	539	541
Borrowing costs	(1 737)	(1 707)	(1 222)	(1 499)	(1 812)
Cash from operations	6 715	3 689	4 349	2 296	1 439
Proceeds from investments	5 159	9 000	2 000	1 000	1 000
Payments for investments	(10 305)	(13 026)	(4 000)	(1 000)	(1 000)
Payments for property, plant and equipment	(8 673)	(12 916)	(7 857)	(4 556)	(6 023)
Proceeds from sale of property, plant and equipment	129	567	490	0	8
Cash used in investing activities	(13 690)	(16 375)	(9 367)	(4 556)	(6 015)
Proceeds from borrowings	0	3 000	12 000	16 294	15 694
Repayment of borrowings	(1 036)	(846)	(17 555)	(16 428)	(16 962)
Cash from financing activities	(1 036)	2 154	(5 555)	(134)	(1 268)
Cash Flows from Government	7 065	6 752	13 168	6 082	5 117
Net increase/(decrease) in cash	(946)	(3 780)	2 595	3 688	(727)
Cash at the beginning of the period	17 090	20 870	18 275	14 587	15 314
Cash at end of the period	16 144	17 090	20 870	18 275	14 587

Comment

The net increase in cash during 2001-02 was due mainly to higher rates levied of \$2.041m, increased subsidies of \$0.518m for various Child Care programmes and 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 2003-04 as an offset of that receipt and as noted below due to expenditure of the grant on sewerage infrastructure assets.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		3 808	552	6 530	(3 040)	(1 175)
Operating margin	>1.0	1.08	1.01	1.16	0.93	0.97
Financial Management						
Current ratio	>1	3.42	3.17	4.15	1.13	0.97
Cost of debt	7.5%	6.7%	6.3%	4.7%	4.8%	5.6%
Debt service ratio		5.7%	5.7%	39.2%	46.3%	52.4%
Debt collection	30 days	23	24	31	32	34
Creditor turnover	30 days	33	52	58	30	38
Capital Exp/Depreciation	100%	94%	142%	89%	39%	79%
Other information						
Employee costs as a % of operating expenses		23%	23%	22%	21%	22%
Staff numbers FTEs		232	224	225	210	207
Average staff costs (\$'000s)		49	47	40	46	42

Comment

Although Council incurred a loss from operations for the first two years of analysis, its results are close to the Operating margin benchmark. The results from operations in each year differ from the result from ordinary activities due to the major items of non-operating revenue, which were explained within the financial performance section.

The peak in results from operations in 2002-03 of \$6.530m was influenced by the receipt in 2002-03 of \$7.250m of Federal Government funding for the Effluent Re-Use Scheme. Without this grant, there would have been a loss on operations in that year of \$0.720m.

The negative results in 2000-01 to 2002-03 arose primarily from Council not budgeting annually to cover operating expenses, including all depreciation. Depreciation charges over the five-year period totalled \$46.476m. This indicates that Council rated for the majority of the depreciation expense. Council is committed to moving progressively towards full funding of its depreciation charge and this can be seen in the current year's result of a \$3.808m surplus from operations.

The Current ratio increased well above the benchmark since 2002-03, 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 was inflated in the first three years due to Council's practice of overnight borrowings at year-end as mentioned earlier. 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%.

Creditor turnover peaked in 2002-03 and 2003-04 as the June invoice from Hobart Water, for the purchase of water, was received in time for inclusion within trade creditors. In both years, this invoice totalled approximately \$0.948m. For the other years within the analysis, the Hobart Water invoice was included as part of accruals.

Capital expenditure in comparison to depreciation was below the benchmark in the first three years of the analysis. This trend was reversed in 2003-04 as payments for Property, plant and equipment totalled \$12.916m, which principally comprised \$7.664m for the effluent water treatment plant. This level of expenditure resulted in the positive result for this ratio. In the current period, payments of \$8.673m are only slightly below the level of depreciation, which is \$9.228m. The 2001-02 percentage was lower due to road revaluations that inflated depreciation expense during that year.

OVERALL COMMENT

The 2004-05 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 116 square kilometres and serves a population in the order of 25 000 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2005 and an unqualified audit report was issued on 7 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates and utility charges	24 987	23 951	22 542	21 641	21 715
User charges	2 404	2 152	1 860	1 615	1 394
Grants	1 977	1 909	1 944	2 615	2 787
Other operating revenue	2 676	1 705	1 929	1 761	1 618
Non-operating revenue	3 180	1 681	1 346	703	887
Total Revenue	35 224	31 398	29 621	28 335	28 401
Employee costs	10 617	9 772	9 132	8 043	7 640
Borrowing costs	687	655	897	1 028	1 173
Depreciation	7 931	8 198	7 763	7 529	6 377
Other operating expenses	13 704	13 311	12 360	11 758	11 221
Non-operating expenses	1 096	410	811	274	759
Total Expenses	34 035	32 346	30 963	28 632	27 170
Result from Ordinary Activities	1 189	(948)	(1 342)	(297)	1 231

Comment

Revenue from Rates and user charges increased steadily during the period under review, resulting in an increase of \$3.272m over the five-year period. Rates and utility charges increased by \$0.365m during 2004-05 as a result of the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land.

User charges have gradually increased 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 during 2000-01 included 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 is comprised of infrastructure from developers and inflation gains on holding loan capital. Completed subdivision contributions have increased substantially over the last few years and totalled \$2.810m during 2004-05; \$1.384m during 2003-04; \$1.088m during 2002-03 and \$0.425m during 2001-02.

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 imposition of payroll tax as a result of changes under the State and Local Government Reform Act added \$0.613m to employee costs during 2004-05. Employee numbers at 30 June 2005 totalled 202 full time equivalents.

The increase in depreciation expense from 2000-01 to 2001-02 of \$1.152m was mainly attributable to the capitalisation of a number of assets, including the Pardoe Treatment Plant and the Mersey Tunnel. Depreciation expense decreased during 2004-05 due the timing of additions, the impact of revaluations and associated reassessment of useful lives of assets.

Other operating expenses for 2004-05 include land tax of \$0.319m as a result of changes under the Reform Act. Both this increase and the payroll tax expense were offset by a decrease in government contributions and levies of \$0.558m due to the removal of the library and planning levies under this Act.

Non-operating expenses primarily represent losses on disposal of assets. Existing infrastructure assets are disposed of at their written down value at the time they are replaced by new assets. The written down value of road and bridge assets replaced during 2004-05 totalled \$0.460m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 151	3 847	523	2 783	3 411
Receivables	1 637	1 310	1 677	1 891	2 187
Investments	0	200	1 500	0	500
Inventories	190	250	278	295	266
Other	243	175	1 815	1 822	1 778
Total Current Assets	8 221	5 782	5 793	6 791	8 142
Payables	1 563	1 166	1 183	1 230	1 122
Borrowings	2 124	2 143	3 139	1 583	2 383
Provisions	1 428	1 799	1 498	1 223	1 164
Other	0	0	1 665	1 557	1 658
Total Current Liabilities	5 115	5 108	7 485	5 593	6 327
Working Capital	3 106	674	(1 692)	1 198	1 815
Property, plant & equipment	313 868	279 288	276 145	269 595	265 641
Investments	15 973	15 522	14 330	14 745	14 565
Other	1 506	1 770	1 821	1 230	1 447
Total Non-Current Assets	331 347	296 580	292 296	285 570	281 653
Borrowings	10 314	10 377	9 325	10 608	11 783
Provisions	1 287	950	765	539	534
Total Non-Current Liabilities	11 601	11 327	10 090	11 147	12 317
Net Assets	322 852	285 927	280 514	275 621	271 151
Reserves	153 071	117 230	282 725	275 621	271 151
Retained surpluses/(deficits)	169 781	168 697	(2 211)	0	0
Total Equity	322 852	285 927	280 514	275 621	271 151

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 amount of \$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.

Council implemented a change in policy during 2004-05 to show only long service leave it expects to be taken by employees during the 2005-06 year as a current liability. In prior years the current provision reflected the Council's statutory liability.

Property, plant and equipment increased from \$265.641m in 2000-01 to \$313.868m in 2004-05 due mainly to asset revaluation increments. Council revalues the majority of its Property, plant and equipment on an annual basis, with land and buildings revalued to market value each time a new valuation is advised by the Valuer-General. A revaluation of land and buildings was performed during 2004-05, which represented \$28.219m of the total asset revaluation of \$35.739m during the year.

Non-current investments comprise Council's interest in Cradle Coast Water and restricted cash investments held as part of the Council's sinking fund to meet future loan redemption requirements.

Council considered good stewardship of its resources would be reflected in a nil balance in the accumulated surplus account and this is demonstrated in the first two 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 majority of the \$35.841m increase in reserves during 2004-05 is due to the revaluation on non-current assets that totalled \$35.739m.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	30 914	29 187	27 502	26 019	24 332
Payments to suppliers and employees	(24 942)	(23 617)	(22 371)	(20 803)	(19 011)
Interest received	267	201	328	395	492
Borrowing costs	(733)	(736)	(901)	(1 088)	(1 201)
Cash from operations	5 506	5 035	4 558	4 523	4 612
Proceeds from investments	205	1 477	0	496	0
Payments for investments	0	0	(857)	0	(146)
Payments for property, plant and equipment	(6 152)	(5 881)	(8 861)	(6 731)	(7 637)
Proceeds from sale of property, plant and equipment	852	726	684	444	338
Cash used in investing activities	(5 095)	(3 678)	(9 034)	(5 791)	(7 445)
Proceeds from borrowings	2 060	3 170	1 800	750	1 418
Repayment of borrowings	(2 145)	(3 112)	(1 527)	(2 725)	(1 778)
Cash from financing activities	(85)	58	273	(1 975)	(360)
Cash Flows from Government	1 977	1 909	1 944	2 615	2 787
Net increase/(decrease) in cash	2 303	3 324	(2 259)	(628)	(406)
Cash at the beginning of the period	3 848	524	2 783	3 411	3 817
Cash at the end of the period	6 151	3 848	524	2 783	3 411

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 net reduction of loan debt between 2000-01 and 2004-05 of \$2.089m.

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. This trend continued during 2004-05 with the closing cash position increasing to \$6.151m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		(895)	(2 219)	(1 877)	(726)	1 103
Operating margin	>1.0	0.97	0.93	0.94	0.97	1.04
Financial Management						
Current ratio	>1	1.61	1.13	0.77	1.21	1.29
Cost of debt	7.5%	6.1%	6.4%	7.5%	7.8%	8.3%
Debt service ratio		9.0%	12.9%	8.6%	13.8%	10.8%
Debt collection	30 days	22	18	25	30	35
Creditor turnover	30 days	29	22	20	24	22
Capital Exp/Depreciation		78%	72%	114%	89%	120%
Other information						
Employee costs as % of operating expenses		32%	31%	30%	28%	29%
Staff numbers FTEs		202	200	185	170	170
Average staff costs (\$'000s)		56	52	52	50	49

Comment

The financial performance ratios show that Council recorded an operating surplus in the first year under review. However, in the period 2001-02 to 2004-05, Council recorded operating deficits, which is reflected in the operating margin, which is below benchmark. The total deficit from operations for the five-year period under review amounted to \$4.614m.

Council's Current ratio was above the benchmark for the five-year period, indicating that it was able to meet all short-term liabilities, with the exception of 2002-03, which was 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 three 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 relatively consistent over the five-year period 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. The increase in 2004-05 is predominantly due to the impact of payroll tax being included as a result of the Reform Act.

OVERALL COMMENT

In the five years under review Council recorded a total deficit from operations (excluding non-operating items) amounting to \$4.614m, and its net assets increased by 19.1% to \$322.852m. This suggests that the Council was in a reasonably sound financial position, however it should address continuing operating deficits.

The 2004-05 audit was completed with satisfactory results.

1.4 GLENORCHY CITY COUNCIL

INTRODUCTION

The Glenorchy area was first proclaimed as a Municipality in 1864 and was granted City status in 1964. The population serviced by the Glenorchy City Council is of the order of 44 900 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2005 and an unqualified audit report was issued on 4 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	34 594	32 809	31 302	30 292	28 886
User Charges	9 059	8 768	7 843	7 105	7 014
Grants	5 723	6 040	5 814	5 617	4 297
Other operating revenue	2 269	1 794	1 958	2 110	1 994
Non-operating revenue	2 963	3 254	35 550	32 054	36 272
Total Revenue	54 608	52 665	82 467	77 178	78 463
Employee costs	15 861	14 459	13 618	12 331	12 589
Borrowing costs	1 572	1 557	1 743	1 798	1 854
Depreciation	13 230	9 717	9 599	8 989	8 250
Other operating expenses	24 745	24 249	25 589	23 599	22 103
Non-operating expenses	1 888	1 031	10 440	1 666	681
Total Expenses	57 296	51 013	60 989	48 383	45 477
Result from Ordinary Activities	(2 688)	1 652	21 478	28 795	32 986

Comment

Revenue from rates gradually increased from \$28.886m in 2000-01 to \$34.594m in 2004-05, representing an average increase of \$1.427m per annum. This increase was driven by movements in the general rate over that period which, was aligned to increases in the consumer price index (CPI).

In 2004-05, User charges again rose, to a total of \$9.059m. This rise was due to small increases in most areas, but includes an additional \$0.140m

being received from parent fees and childcare income. There was also first time revenue during the year of \$0.134m for service provider fees. Other user charges remained stable during the period and were consistent with the revenue received in the 2003-04 year.

Grant revenue decreased in 2004-05, from \$6.040m in 2003-04 to \$5.723m in 2004-05. Grants for childcare services decreased by \$0.165m due to slightly lower usage of childcare services during the period. The remainder of the decline from the prior period is attributable to a non-recurring recoupable loan subsidy received in 2003-04 of \$0.285m.

Other operating revenue increased to \$2.269m in 2004-05, due to higher water dividends received. Other revenues remained consistent with 2003-04.

Non-operating revenue in the past two years mainly comprised the value of sub-division infrastructure assets taken over by Council and the proceeds from asset disposals. In 2004-05 this revenue source included \$2.963m for general contributions of assets for roads, stormwater and sewerage.

Non-operating revenue in 2000-01 to 2002-03 mainly comprised revenue arising from the identification of infrastructure assets owned by 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 building assets in 2001-02; and
- \$35.040m for roads and stormwater assets in 2002-03.

Employee costs increased in 2004-05 due to the first time recognition of payroll tax expense (as required by changes in legislation), general wage rises and a small increase in staff numbers.

Depreciation expenses increased significantly in 2004-05 due to the revaluation of all infrastructure assets. The revaluation process resulted in significant increments in the value of these assets and therefore resulted in an increase in depreciation for the period. The increase in depreciation expense from 2003-04 to 2004-05 was \$3.513m.

This increase in the depreciation expense contributed significantly to the operating deficit in 2004-05. Council has incurred Operating deficits (determined after eliminating the impact of Non-operating revenues and expenses from the Result from Ordinary Activities recorded in the table above) in each of the last five years. This is further analysed in the Financial Analysis section of the Chapter.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	3 487	1 757	1 213	591	511
Receivables	1 894	1 689	1 819	2 190	2 348
Investments	4 074	5 799	5 147	5 558	2 243
Inventories	307	284	294	287	285
Other	665	287	421	508	586
Total Current Assets	10 427	9 816	8 894	9 134	5 973
Payables	4 638	4 313	3 233	3 291	3 101
Borrowings	2 666	2 375	2 879	2 065	1 850
Provisions	3 649	3 527	2 955	2 469	2 258
Other	671	223	120	109	257
Total Current Liabilities	11 624	10 438	9 187	7 934	7 466
Working Capital	(1 197)	(622)	(293)	1 200	(1 493)
Property, plant and equipment	503 618	344 449	342 752	306 709	267 218
Investments	43 293	40 598	38 160	38 160	39 231
Other	1 995	934	2 087	1 927	1 183
Total Non-Current Assets	548 906	385 981	382 999	346 796	307 632
Borrowings	22 090	23 349	23 726	24 606	24 692
Provisions	1 040	1 132	1 122	883	695
Total Non-Current Liabilities	23 130	24 481	24 848	25 489	25 387
Net Assets	524 579	360 878	357 858	322 507	280 752
Reserves	225 592	60 330	57 589	43 497	30 054
Retained surpluses	298 987	300 548	300 269	279 010	250 698
Total Equity	524 579	360 878	357 858	322 507	280 752

Comment

Cash increased significantly in 2004-05 from \$1.757m to \$3.487m. This outcome has been offset by current investments, with term deposits decreasing by \$1.725m. This occurred due to some term deposits maturing close to year-end and hence no longer being classified as investments and instead recognised as cash.

Over the five year period there has been a general decline in debtors due to the strengthening of debtor management procedures.

Payables increased in 2003-04 due to high capital works creditors and by a further \$0.325m at 30 June 2005 due to the accrual of street lighting costs.

Provisions were consistent with 2003-04. There was 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.

Council's net working capital position at 30 June 2005 deteriorated slightly mainly due to higher payables and an increase in the current portion of borrowings.

Property, plant and equipment increased by \$159.169m in 2004-05 to \$503.618m. This is primarily due to the revaluation of infrastructure assets as at 1 July 2004. The revaluation was conducted in accordance with the Council's accounting policy of revaluing assets based on their current depreciated replacement cost at least once every five years. The revaluation resulted in a net increment of \$163.693m from the revaluation of building, hydraulic and roads assets. In addition to these asset revaluations, Council incurred capital expenditure of \$10.594m and it disposed of assets with a book value of \$1.888m during the period.

The non-current investment represents Council's investment in Hobart Water. Due to a revaluation of the investment in the current year the value of the investment increased to \$43.293m from \$40.598m in 2003-04. This revaluation increment was recorded as an increase to the asset revaluation reserve.

In 2004-05 total equity increased \$163.701m, which is principally due to the revaluation of infrastructure assets. Over the four years prior to 2004-05, total equity increased over the period by \$80.126m due principally to the recognition of additional assets and increases in the asset revaluation reserves. Retained surpluses decreased during 2004-05 due to the deficit for the year discussed previously.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	46 320	44 774	41 304	39 486	38 095
Payments to suppliers and employees	(41 412)	(38 648)	(40 273)	(36 348)	(35 477)
Interest received	631	557	488	379	367
Borrowing costs	(1 572)	(1 557)	(1 743)	(1 798)	(1 854)
Cash from operations	3 967	5 126	(224)	1 719	1 131
Payments for property, plant and equipment	(9 120)	(9 387)	(7 118)	(5 439)	(6 191)
Proceeds from sale of property, plant and equipment	398	107	201	104	142
Cash used in investing activities	(8 722)	(9 280)	(6 917)	(5 335)	(6 049)
Proceeds from borrowings	1 502	2 190	2 037	2 042	1 594
Repayment of borrowings	(2 465)	(2 881)	(2 066)	(1 871)	(1 603)
Cash from financing activities	(963)	(691)	(29)	171	(9)
Cash Flows from Government	5 723	6 040	7 382	6 840	5 302
Net increase/(decrease) in cash	5	1 195	212	3 395	375
Cash at the beginning of the period	7 556	6 361	6 149	2 754	2 379
Cash at end of the period	7 561	7 556	6 361	6 149	2 754

Comment

In 2004-05 the net increase in cash was minimal due to Council closely matching cash receipts to cash payments; this resulted in cash remaining consistent with 2003-04.

Payments to suppliers and employees increased by \$3.130m in 2004-05 driven by increased employee costs due to the recognition of payroll tax expense as previously mentioned. 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	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		(3 763)	(571)	(3 632)	(1 593)	(2 605)
Operating margin	>1.0	0.93	0.99	0.93	0.97	0.94
Financial Management						
Current ratio	>1	0.90	0.94	0.97	1.15	0.80
Cost of debt	7.5%	6.3%	6.2%	6.7%	6.7%	7.0%
Debt Service Ratio		7.8%	9.0%	8.1%	8.1%	8.2%
Debt collection	30 days	13	12	17	19	21
Creditor turnover	30 days	39	41	40	37	38
Capital Exp/Depreciation		69%	97%	74%	61%	75%
Other information						
Employee Costs as % of Operating Expenses		29%	29%	27%	26%	28%
Staff numbers FTEs		291	286	283	297	257
Average staff costs (\$'000s)		55	51	48	42	49

Comment

Over the five-year period, Council consistently failed to cover operating expenses from operating revenues, returning an accumulated deficit for the period of \$12.164m or an annual average deficit of \$2.433m. The increased deficit in 2004-05 was due to the revaluation of infrastructure assets, which resulted in depreciation expense increasing by \$3.513m. Excluding this increase in depreciation the results from operations would have continued to improve in 2004-05 with an operating result of \$0.250m (excludes depreciation movement). Whilst this result is encouraging, Council must bear in mind that depreciation represents an operating expense and must be covered in future budgets.

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, 2003-04 and 2004-05, there were excesses of current liabilities over current assets in each of these years because of high proportions of the loan portfolio being classified as current.

Creditor turnover has remained consistent over the past three years. A large payment, due early in July each year, skews the year-end result, and without this creditor, the turnover levels would be in line with the benchmark.

Following achievement by Council of depreciation to capital expenditure ratio in excess of 100% in 2003-04, this ratio dropped to 69% in 2004-05. This was not helped by the increase in the depreciation expense reported earlier. However, this higher expense is based on a more current value of Council assets indicating that it may need to invest more heavily in capital expenditure programs.

OVERALL COMMENT

The average annual deficit over the five years is \$2.433m, being significantly influenced by the large deficits in 2002-03 and in 2004-05. The increased deficit in 2004-05 is largely due to the revaluation of infrastructure assets as at 1 July 2004 and the associated increase in depreciation expense.

The 2004-05 audit was completed with satisfactory results.

1.5 HOBART CITY COUNCIL

INTRODUCTION

The Hobart area was granted City status in 1842 and services a population of approximately 48 500 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Financial statements were signed by the General Manager on 20 September 2005 and an unqualified audit report was issued on 11 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	77 249	71 027	66 667	63 366	60 934
Grants	5 075	3 802	4 207	3 837	3 091
Other operating revenue	3 125	3 659	3 580	3 577	3 870
Non-operating revenue	3 466	4 754	7 745	5 604	935
Total Revenue	88 915	83 242	82 199	76 384	68 830
Employee costs	31 707	28 968	27 481	26 280	24 152
Borrowing costs	783	823	845	869	909
Depreciation	20 655	21 303	21 866	20 152	19 135
Other operating expenses	36 393	35 385	33 367	29 955	31 309
Non-operating expenses	1 849	2 603	688	4 512	3 687
Total Expenses	91 387	89 082	84 247	81 768	79 192
Result from Ordinary Activities	(2 472)	(5 840)	(2 048)	(5 384)	(10 362)

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 2004-05 revenue from Rates, fees and charges increased by \$6.222m due to the combined effect of a 4.8% rate increase, additional rate revenue from State Government properties resulting from the Reform Act, normal growth in the rate base and increased private works income arising from road reinstatements associated with the gas pipeline roll-out.

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.

Non-operating expenses in 2000-01 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 downwards with a resultant reduction in depreciation charges of approximately \$2.020m. Subsequent upward 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:

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	85 449	78 488	74 454	70 780	67 895
Operating expenditure	89 538	86 479	83 559	77 256	75 505
Operating result before non operating items	(4 089)	(7 991)	(9 105)	(6 476)	(7 610)

Over this period operating revenues increased by 21% and operating expenditure by 16% resulting in the lower operating deficit in 2005 compared to 2001. Despite these operating deficits, Council generated positive cash flows (see Cash Position section).

Employee costs increased by 9% in 2004-05 due to normal increases in wage and salary rates together with the payment of payroll tax from 1 July 2004 under the Reform Act. Over the period of review, employee costs rose by 31% due to an increase of 43 in FTE's, the imposition of payroll tax together with normal wage and salary increases.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 094	1 059	574	1 254	(511)
Receivables	3 403	2 982	3 107	4 285	3 993
Investments	18 209	14 214	12 122	10 309	9 909
Inventories	284	231	249	233	252
Other	252	242	20	32	14
Total Current Assets	24 242	18 728	16 072	16 113	13 657
Payables	4 992	3 731	3 921	4 920	4 775
Borrowings	1 051	1 939	1 553	1 456	1 852
Provisions	2 705	2 487	1 836	2 886	3 000
Other	1 804	1 149	826	688	415
Total Current Liabilities	10 552	9 306	8 136	9 950	10 042
Working Capital	13 690	9 422	7 936	6 163	3 615
Property, plant and equipment	658 707	601 566	579 818	567 402	566 819
Investments	40 027	40 027	36 520	36 520	36 520
Other	251	284	474	461	620
Total Non-Current Assets	698 985	641 877	616 812	604 383	603 959
Borrowings	9 638	9 690	10 529	10 382	10 595
Provisions	6 728	6 465	6 314	4 065	2 644
Other	45	45	45	45	45
Total Non-Current Liabilities	16 411	16 200	16 888	14 492	13 284
Net Assets	696 264	635 099	607 860	596 054	594 290
Reserves	375 228	311 371	273 349	258 713	252 146
Retained surpluses	321 036	323 728	334 511	337 341	342 144
Total Equity	696 264	635 099	607 860	596 054	594 290

Comment

Council's net working capital position improved steadily throughout the five-year period. By 30 June 2005 net working capital had more than tripled to \$13.690m 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 \$1.758m.

Other current liabilities increased to \$1.804m at 30 June 2005 of which \$1.499m was funds held on trust, deposit or retention (\$0.921m at 30 June 2004).

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

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

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

During 2004-05 other structures were revalued as part of Council's rolling asset revaluation program resulting in a revaluation increment of \$17.775m. In addition some asset classes were adjusted by indexation resulting in revaluation increments of \$14.520m for Land, \$19.706m for Pipes, drains and rivulets and \$11.682m for Roads and bridges. Indexation of some asset classes is necessary to ensure that the 30 June carrying amounts of assets do not differ materially from fair value at that date.

All revaluation reserve movements had a corresponding impact on the Property, plant and equipment balances, the carrying values for which increased from \$566.819m at 30 June 2001 to \$658.707m at 30 June 2005.

Non-Current Investments represent 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 to the net assets of Hobart Water 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 \$594.290m at 30 June 2001 to \$696.264m at 30 June 2005, principally due to asset revaluations.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	84 036	77 676	73 341	73 327	66 032
Payments to suppliers and employees	(67 985)	(64 918)	(61 709)	(59 735)	(56 353)
Interest received	1 213	861	671	564	783
Borrowing costs	(797)	(835)	(857)	(881)	(919)
Cash from operations	16 467	12 784	11 446	13 275	9 543
Payments for property, plant and equipment	(15 755)	(14 298)	(15 183)	(14 675)	(13 252)
Proceeds from sale of property, plant and equipment	1 540	962	492	508	897
Cash used in investing activities	(14 215)	(13 336)	(14 691)	(14 167)	(12 355)
Proceeds from borrowings	1 000	1 100	1 700	1 242	1 658
Repayment of borrowings	(1 940)	(1 553)	(1 456)	(1 851)	(1 974)
Cash from financing activities	(940)	(453)	244	(609)	(316)
Cash Flows from Government	3 718	3 582	4 134	3 666	3 021
Net increase/(decrease) in cash	5 030	2 577	1 133	2 165	(107)
Cash at the beginning of the period	15 273	12 696	11 563	9 398	9 505
Cash at end of the period	20 303	15 273	12 696	11 563	9 398

Comment

Despite recording negative Operating Results and Results from Ordinary Activities over the last five years, Council returned positive cash flows from operations.

The increase in cash balances in 2004-05 of \$5.030m, from \$15.273m to \$20.303m, was due mainly to unbudgeted property sales and project income, the final distribution of funds from the Wapping Implementation Project and a surplus from general operations.

The cash balance at 30 June 2005, consisting of cash and current investments, included funds subject to restrictions on use totalling \$2.727m (prior year: \$2.264m).

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		(4 089)	(7 991)	(9 105)	(6 476)	(7 610)
Operating margin	>1.0	0.95	0.91	0.89	0.92	0.90
Financial Management						
Current ratio	>1	2.30	2.01	1.98	1.62	1.36
Cost of debt	7.5%	7.1%	7.2%	7.2%	7.3%	7.3%
Debt service ratio		3.2%	3.0%	3.1%	3.9%	4.3%
Debt collection	30 days	16	15	17	25	26
Creditor turnover	30 days	5	6	9	13	23
Capital Exp/Depreciation		76%	67%	69%	73%	69%
Other information						
Employee costs as a % of operating expenses		38%	36%	36%	37%	35%
Staff numbers FTEs		584	576	570	560	541
Average staff costs (\$'000s)		58	54	53	51	48

Comment

Over the five-year period under review Council consistently failed to cover operating expenses with an annual average deficit of \$7.054m. 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 2004-05, 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 this five-year period suggesting that, despite investing around \$15.000m per annum in infrastructure, further investment is needed to maintain its asset base.

The increases in employee costs as a percentage of operating expenses and average staff costs in 2004-05 are due to factors noted earlier in this report.

OVERALL COMMENT

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

The 2004-05 audit was completed with satisfactory results.

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 population of approximately 60 800 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

The financial statements were signed on 29 September 2005 and an unqualified audit report was issued on 7 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	54 366	50 295	48 247	46 378	46 838
User charges	14 863	13 978	13 023	11 617	10 848
Grants	17 689	11 052	7 792	8 871	7 884
Other operating revenue	4 470	4 503	4 912	3 461	3 394
Non-operating revenue	4 990	20 181	6 931	13 977	7 122
Total Revenue	96 378	100 009	80 905	84 304	76 086
Employee costs	26 415	22 994	22 183	21 151	19 631
Borrowing costs	530	516	546	646	599
Depreciation	19 937	19 320	18 166	15 544	15 194
Other operating expenses	33 529	33 277	31 847	30 844	29 778
Non-operating expenses	1 474	2 209	2 254	4 878	1 669
Total Expenses	81 885	78 316	74 996	73 063	66 871
Result from Ordinary Activities	14 493	21 693	5 909	11 241	9 215

Comment

Revenue from Rates, fees and charges has increased steadily during the period under review, resulting in a \$7.528m increase over the five-year period. Local government reforms, implemented on 1 July 2004 resulted in Council being able to rate a number of government properties previously exempt. This contributed to the \$4.071m (8.09%) increase during 2004-05.

Council generates user charges from a number of areas includes domestic and commercial water charges, refuse disposal site fees, car parking and building fees. Revenue has increased consistently over the period.

Grant revenue varies and is 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 \$0.749m received for the Roads to Recovery program. In 2004-05, Council received further capital funding of \$9.542m for the construction of a grandstand extension and video replay scoreboard at the York Park facility.

Non-operating revenue and expenditure items generally reflect the proceeds of sale and carrying values respectively from the disposal of non-current assets. 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 previously unidentified infrastructure assets. These infrastructure assets are being identified over a number of years, as Council's engineering section is undertaking a detailed review of all assets, with the use of council maps and GPS technology. This identification process is reflected in non-operating revenue for both 2001-02 and 2003-04, where new assets were taken up amounting to \$10.548m and \$18.190m respectively.

The increase in employee costs of \$3.421m during 2004-05 relates, in part, to the impact of payroll tax \$1.575m. As part of the Local Government reforms process, Council became liable to pay payroll tax on 1 July 2004. The impact of EBA increases and the employment of 14 additional employees also contributed to the increase in employee costs.

In 2004-05 Operating expenses increased by \$0.252m, which is attributable to:

- The payment of land tax, \$0.346m (payable from 1 July 2004 as part of the Local Government reforms); and
- An increase in maintenance expenditure.

The increase in Operating expenses was offset by Council not being required to pay library and planning levies (also part of the Local Government reforms), which in 2004 totalled \$1.388m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	662	4 350	2 488	3 584	4 545
Receivables	5 226	5 171	7 012	5 871	6 594
Investments	39 887	22 130	23 271	19 449	19 203
Inventories	865	925	818	759	768
Other	437	359	210	178	790
Total Current Assets	47 077	32 935	33 799	29 841	31 900
Payables	1 227	2 193	3 206	1 357	2 946
Borrowings	2 209	1 824	1 524	2 122	2 301
Provisions	5 927	5 576	4 999	4 538	4 045
Other	13 411	4 622	3 869	3 883	2 840
Total Current Liabilities	22 774	14 215	13 598	11 900	12 132
Working Capital	24 303	18 720	20 201	17 941	19 768
Property, plant & equipment	765 169	678 595	653 737	653 444	582 452
Investments	75 247	64 868	56 949	57 274	55 757
Other	434	695	902	1 187	1 286
Total Non-Current Assets	840 850	744 158	711 588	711 905	639 495
Borrowings	8 102	8 311	8 444	7 969	8 092
Provisions	933	926	1 071	860	928
Other	1 870	1 564	1 258	952	646
Total Non-Current Liabilities	10 905	10 801	10 773	9 781	9 666
Net Assets	854 248	752 077	721 016	720 065	649 597
Reserves	225 870	125 809	111 285	114 013	46 669
Retained surpluses	628 378	626 268	609 731	606 052	602 928
Total Equity	854 248	752 077	721 016	720 065	649 597

Comment

Total Cash balances (Cash plus Current Investments) remained reasonably constant over the first four years at between \$23.033m to \$26.480m but increased by \$14.069m to \$40.549m at 30 June 2005. This balance included \$8.000m in grants from the State Government received in late June. These grants were in relation to the upgrade of the Elphin Sports Centre, the upgrade of the Launceston Aquatic Centre and the maintenance and upgrade of the Silverdome. These funds were recorded as revenue received in advance within other current liabilities. The Council has subsequently repaid the funds to the State Government.

At 30 June 2005, Council considered \$11.064m of the investment balance was restricted (being held for specific purposes) and the balance of \$29.485m is required to meet creditors and capital work commitments. Movements in the cash and investment balances are explained further under the Cash Position section of this summary.

The major components of the Receivables balance include rate, water, parking infringement and sundry debtors. Council included a significant

provision for doubtful debts within the total provision across all receivables of \$1.491m (2004: \$1.237m) to mainly offset parking infringement debtors of \$1.638m (2004: \$1.330m).

Employee provisions comprise entitlements for accrued rostered days off, annual leave, long service leave and a liability for a retiring allowance.

Other current liabilities increased by \$8.789m to \$13.411m in 2004-05 primarily due to the \$8.000m funds received in advance previously referred to.

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 revaluation exercise resulted in the creation of 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.

Property, plant and equipment increased by \$182.717m since 2000-01, primarily caused by asset revaluations, capital expenditure of \$119.296m and existing assets being identified for the first time of \$30.650m. These increases are offset by depreciation charges of \$88.161m and asset sales.

Property, plant and equipment increased by \$86.574m in 2004-05. The significant increase during 2004-05 is primarily due to the upwards revaluation of a number of assets classes, including Land, \$50.298m and Sewerage and Drainage, \$27.000m.

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

Other Non-current liabilities represented a provision for rehabilitation of the refuse disposal area. The liability increased by \$0.306m during 2004-05 to reflect the proportion of rehabilitation costs applicable to that part of the site's useful life which had been consumed to date.

In 2004-05, Council's Capital, Asset Revaluation and Trust and Bequest Reserve balance increased by \$100.061m, to \$225.870m. The majority of the increase, \$87.678m, is attributable to the recognition of revaluation increments relating to land, sewerage and drainage, and the increase in Council's investment in Esk Water of \$10.379m.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	76 650	72 777	67 789	64 756	61 776
Payments to suppliers and employees	(64 334)	(59 732)	(55 917)	(54 314)	(52 271)
Interest received	1 556	1 428	1 328	1 144	1 694
Borrowing costs	(538)	(523)	(550)	(645)	(607)
Cash from operations	13 334	13 950	12 650	10 941	10 592
Proceeds from investments	368	293	163	853	1 626
Payments for investments	(293)	(708)	(484)	(992)	(932)
Payments for property, plant and equipment	(26 704)	(26 162)	(20 072)	(23 506)	(22 852)
Proceeds from sale of property, plant and equipment	1 082	1 991	2 448	3 291	780
Cash used in investing activities	(25 547)	(24 586)	(17 945)	(20 354)	(21 378)
Proceeds from borrowings	2 267	1 942	2 289	2 092	4 061
Repayment of borrowings	(1 824)	(1 534)	(2 122)	(2 302)	(2 012)
Cash from financing activities	443	408	167	(210)	2 049
Cash Flows from Government	25 840	10 948	7 853	8 909	7 845
Net increase/(decrease) in cash	14 070	720	2 725	(714)	(892)
Cash at the beginning of the period	26 479	25 759	23 034	23 748	24 640
Cash at end of the period	40 549	26 479	25 759	23 034	23 748

Comment

Cash from operations remained fairly stable over the past five years. This was the result of increases in Receipts from customers being reflected by similar increases in Payments to suppliers and employees.

Payments for property, plant and equipment represent a significant cash outflow over the five-year period. Significant projects over this period included upgrades of the Museum, York Park facilities, the Margaret Street Detention Basin, wastewater treatment plants, Churchill Park sporting grounds, and roads and bridges. To partially offset the capital expenditure, Council received capital grant funds, totalling \$13.220m for the York Park upgrade in 2003-04 and 2004-05.

The increase on Cash flows from Government of \$14.892m in 2004-05 is attributable to grant funding for York Park, \$9.542m and grant funds in advance received in June 2005, totalling \$8.000m. The grants received relate to the upgrade of the Launceston Aquatic Centre, the maintenance and upgrade of the Silverdome and Elphin Sports Centre, details of which were reported earlier in this chapter. The Council has subsequently repaid the funds to the State Government.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		10 977	3 721	1 232	2 142	3 762
Operating margin	>1.0	1.14	1.05	1.02	1.03	1.06
Financial Management						
Current ratio	>1	2.07	2.32	2.49	2.51	2.63
Cost of debt	7.5%	6.1%	5.0%	5.4%	6.0%	6.9%
Debt service ratio		2.6%	2.6%	3.6%	4.2%	3.8%
Debt collection	30 days	35	36	47	46	45
Creditor turnover	30 days	13	24	37	16	36
Capital Exp/Depreciation		134%	135%	110%	151%	150%
Other information						
Employee costs as a % of operating expenses		33%	30%	30%	31%	30%
Staff numbers FTEs		509	495	479	478	478
Average staff costs (\$'000s)		54	49	48	46	45

Comment

Over the five-year period under review, Council recorded a surplus from operation of \$21.834m. However, it should be noted that the total surplus includes funds received as capital grants, totalling \$25.610m, the expenditure for which was in the main capitalised and thus not recorded as Operating expenditure.

Council maintained a Current ratio comfortably above the benchmark, primarily due to its significant investment balances.

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

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.

The Capital expenditure/depreciation ratio indicates Council is spending greater amounts on capital projects than depreciation charges incurred. The ratio is considerably greater than the benchmark in the periods under review due to the high level of capital works undertaken (as noted previously).

Average staff costs increased in 2004-05 principally due to the need for Council to pay payroll tax effective 1 July 2004.

OVERALL COMMENT

In the five-year period under review Council recorded a total operating surplus (excluding non-operating items) of \$21.834m, and its net assets grew by 31.5% over the period to \$854.248m. This provides an indication that Council is in a strong financial position.

The 2004-05 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:

	Population
Central Coast Council;	21 000
Circular Head Council;	7 700
Huon Valley Council;	13 500
Kingborough Council;	31 500
Meander Valley Council;	17 300
Waratah-Wynyard Council; and	14 000
West Tamar Council.	19 400

These councils have been classified as "large" based upon their revenue from rates, fees and charges being greater than \$8.000m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Central Coast	Circular Head	Huon Valley	Kingborough	Meander Valley	Waratah-Wynyard	West Tamar
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	12 102	6 630	8 463	18 456	9 142	8 550	10 684
User charges	3 715	2 739	1 542	2 229	1 702	1 979	2 260
Grants	2 763	2 344	5 161	4 207	3 304	4 327	2 216
Other operating revenue	2 563	938	2 189	2 803	1 204	1 354	978
Non-operating revenue	31	190	398	7 876	396	350	2 012
Total Revenue	21 174	12 841	17 753	35 571	15 748	16 560	18 150
Employee costs	7 267	2 467	5 670	7 572	3 290	3 488	4 603
Borrowing costs	102	66	143	70	0	242	160
Depreciation	5 402	2 296	3 048	7 563	3 860	2 446	3 583
Other operating expenses	8 044	5 778	5 920	12 485	6 804	6 130	6 556
Non-operating expenses	138	661	460	785	285	1 164	3 039
Total Expenses	20 953	11 268	15 241	28 475	14 239	13 470	17 941
Result from Ordinary Activities	221	1 573	2 512	7 096	1 509	3 090	209

Comment

Revenue from Rates and User charges ranged from \$9.369m (Circular Head) to \$20.685m (Kingborough). The higher revenue recorded by Kingborough was due to its larger population base, which approximates 3 500 people. On average, revenue from Rates, and User charges represented 71% of total operating revenue for the seven councils for 2004-05.

On average, Government grants and subsidies represented 20% 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 being 30%.

On average, borrowing costs represented 1% and depreciation 24% of total Operating expenditure. The depreciation percentages were fairly consistent across the seven councils, ranging from 21% (Huon Valley) to 26% (Central Coast).

Each council reported a surplus from Ordinary Activities, with Kingborough recording the largest, \$7.096m. This result was significantly influenced by non-operating revenue of \$7.876m which included \$6.243m in sub-division infrastructure assets taken over.

FINANCIAL POSITION

	Central Coast	Circular Head	Huon Valley	Kingborough	Meander Valley	Waratah-Wynyard	West Tamar
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	268	6 044	6 106	1 076	631	305	769
Receivables	683	870	1 238	1 331	660	512	600
Investments	8 363	0	0	11 212	10 730	5 750	5 807
Inventories	84	47	2	105	93	158	168
Other	395	203	0	2	55	129	210
Total Current Assets	9 793	7 164	7 346	13 726	12 169	6 854	7 554
Payables	1 015	714	1 064	2 424	769	867	930
Borrowings	511	220	350	74	0	725	342
Provisions	1 441	208	557	1 461	768	882	945
Other	303	71	0	998	215	100	77
Total Current Liabilities	3 270	1 213	1 971	4 957	1 752	2 574	2 294
Working Capital	6 523	5 951	5 375	8 769	10 417	4 280	5 260
Property, plant and equipment	207 641	62 870	89 335	283 032	123 089	77 826	141 689
Investments	10 896	4 476	0	12 009	10 446	5 505	17 891
Other	479	0	0	5	0	76	51
Total Non-Current Assets	219 016	67 346	89 335	295 046	133 535	83 407	159 631
Borrowings	628	1 010	449	508	0	3 448	1 907
Provisions	667	390	450	343	75	142	156
Total Non-Current Liabilities	1 295	1 400	899	851	75	3 590	2 063
Net Assets	224 244	71 897	93 811	302 964	143 877	84 097	162 828
Capital	0	0	0	167 782	0	0	0
Reserves	72 716	5 207	15 470	133 892	15 773	4 209	111 382
Retained Surpluses	151 528	66 690	78 341	1 290	128 104	79 888	51 446
Total Equity	224 244	71 897	93 811	302 964	143 877	84 097	162 828

Comment

The balance of net assets ranged from \$71.897m (Circular Head) to \$302.964m (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 its larger population base and infrastructure network.

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

CASH POSITION

	Central Coast	Circular Head	Huon Valley	King- borough	Meander Valley	Waratah- Wynyard	West Tamar
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	18 813	10 559	11 659	23 191	12 079	11 998	14 301
Payments to suppliers and employees	(15 871)	(8 835)	(11 840)	(21 346)	(10 700)	(10 408)	(11 664)
Interest received	688	319	360	824	661	449	415
Borrowing costs	(110)	(76)	(151)	(74)	0	(245)	(161)
Cash from operations	3 520	1 967	28	2 595	2 040	1 794	2 891
Proceeds from investments	56	0	0	0	0	0	0
Payments for investments	0	0	0	0	(1 859)	0	(790)
Payments for property, plant and equipment	(6 867)	(2 569)	(5 244)	(9 450)	(3 575)	(5 217)	(4 040)
Proceeds from sale of property, plant and equipment	492	190	267	1 099	396	350	359
Cash used in investing activities	(6 319)	(2 379)	(4 977)	(8 351)	(5 038)	(4 867)	(4 471)
Proceeds from borrowings	0	450	0	0	0	500	300
Repayment of borrowings	(524)	(390)	(542)	(82)	0	(733)	(808)
Cash from financing activities	(524)	60	(542)	(82)	0	(233)	(508)
Cash flows from Government	2 763	2 344	5 161	5 814	3 304	4 327	2 216
Net increase/(decrease) in cash	(560)	1 992	(330)	(24)	306	1 021	128
Cash at the beginning of the period	828	4 052	6 436	12 312	325	5 034	641
Cash at end of the period	268	6 044	6 106	12 288	631	6 055	769

Comment

Central Coast, Huon Valley and Kingborough Councils recorded a net decrease in cash for the year. The above cash amounts for Central Coast, Meander Valley and West Tamar do not include other short-term investments held.

All councils hold significant short-term cash and investment balances ranging from Circular Head \$6.044m to Kingborough Council \$12.288m.

FINANCIAL ANALYSIS

	Bench Mark	Central Coast	Circular Head	Huon Valley	King- borough	Meander Valley	Waratah- Wynyard	West Tamar
Financial Performance								
Result from operations (\$'000s)		328	2 044	2 574	5	1 398	3 904	1 236
Operating margin	>1.0	1.02	1.19	1.17	1.00	1.10	1.32	1.08
Financial Management								
Current ratio	>1	2.99	5.91	3.73	2.77	6.95	2.66	3.29
Cost of debt	7.5%	6.0%	6.7%	8.4%	10.4%	0.0%	5.8%	6.2%
Debt service ratio		3.0%	3.7%	4.0%	0.6%	0.0%	6.0%	6.0%
Debt collection	30 days	16	34	37	23	17	22	17
Creditor turnover	30 days	25	31	20	47	27	32	27
Capital Exp/Depreciation	100%	127%	112%	172%	125%	93%	213%	113%
Other information								
Employee costs as a % of operating expenses		35%	23%	38%	27%	24%	28%	31%
Staff numbers		153	51	122	167	66	85	87
Average staff costs (\$'000s)		49	50	46	48	53	45	55

Comment

All of the councils had a positive result from operations and hence a positive operating margin. Waratah-Wynyard recorded the highest operating margin at 1.32.

All of the seven councils had positive working capital, with the average current ratio being 4.04.

The average cost of debt for these councils was 7.3%. In calculating this average, Meander Valley was excluded, as it had no borrowings as at 30 June 2005.

The average debt collection was better than the benchmarks of 30, at 23 days. Average creditor turnover was the benchmark of 30 days.

With the exception of Meander Valley at 93%, 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 \$0.048m.

OVERALL COMMENT

Overall, the seven councils recorded a surplus from ordinary and operating activities. This indicated that all councils budget for all 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 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 4 August 2005 and an unqualified audit report was issued on 10 August 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	12 102	11 607	11 151	10 830	10 347
User charges	3 715	3 190	3 110	3 384	3 103
Grants	2 763	2 706	2 627	2 429	2 251
Other operating revenue	2 563	3 061	2 854	2 240	1 626
Non-operating revenue	31	132	0	488	0
Total Revenue	21 174	20 696	19 742	19 371	17 327
Employee costs	7 267	6 447	6 036	5 618	5 667
Borrowing costs	102	141	193	288	328
Depreciation	5 402	5 064	4 890	4 824	4 491
Other operating expenses	8 044	7 359	7 753	7 442	6 898
Non-operating expenses	138	127	96	109	72
Total Expenses	20 953	19 138	18 968	18 281	17 456
Result from Ordinary Activities	221	1 558	774	1 090	(129)

Comment

Revenue from Rates increased steadily during the period under review, resulting in a \$1.755m increase over the five-year period. The increase in User charges in 2004-05 of \$0.525m was mainly attributable to an increase in water charges, revenue from planning and building fees and an insurance reimbursement relating to fire damage at the Ulverstone Recreation Ground. Other operating revenue in 2003-04 included contributions from the State Government for the Heybridge Shack Site Project totalling \$0.468m.

The increase in Employee Costs of \$0.820m in 2004-05 is mainly due to an increase in the number of staff employed by Council and payroll tax of \$0.361m, which was payable by Council from 1 July 2004. Depreciation expense remained fairly stable over the past five years, with the minor increments noted in 2001-02 and 2004-05 relating to revaluations of infrastructure. Borrowing costs decreased from \$0.328m in 2000-01 to \$0.102m in 2004-05. The decrease was attributable to regular repayments of loan borrowings, which resulted in a reduction in the balance of loans outstanding.

In 2004-05 Council recorded a surplus from ordinary activities of \$0.221m, compared to a budgeted surplus of \$0.093m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	268	828	219	(129)	(478)
Receivables	683	749	1 092	1 219	1 330
Investments	8 363	8 419	7 017	8 296	7 638
Inventories	84	90	78	74	75
Other	395	142	294	224	332
Total Current Assets	9 793	10 228	8 700	9 684	8 897
Payables	1 015	678	939	727	502
Borrowings	511	498	612	1 089	777
Provisions	1 441	1 294	1 199	1 046	1 037
Other	303	242	170	158	156
Total Current Liabilities	3 270	2 712	2 920	3 020	2 472
Working Capital	6 523	7 516	5 780	6 664	6 425
Property, plant and equipment	207 641	181 696	171 980	170 143	158 902
Investments	10 896	10 607	9 521	9 521	9 032
Other	479	569	614	703	803
Total Non-Current Assets	219 016	192 872	182 115	180 367	168 737
Borrowings	628	1 165	1 669	2 282	3 371
Provisions	667	569	586	413	362
Total Non-Current Liabilities	1 295	1 734	2 255	2 695	3 733
Net Assets	224 244	198 654	185 640	184 336	171 429
Reserves	72 716	46 835	34 747	33 844	21 502
Retained surpluses	151 528	151 819	150 893	150 492	149 927
Total Equity	224 244	198 654	185 640	184 336	171 429

Comment

Council had a positive working capital for each of the five years under review. At 30 June 2005 the working capital was \$6.523m, giving a current ratio of 2.99, 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 2004-05 (\$25.945m) was also mainly due to asset revaluation increments of \$25.080m. The revaluation increments related to roads, land and building assets that were revalued on 1 July 2004.

Total Borrowings decreased from \$4.148m at 30 June 2001 to \$1.139m at 30 June 2005. The decrease reflected the loan repayments during the four years of \$3.009m.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	18 813	18 706	17 784	17 007	15 053
Payments to suppliers and employees	(15 871)	(14 883)	(14 486)	(13 622)	(13 496)
Interest received	688	625	445	501	580
Borrowing costs	(110)	(150)	(164)	(291)	(348)
Cash from operations	3 520	4 298	3 579	3 595	1 789
Proceeds from investments	56	0	1 279	0	0
Payments for investments	0	(1 402)	0	(657)	(689)
Payments for property, plant and equipment	(6 867)	(4 864)	(6 495)	(4 416)	(4 148)
Proceeds from sale of property, plant and equipment	492	490	447	176	127
Cash used in investing activities	(6 319)	(5 776)	(4 769)	(4 897)	(4 710)
Proceeds from borrowings	0	0	0	0	400
Repayment of borrowings	(524)	(619)	(1 089)	(778)	(831)
Cash from financing activities	(524)	(619)	(1 089)	(778)	(431)
Cash Flows from Government	2 763	2 706	2 627	2 429	2 251
Net increase/(decrease) in cash	(560)	609	348	349	(1 101)
Cash at the beginning of the period	828	219	(129)	(478)	623
Cash at end of the period	268	828	219	(129)	(478)

Comment

Cash at the end of 2004-05 equalled \$0.268m, but Council also held current investments of \$8.363m.

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.

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. Payments for property, plant and equipment totalled \$6.867m in 2004-05. The increase from the prior year was mainly attributable to large capital projects such as the Ulverstone Visitor Information Centre, Forth Village Sewerage, the Resource Recovery Centre and the Heybridge Shack Site Sewerage project.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		328	1 553	870	711	(57)
Operating margin	>1.0	1.02	1.08	1.05	1.04	1.00
Financial Management						
Current ratio	>1	2.99	3.77	2.98	3.21	3.60
Cost of debt	7.5%	6.0%	6.0%	6.0%	6.9%	7.1%
Debt service ratio		3.0%	3.7%	6.3%	5.7%	6.8%
Debt collection	30 days	16	18	28	31	36
Creditor turnover	30 days	25	20	24	22	17
Capital Exp/Depreciation	100%	127%	96%	133%	92%	92%
Other information						
Employee Costs as % of Operating Expenses		35%	34%	32%	31%	33%
Staff numbers FTEs		153	143	135	129	127
Average staff costs (\$'000s)		49	46	46	45	46

Comment

The financial performance ratios show that Council recorded an operating surplus in four 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.

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

The Cost of debt reduced from 7.1% in 2000-01 to 6.0% in 2004-05. 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 2004-05 to 3.0%.

The Debt collection ratio reduced from 36 days in 2000-01 to 16 days in 2004-05, 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.

The average staff costs has increased from \$0.046m in 2003-04 to \$0.049m in 2004-05 due mainly to the imposition of payroll tax from 1 July 2004.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of \$3.405m, and its net assets grew by 31% over this period to \$224.244m. This provided enough evidence to suggest that Council is in a sound financial position.

The 2004-05 audit was completed with satisfactory results.

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 7 700 people and covers 4 917 square kilometres including the townships of Smithton and Stanley.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 15 September 2005 and an unqualified audit report was issued on 6 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	6 630	6 025	5 828	5 608	5 374
User charges	2 739	2 808	2 615	2 363	2 273
Grants	2 344	3 077	3 383	2 589	2 346
Other operating revenue	938	1 029	1 734	3 586	556
Non-operating revenue	190	717	228	279	178
Total Revenue	12 841	13 656	13 788	14 425	10 727
Employee costs	2 467	2 336	2 220	2 258	2 249
Borrowing costs	66	88	136	186	236
Depreciation	2 296	2 219	2 176	2 056	2 030
Other operating expenses	5 778	5 872	6 418	6 217	5 306
Non-operating expenses	661	418	288	468	401
Total Expenses	11 268	10 933	11 238	11 185	10 222
Result from Ordinary Activities	1 573	2 723	2 550	3 240	505

Comment

Revenue from rates increased by \$0.605m in 2004-05. The increase was primarily due to the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties.

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.

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. Contributions from the State Government for the upgrade of the Arthur River Road of \$1.100m and \$0.250m were received in 2002-03 and 2003-04 respectively. Other revenue in 2003-04 also included contributions of \$0.100m for the Smithton Recreation Centre. Other revenue in 2004-05 included further contributions and donations for the Smithton Recreation Centre, including \$0.200m from the State Government and \$0.101m from the Australian Sports Foundation.

Non-operating revenue and expenditure represented the total proceeds from asset sales and the written down value of the assets sold. Sale proceeds in 2003-04, \$0.717m, included the proceeds from the sale of land of \$0.438m.

Borrowing costs decreased from \$0.236m in 2000-01 to \$0.066m in 2004-05 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. In 2002-03, Other operating expenses 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.

The decrease in Other operating expenses in 2004-05 of \$0.094m is due to a combination of factors including:

- \$0.430m expensed in 2003-04 for the extension of mobile phone services;
- A decrease in government fees and levies of \$0.154m due to the impact of the Reform Act, which resulted in the removal of the planning and library levies and the imposition of land tax;
- An increase in contractor costs of \$0.173m due, in part, to a negative adjustment made in 2003-04 of \$0.097m to capitalise a sewage treatment scheme incorrectly expensed in 2002-03;
- Increased engineering consultancy fees of \$0.085m which included pavement testing and road reconstruction design fees;
- Increased water purchases of \$0.041m; and
- Increased in doubtful debts expense of \$0.033m.

A surplus from ordinary activities totalling \$10.591m was recorded in the five years under review. As noted above, contributions for capital projects were received in 2001-02, 2002-03 and 2003-04, which contributed to the significant surpluses recorded in those years.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 044	686	691	370	170
Receivables	870	834	1 295	732	711
Investments	0	3 366	2 552	2 151	1 328
Inventories	47	106	124	131	65
Other	203	183	310	423	208
Total Current Assets	7 164	5 175	4 972	3 807	2 482
Payables	714	654	895	599	862
Borrowings	220	391	647	455	428
Provisions	208	624	540	431	396
Other	71	79	75	86	107
Total Current Liabilities	1 213	1 748	2 157	1 571	1 793
Working Capital	5 951	3 427	2 815	2 236	689
Property, plant and equipment	62 870	63 220	60 738	59 255	57 826
Investments	4 476	4 358	3 711	3 711	3 711
Other	0	0	143	373	581
Total Non-Current Assets	67 346	67 578	64 592	63 339	62 118
Borrowings	1 010	779	507	1 161	1 618
Provisions	390	20	65	47	62
Total Non-Current Liabilities	1 400	799	572	1 208	1 680
Net Assets	71 897	70 206	66 835	64 367	61 127
Reserves	5 207	5 089	4 442	4 442	4 442
Retained surpluses	66 690	65 117	62 393	59 925	56 685
Total Equity	71 897	70 206	66 835	64 367	61 127

Comment

At 30 June 2005 Council recorded total Cash and Investments of \$6.044m. In prior years, cash held in term deposits was recognised as Investments. In total, Council's cash and investments increased by \$1.992m in 2004-05. It is noted that Council has significant cash reserves, which are expected to be spent on future capital projects.

The balance of Receivables at 30 June 2003 of \$1.295m included a debtor of \$0.440m relating to grant funding.

Property, plant and equipment increased by \$2.482m in 2003-04 due to significant capital works including \$1.820m relating to the new Smithton Community Recreation Centre and \$1.068m for the reconstruction of Mella Road.

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 each year from 2000-01 to 2002-03. In 2003-04 and 2004-05 the carrying value of this asset was revalued upwards by \$0.647m and \$0.118m respectively to reflect changes to Council's share of equity in the Authority.

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, and this was collected in 2004-05.

The increased Payables balance at 30 June 2001 was due to several large capital creditors for work performed on the Smithton Recreation Centre. The Payables balance at 30 June 2003 of \$0.895m included \$0.618m relating to the mobile phone project. The balance at 30 June 2004 included a \$0.296m progress claim relating to the Smithton Recreation Centre. The Payables balance at 30 June 2005 of \$0.714m included a number of large creditors relating to engineering fees, bridge works and gravel crushing.

Borrowings decreased from \$2.046m at 30 June 2001 to \$1.230m at 30 June 2005 due to principal repayments totalling \$1.766m less new loans of \$0.950m.

In 2004-05, a new method for calculating the current liability for long service leave was adopted. Previously, the current liability represented the leave due to employees who were currently entitled to the leave. At 30 June 2005, the current liability represents the amount of leave Council expects to pay during 2005-06.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	10 559	10 739	10 936	12 328	8 744
Payments to suppliers and employees	(8 835)	(9 259)	(9 170)	(9 752)	(7 507)
Interest received	319	300	231	156	158
Borrowing costs	(76)	(100)	(150)	(199)	(248)
Cash from operations	1 967	1 680	1 847	2 533	1 147
Payments for property, plant and equipment	(2 569)	(5 081)	(3 874)	(3 948)	(2 650)
Proceeds from sale of property, plant and equipment	190	717	228	279	178
Cash used in investing activities	(2 379)	(4 364)	(3 646)	(3 669)	(2 472)
Proceeds from borrowings	450	500	0	0	0
Repayment of borrowings	(390)	(484)	(462)	(430)	(406)
Cash from financing activities	60	16	(462)	(430)	(406)
Cash Flows from Government	2 344	3 477	2 983	2 589	2 346
Net increase/(decrease) in cash	1 992	809	722	1 023	615
Cash at the beginning of the period	4 052	3 243	2 521	1 498	883
Cash at end of the period	6 044	4 052	3 243	2 521	1 498

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 capital works relating to the Smithton Recreation Centre and Mella Road (refer comments under the Financial Position section of this Report).

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. The first four financial periods also included Roads to Recovery funding of approximately \$0.400m in each year.

Council has recorded cash surpluses from operations in all five years under review.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		2 044	2 424	2 610	3 429	728
Operating margin	>1.0	1.19	1.23	1.24	1.32	1.07
Financial Management						
Current ratio	>1	5.91	2.96	2.31	2.42	1.38
Cost of debt	7.5%	6.7%	7.8%	9.8%	10.2%	10.4%
Debt service ratio		3.7%	4.5%	4.5%	4.4%	6.2%
Debt collection	30 days	34	34	37	34	34
Creditor turnover	30 days	31	22	32	22	40
Capital Exp/Depreciation	100%	112%	229%	178%	192%	131%
Other information						
Employee Costs as a % of Operating Expenses		23.26%	22.22%	20.27%	21.07%	22.90%
Staff numbers FTEs		51	50	50	47	47
Average staff costs (\$'000s)		50	49	49	52	51

Comment

The financial performance ratios show that Council recorded positive results from operating activities in all five financial years under review. The total result from operating activities for the period under review amounted to \$11.235m.

Council's Current ratio was consistently above the benchmark and indicated that Council was able to meet all short-term liabilities. The significant increase in 2004-05 was due to the increase in cash and investments, as noted under the Financial Position section of this Report.

Council's Cost of debt decreased from 10.4% in 2000-01 to 6.7% in 2004-05. This was the first year that the cost of debt had been below the benchmark of 7.5% and reflects the repayment of loans with higher interest rates. 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 above the benchmark in three of the years under review. The ratio for 2000-01, 40 days, included a significant amount of creditors 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. As noted under the Financial Position section, the Payables balance at 30 June 2005 included a number of large creditors relating to engineering fees, bridge works and gravel crushing. This resulted in a creditor turnover figure of 31 days, slightly higher than the benchmark.

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.

It is noted however that Council has adopted the cost basis for accounting for its infrastructure assets. It is likely the use of a valuation basis would see a significant increase in the carrying amount of Property, plant and equipment and the associated depreciation charge. It was recommended to Council that it consider changing this policy as it relates to long-lived infrastructure assets. This would enable a more reliable assessment as to whether or not Council is making adequate annual investment in infrastructure.

OVERALL COMMENT

In the five years under review, Council recorded a total operating Result from Ordinary Activities of \$10.591m. During this period, Council's cash and net working capital positions improved significantly.

It was recommended that Council adopt a valuation basis for measuring the carrying value of its long-lived infrastructure assets.

The 2004-05 audit was completed with satisfactory results.

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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 5 September 2005 and an unqualified audit report was issued on 4 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	8 463	7 440	7 152	6 865	6 582
User Charges	1 542	1 492	1 099	862	644
Grants	5 161	4 828	4 481	4 346	3 857
Other operating revenue	2 189	1 933	2 236	2 106	1 613
Non-operating revenue	398	687	371	405	373
Total Revenue	17 753	16 380	15 339	14 584	13 069
Employee costs	5 670	5 250	5 152	4 134	3 817
Borrowing costs	143	142	226	298	403
Depreciation	3 048	2 758	2 723	2 619	2 595
Other operating expenses	5 920	6 250	5 520	5 079	4 404
Non-operating expenses	460	436	224	436	28 158
Total Expenses	15 241	14 836	13 845	12 566	39 377
Result from Ordinary Activities	2 512	1 544	1 494	2 018	(26 308)

Comment

Rate revenue increased steadily over the five years of the analysis, from \$6.582m in 2000-01 to \$8.463m in 2004-05. This averages at an approximate increase per annum of \$0.376m. The increase of \$1.023m in the current financial year was due to:

- An increase in the general rate of 3.5%;

- An increases in the number of both serviced and unserviced properties, partly due to the ability to rate government entities; and
- A new charge for Refuse Disposal of \$0.232m.

Grant revenue gradually increased over the five-year period due to additional funding for a number of projects and programs. These included roadwork 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 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.

Employee Costs increased by \$1.853m over the five years, at an average of \$0.371m per annum. This rise is principally due to wage increases earned over the period of analysis. The increase in 2004-05 is also caused by the introduction of payroll tax on 1 July 2004.

Other operating expenses through to 2003-04 increased in line with increases in maintenance of infrastructure assets and additional project expenditure on programs funded by grant revenue. The current year's expenditure decreased to \$5.920m, principally due to the reduction in the valuation expenditure of \$0.322m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 106	6 436	6 660	5 919	4 444
Receivables	1 238	478	814	759	883
Inventories	2	10	3	5	7
Other	0	0	0	110	0
Total Current Assets	7 346	6 924	7 477	6 793	5 334
Payables	1 064	812	734	938	580
Borrowings	350	557	540	558	584
Provisions	557	464	482	428	414
Total Current Liabilities	1 971	1 833	1 756	1 924	1 578
Working Capital	5 375	5 091	5 721	4 869	3 756
Property, plant and equipment	89 335	83 867	78 418	75 906	75 405
Total Non-Current Assets	89 335	83 867	78 418	75 906	75 405
Borrowings	449	785	1 322	1 843	2 796
Provisions	450	475	183	195	153
Total Non-Current Liabilities	899	1 260	1 505	2 038	2 949
Net Assets	93 811	87 698	82 634	78 737	76 212
Reserves	15 470	11 663	8 897	5 795	4 365
Retained surpluses	78 341	76 035	73 737	72 942	71 847
Total Equity	93 811	87 698	82 634	78 737	76 212

Comment

Council's high level of cash is due to the government grants received, which are gradually being spent on both capital and maintenance works.

The reduction in debtors in 2003-04 was partly 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*. The increase in Receivables noted in 2004-05 is due to a loss incurred by the Esperance Multi Purpose Health Centre. Council has an agreement in place with the State Government that it will fund any deficit incurred by the centre.

The increase in payables in 2004-05 is the result of high level of deposits held on behalf of developers.

The increases in Property, plant and equipment in each of the past three years is principally attributable to capital expenditure and to the asset revaluations of land and buildings, building contents and bridges. These revaluation increments amounted to \$2.403m in the 2002-03 year, \$3.519m in 2003-04 and \$3.602m in 2004-05.

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

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	11 659	10 847	10 068	9 490	8 709
Payments to suppliers and employees	(11 840)	(11 141)	(10 712)	(8 897)	(10 034)
Interest received	360	354	365	230	255
Borrowing costs	(151)	(156)	(237)	(307)	(415)
Cash from operations	28	(96)	(516)	516	(1 485)
Payments for property, plant and equipment	(5 244)	(4 999)	(3 010)	(2 872)	(985)
Proceeds from sale of property, plant and equipment	267	562	326	229	373
Cash used in investing activities	(4 977)	(4 437)	(2 684)	(2 643)	(612)
Repayment of borrowings	(542)	(519)	(540)	(743)	(579)
Cash from financing activities	(542)	(519)	(540)	(743)	(579)
Cash Flows from Government	5 161	4 828	4 480	4 346	3 857
Net increase/(decrease) in cash	(330)	(224)	740	1 476	1 181
Cash at the beginning of the period	6 436	6 660	5 920	4 444	3 263
Cash at end of the period	6 106	6 436	6 660	5 920	4 444

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.

Payments for property, plant and equipment were low during the 2000-01 financial year as funds were focussed towards maintenance work. The results from then on were more in line with Council's normal capital cycle.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		2 574	1 293	1 347	2 049	1 477
Operating margin	>1.0	1.17	1.09	1.77	1.77	1.72
Financial Management						
Current ratio	>1	3.73	3.78	4.26	3.53	3.38
Cost of debt	7.5%	8.2%	8.4%	8.4%	9.0%	9.0%
Debt service ratio		4.0%	4.3%	5.2%	7.4%	7.8%
Debt collection	30 days	37	16	28	28	36
Creditor turnover	30 days	20	22	25	38	29
Capital Exp/Depreciation	100%	172%	181%	111%	110%	38%
Other information						
Employee costs as a % of operating expenses		38%	36%	38%	34%	34%
Staff numbers FTEs		122	96	93	98	92
Average staff costs (\$'000s)		46	55	55	42	41

Comment

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

The Cost of debt ratio is above the benchmark, as Council was locked into some borrowing agreements that have interest rates higher than those rates that are currently available in the market. However, total borrowings are less than \$0.800m and the vast majority will be repaid within three years, so the impact of the higher rates is dropping. 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 the end of that year had driven this ratio lower. The large increase at the end of 2004-05 does not indicate any change in debtor management, but is due to the large debtor relating to the deficit funding for the Multi-Purpose Centre. 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 and 2004-05 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 bench-mark, reflected Council's focus towards maintenance in that year, as mentioned previously.

The increase in staff numbers to 122 in 2004-05 is due to the inclusion of the staff members at the Esperance Multi-Purpose Health Centre for the first time.

OVERALL COMMENT

The audit of the Council's 2004-05 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 in excess of 31 500 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Financial statements were signed on 30 September 2005 and an unqualified audit report was issued on 28 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	20 685	19 726	18 586	17 350	16 728
Grants	4 207	3 632	3 315	3 525	3 405
Other operating revenue	2 803	2 581	2 305	2 091	2 231
Non-operating revenue	7 876	5 654	3 531	2 694	1 936
Total Revenue	35 571	31 593	27 737	25 660	24 300
Employee costs	7 572	7 215	6 444	6 127	5 951
Borrowing costs	70	90	117	145	180
Depreciation	7 563	6 736	6 287	5 757	5 449
Other operating expenses	12 485	11 884	11 115	10 617	9 821
Non-operating expenses	785	781	625	693	1 153
Total Expenses	28 475	26 706	24 588	23 339	22 554
Result from Ordinary Activities	7 096	4 887	3 149	2 321	1 746

Comment

Total revenue increased from \$31.593m in 2003-04 to \$35.571m in 2004-05. The main contributors to the increase were rates and fire levies, \$0.994m, non-cash contributions by developers, \$1.753m, and grants, \$0.576m. Rate revenue increased by 5.69% over the previous year. Rising employee costs over the five years reflected increased staffing levels to service the growing needs of the region.

Depreciation increased by \$2.114m over the period in line with higher asset values caused by subdivisional assets taken over and higher revaluations.

Non-operating revenue in each of the years included the value of subdivision infrastructure assets taken over by Council. In 2004-05 this amounted to \$6.243m.

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

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 076	137	284	(381)	287
Receivables	1 331	922	782	909	1 162
Investments	11 212	12 175	9 117	7 223	6 448
Inventories	105	91	92	89	106
Other	2	22	4	54	38
Total Current Assets	13 726	13 347	10 279	7 894	8 041
Payables	2 424	1 748	1 098	1 171	1 136
Borrowings	74	86	197	290	312
Provisions	1 461	1 276	1 060	1 051	954
Other	998	1 151	901	828	760
Total Current Liabilities	4 957	4 261	3 256	3 340	3 162
Working Capital	8 769	9 086	7 023	4 554	4 879
Infrastructure, property, plant and equipment	283 032	267 244	243 807	221 228	215 502
Investments	12 009	12 009	11 460	11 460	11 460
Other	5	10	14	20	28
Total Non-Current Assets	295 046	279 263	255 281	232 708	226 990
Borrowings	508	582	669	865	1 155
Provisions	343	341	331	229	117
Total Non-Current Liabilities	851	923	1 000	1 094	1 272
Net Assets	302 964	287 426	261 304	236 168	230 597
Capital	167 782	160 537	157 814	157 044	154 464
Reserves	133 892	125 710	101 763	77 158	73 607
Retained surpluses	1 290	1 179	1 727	1 966	2 526
Total Equity	302 964	287 426	261 304	236 168	230 597

Comment

In 2003-04, Council increased its investments by \$3.607m to \$24.184m of which \$0.549m related to the revaluation of Council's interest in Hobart Water.

Variations in current investments over the five-year period are principally the result of incomplete capital works programs, with the unspent, but allocated, funding being placed in short-term investments until required to fund those incomplete or deferred projects.

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.

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 2004-05 resulted in increments to the revaluation reserve totalling \$8.443m for the year. Principal increments related to road pavements, \$4.821m, water services, \$1.390m, and stormwater drainage assets, \$1.180m.

These annual indexed revaluations are undertaken between periods of full revaluations. The last full revaluation was performed in 2000-01 with the next scheduled for 2005-06.

Movements in Infrastructure, property, plant and equipment in the last three years reflect substantial increases arising from revaluations that increased the values attributed to roads (by \$26.131m; 2005: \$4.821m), water, stormwater and sewerage works (by \$16.880m; 2005: \$3.539m), and bridges and minor infrastructure (by \$1.441m; 2005: \$0.083m). Additions to non-current assets of \$33.465m (2005: \$15.693m), including the developer contributions referred to above, more or less balanced out depreciation of \$20.587m (2005: \$7.563m).

Council continues to maintain a low level of Borrowings which are minor and decreasing over the period.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	23 191	21 951	20 709	19 366	18 343
Payments to suppliers and employees	(21 346)	(17 966)	(17 401)	(16 395)	(15 649)
Interest received	824	652	502	410	496
Borrowing costs	(74)	(97)	(117)	(151)	(190)
Cash from operations	2 595	4 540	3 693	3 230	3 000
Payments for property, plant and equipment	(9 450)	(5 779)	(4 710)	(6 953)	(6 647)
Proceeds from sale of property, plant and equipment	1 099	710	545	608	502
Cash used in investing activities	(8 351)	(5 069)	(4 165)	(6 345)	(6 145)
Repayment of borrowings	(82)	(192)	(284)	(303)	(372)
Cash from financing activities	(82)	(192)	(284)	(303)	(372)
Cash Flows from Government	5 814	3 632	3 315	3 525	3 405
Net increase/(decrease) in cash	(24)	2 911	2 559	107	(112)
Cash at the beginning of the period	12 312	9 401	6 842	6 735	6 847
Cash at end of the period	12 288	12 312	9 401	6 842	6 735

Comment

Over the five-year period Council invested \$33.539m in property, plant and equipment including infrastructure. The source of this funding was cash from operations of \$17.058m and government grants of \$19.691m. Over the same period Council reduced debt by \$1.233m. Council borrowings stood at \$0.582m at 30 June 2005.

It was significant that Council was able to re-invest the funds generated from funding depreciation, \$30.539m over five years, while at the same time maintaining strong cash reserves currently \$12.288m, including short-term investments.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		5	14	243	320	963
Operating margin	>1.0	1.00	1.00	1.01	1.01	1.04
Financial Management						
Current ratio	>1	2.77	3.13	3.16	2.36	2.54
Cost of debt	7.5%	10.4%	10.4%	9.3%	9.8%	12.3%
Debt service ratio		0.6%	1.1%	1.7%	2.0%	2.5%
Debt collection	30 days	23	17	15	19	25
Creditor turnover	30 days	47	43	30	25	28
Capital Exp/Depreciation		125%	86%	75%	121%	122%
Other information						
Employee costs as a % of operating expenses		27%	28%	27%	27%	28%
Staff numbers FTEs		167	157	152	162	151
Average staff costs (\$'000s)		48	48	45	40	42

Comment

The Result from operations over the five-year period (i.e. operating revenue less operating expenses) showed a small surplus of \$1.545m over the period of review compared with the result from ordinary activities, including non-operating revenues and expenses, totalling \$19.199m. 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.

The 2004-05 audit was completed with satisfactory results.

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 Birrallee in the north to Liena in the south. The Council services a population of approximately 18 200 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2005 and an unqualified audit report was issued on 1 November 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	9 142	8 629	8 128	7 655	7 642
User charges	1 702	1 819	1 637	1 378	1 182
Grants	3 304	3 986	4 094	4 471	3 430
Other operating revenue	1 204	1 021	882	640	814
Non-operating revenue	396	1 051	293	375	1 421
Total Revenue	15 748	16 506	15 034	14 519	14 489
Employee costs	3 290	3 017	2 817	2 563	2 552
Borrowing costs	0	0	0	0	70
Depreciation	3 860	3 727	3 544	3 353	3 221
Other operating expenses	6 804	6 464	6 587	6 343	5 866
Non-operating expenses	285	2 212	702	539	189
Total Expenses	14 239	15 420	13 650	12 798	11 898
Result from Ordinary Activities	1 509	1 086	1 384	1 721	2 591

Comment

Revenue from rates increased steadily during the period under review, resulting in an increase of \$1.500m, or 20%, over the five-year period. Additional rates of \$0.147m were received during 2004-05 as a result of impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties

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.

Employee costs increased from \$3.017m in 2003-04 to \$3.290m in the 2004-05 year due mainly to:

- An increase in total wages paid due principally to the employment of additional staff; and
- The imposition of payroll tax as a result of changes under the Reform Act of \$0.134m.

The above increases were offset by a decrease in government contributions and levies of \$0.361m due to the removal of the library and planning levies.

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 years under review. There were no subdivisions taken over during 2004-05.

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

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	631	325	516	607	528
Receivables	660	579	857	931	990
Investments	10 730	8 872	5 692	5 554	4 000
Inventories	93	91	76	33	43
Other	55	42	109	100	61
Total Current Assets	12 169	9 909	7 250	7 225	5 622
Payables	769	676	789	966	403
Provisions	768	751	693	538	552
Other	215	145	95	87	96
Total Current Liabilities	1 752	1 572	1 577	1 591	1 051
Working Capital	10 417	8 337	5 673	5 634	4 571
Property, plant and equipment	123 089	114 416	114 240	108 204	107 359
Investments	10 446	9 732	11 464	11 462	11 462
Other	0	0	0	28	56
Total Non-Current Assets	133 535	124 148	125 704	119 694	118 877
Provisions	75	73	51	84	63
Total Non-Current Liabilities	75	73	51	84	63
Net Assets	143 877	132 412	131 326	125 244	123 385
Reserves	15 773	28 299	28 299	23 516	23 378
Retained surpluses	128 104	104 113	103 027	101 728	100 007
Total Equity	143 877	132 412	131 326	125 244	123 385

Comment

Council's investment funds have grown steadily over the five years under review as surplus funds have been invested to fund future infrastructure replacement.

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.

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. Further revaluations of land, buildings, water, sewerage and bridge assets were undertaken during 2004-05 resulting in a net increment of \$9.242m to both property, plant and equipment and the asset revaluation reserve.

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. An increase

of \$0.714m was recorded during 2004-05 and the increment recorded in Council's asset revaluation reserve.

As noted above, non-current asset revaluations increased the asset revaluation reserve balance by \$9.956m. This increase was offset by a transfer of \$22.482m from the reserve to retained surpluses. The transfer represented the balance of prior year road and street revaluation increments that became unavailable for future asset write-downs as a result of using the deemed cost election upon the adoption of AASB 1041 "Revaluation of Non-Current Assets" during 2001-02.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	12 079	12 070	11 209	10 119	9 710
Payments to suppliers and employees	(10 700)	(10 308)	(10 674)	(8 966)	(9 247)
Interest received	661	545	394	311	456
Borrowing costs	0	0	0	0	(89)
Cash from operations	2 040	2 307	929	1 464	830
Payments for investments	(1 859)	(3 180)	(140)	(1 554)	(4 000)
Payments for property, plant and equipment	(3 575)	(3 731)	(5 132)	(4 433)	(4 806)
Proceeds from sale of property, plant and equipment	396	427	158	132	232
Cash used in investing activities	(5 038)	(6 484)	(5 114)	(5 855)	(8 574)
Repayment of borrowings	0	0	0	0	(674)
Cash from financing activities	0	0	0	0	(674)
Cash Flows from Government	3 304	3 986	4 094	4 470	3 430
Net increase/(decrease) in cash	306	(191)	(91)	79	(4 988)
Cash at the beginning of the period	325	516	607	528	5 516
Cash at the end of the period	631	325	516	607	528

Comment

Council repaid the remainder of outstanding loan balances during the 2000-01 year. Surplus funds of \$10.773m have been transferred to investment accounts over the last five years in order to fund future infrastructure replacement.

Interest receipts increased steadily over the period under review as a result of more active management of investment funds combined with increases in the average cash and investment holdings each year.

Payments for property, plant and equipment amounted to \$4.806m in 2000-01, of which \$1.879m related to work-in-progress. The majority of these payments were for the Hadspen/Carrick 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	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		1 398	2 247	1 793	1 885	1 359
Operating margin	>1.0	1.10	1.17	1.14	1.15	1.12
Financial Management						
Current ratio	>1	6.95	6.30	4.60	4.54	5.35
Cost of debt	7.5%	-	-	-	-	-
Debt service ratio		-	-	-	-	5.8%
Debt collection	30 days	17	16	22	24	23
Creditor turnover	30 days	27	24	25	33	14
Capital Exp/ Depreciation		93%	100%	145%	132%	149%
Other information						
Employee costs as % of Operating Expenses		24%	23%	22%	21%	22%
Staff numbers FTEs		66	62	59	59	58
Average staff costs (\$'000s)		53	52	52	46	44

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 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 with the exception of 2004-05 (93%). Increased depreciation expense as a result of revaluations along with decreased capital expenditure during 2004-05 produced the decrease. Overall 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 \$8.682m. It has no debt and a healthy net working capital position.

The 2004-05 audit was completed with satisfactory results.

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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2005 and an unqualified audit report was issued on 26 August 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	8 550	8 038	7 739	7 466	7 583
User charges	1 979	1 819	1 438	1 059	884
Grants	4 327	3 918	3 874	2 883	2 458
Other operating revenue	1 354	1 309	979	580	620
Non-operating revenue	350	844	430	431	234
Total Revenue	16 560	15 928	14 460	12 419	11 779
Employee costs	3 488	3 057	3 166	3 118	3 144
Borrowing costs	242	224	259	279	324
Depreciation	2 446	2 526	2 530	2 410	3 088
Other operating expenses	6 130	6 551	5 749	5 745	5 371
Non-operating expenses	1 164	730	584	805	433
Total Expenses	13 470	13 088	12 288	12 357	12 360
Result from Ordinary Activities	3 090	2 840	2 172	62	(581)

Comment

Revenue from Rates increased during the period under review, resulting in a \$0.967m (or 12.75%) increase over the five-year period. Local Government reforms, implemented on 1 July 2004 resulted in Council being able to rate a number of government properties previously exempt. This contributed to the \$0.512m (6.37%) increase during 2004-05.

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 2000-01 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.

Grant revenue increased in 2004-05 by a further \$0.409m. The funding included a further \$0.692m to construct a sewerage scheme at Sisters Beach. In addition, Council received \$0.500m from each of the Federal and State Governments to construct an exhibition centre in Wynyard.

Other operating revenue increased by \$0.399m in 2002-03 due primarily to the receipt of \$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. 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 2003-04, the balance of \$0.844m reflected Council's success in selling land in its sub-division developments.

Employee costs have remained fairly constant over the five-year period under review. As part of the Local Government reforms process, Council became liable to pay payroll tax on 1 July 2004. Consequently, employee costs for 2004-05 include \$0.180m paid in payroll tax to the State.

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 in that year by \$0.599m. This change principally accounted for the negative Result from Ordinary Activities for that year. During 2001-02 and following years, a state-wide review of road accounting practices by the Tasmanian Audit Office in conjunction with all Councils, resulted in Council further reviewing 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. In 2004-05 Council's engineers reviewed the capitalised costs associated with the Boat Harbour Sewerage Scheme, which was recognised in 2003-04. This review indicated that some expenditure relating to initial planning and construction should have been expensed and not recognised as an asset. Consequently, Council wrote off \$0.567m relating to the sewerage scheme which was accounted for as disposal of assets in 2004-05.

For the five years under review, assisted by capital grants for the Boat Harbour and Sisters Beach Sewerage Schemes and for the construction of an exhibition centre in Wynyard referred to previously, Council returned a total positive Result from Ordinary Activities of \$7.583m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	305	304	712	221	851
Receivables	512	715	491	597	558
Investments	5 750	4 730	2 800	3 000	2 500
Inventories	158	138	182	223	254
Other	129	87	48	65	97
Total Current Assets	6 854	5 974	4 233	4 106	4 260
Payables	867	953	1 021	640	551
Borrowings	725	733	707	715	736
Provisions	882	741	848	922	874
Other	100	51	130	148	117
Total Current Liabilities	2 574	2 478	2 706	2 425	2 278
Working Capital	4 280	3 496	1 527	1 681	1 982
Property, plant and equipment	77 826	73 811	72 722	70 814	70 675
Investments	5 505	5 355	4 564	4 564	4 564
Other	76	134	70	43	84
Total Non-Current Assets	83 407	79 300	77 356	75 421	75 323
Borrowings	3 448	3 673	3 408	3 815	4 033
Provisions	142	152	136	120	127
Other	0	0	0	0	41
Total Non-Current Liabilities	3 590	3 825	3 544	3 935	4 201
Net Assets	84 097	78 971	75 339	73 167	73 104
Reserves	4 209	10 174	9 382	9 382	9 382
Retained surpluses	79 888	68 797	65 957	63 785	63 722
Total Equity	84 097	78 971	75 339	73 167	73 104

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. At 30 June 2005 investments increased by a further \$1.020m due to grant and loan funds held for the Sisters Beach Sewerage Scheme and the construction of the exhibition centre in Wynyard.

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 2005 the working capital was \$4.280m, giving a current ratio of 2.66, which represented a solid financial position.

Council measures the majority of its Property, plant and equipment at cost, with the exception of road infrastructure assets that are carried at

fair value. As at 30 June 2005, Council undertook a revaluation of its road assets resulting in a net increment of \$1.886m. The impact of the revaluation and capital works totalling \$2.147m on the Sisters Beach Sewerage Scheme are the primary reasons for the \$4.015m increase in Property plant and equipment in 2004-05.

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 net assets 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. During 2004-05 Council revalued its investment in Cradle Coast Water, with a further \$0.150m increase based upon its ownership interest at 30 June 2004.

Council's Reserves balance decreased by net \$5.965m in 2004-05. The decrease is primarily due to the transfer to retained surpluses of asset revaluation increments, totalling \$8.001m. This transfer should have been made some years ago when Council took advantage of the option available in Australian Accounting Standard AASB 1041 'Revaluation of Non-Current assets' whereby Councils could elect to deem the carrying amount of the majority of its non-current asset classes to be measured on a cost basis rather than on a revaluation basis. This transfer has no impact on Council's net equity. The decrease of \$8.001m was offset by revaluation increments totalling \$2.036m in 2004-05.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	11 998	11 467	10 579	9 589	9 092
Payments to suppliers and employees	(10 408)	(10 897)	(9 855)	(9 368)	(8 849)
Interest received	449	320	257	209	268
Borrowing costs	(245)	(216)	(262)	(281)	(327)
Cash from operations	1 794	674	719	149	184
Proceeds from investments	0	0	200	0	0
Payments for investments	0	(1 930)	0	(500)	(453)
Payments for property, plant and equipment	(5 217)	(4 204)	(4 576)	(3 354)	(2 211)
Proceeds from sale of property, plant and equipment	350	843	430	431	234
Cash used in investing activities	(4 867)	(5 291)	(3 946)	(3 423)	(2 430)
Proceeds from borrowings	500	1 000	300	500	500
Repayment of borrowings	(733)	(709)	(716)	(739)	(728)
Cash from financing activities	(233)	291	(416)	(239)	(228)
Cash Flows from Government	4 327	3 918	4 134	2 883	2 458
Net increase/(decrease) in cash	1 021	(408)	491	(630)	(16)
Cash at the beginning of the period	5 034	712	221	851	867
Cash at end of the period	6 055	304	712	221	851

Comment

Cash at the end of 2004-05 totalled \$6.055m. It is noted that for 2004-05, Council amended its definition of cash to include cash and investment balances. In the prior periods under review, the cash balance excluded the investments balance. It is for this reason that cash of \$5.034m, recorded as being available at the beginning of 2004-05, differs from cash of \$0.304m at 30 June 2004.

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 private work projects.

Council maintained its investment in Property, plant and equipment throughout the period investing a total of \$19.562m in non-current assets compared with the depreciation expense for the same period totalling \$13.000m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		3 904	2 726	2 326	436	(382)
Operating margin	>1.0	1.32	1.22	1.20	0.63	0.97
Financial Management						
Current ratio	>1	2.66	2.41	1.56	1.69	1.87
Cost of debt	7.5%	5.8%	5.9%	6.0%	5.5%	5.7%
Debt service ratio		6.0%	6.1%	7.0%	8.5%	9.1%
Debt collection	30 days	22	32	23	29	27
Creditor turnover	30 days	32	37	43	30	32
Capital Exp/Depreciation	100%	213%	166%	181%	139%	72%
Other information						
Employee costs as % of operating expenses		28%	25%	27%	27%	26%
Staff numbers FTEs		85	81	71	71	71
Average staff costs (\$'000s)		45	42	46	47	46

Comment

The financial performance ratios show that Council recorded an operating surplus in four of the five years under review. In 2004-05, results from operations revealed a surplus of \$3.904m, the best result within the five-year period. This was predominantly due to higher revenues from Rates, User charges and Grants while operating costs were contained to levels below those incurred in 2003-04. The higher grant funding related to capital projects.

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 improved still further 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 for the period 2002-03 to 2004-05 due to Government funding of both the Boat Harbour and Sisters Beach Sewerage Schemes.

Average staff costs increased slightly mainly due to the need for Council to pay payroll tax effective 1 July 2004.

OVERALL COMMENT

In the five years under review Council recorded a total operating surplus (excluding non-operating items) of \$9.010m, and its net assets grew by 15% over the period to \$84.097m. This provides enough evidence to suggest that Council is in a sound financial position.

The 2004-05 audit was completed with satisfactory results.

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 19 400 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 14 September 2005 and an unqualified audit report was issued on 27 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	10 684	9 902	9 463	9 203	9 562
User charges	2 260	2 097	1 885	1 633	1 068
Grants	2 216	2 145	2 150	2 012	3 011
Other operating revenue	978	889	800	756	743
Non-operating revenue	2 012	899	158	466	1 459
Total Revenue	18 150	15 932	14 456	14 070	15 843
Employee costs	4 603	4 183	3 920	3 710	3 420
Borrowing costs	160	175	202	215	224
Depreciation	3 583	3 212	3 374	3 201	3 255
Other operating expenses	6 556	6 504	5 935	5 845	5 627
Non-operating expenses	3 039	630	69	136	539
Total Expenses	17 941	14 704	13 500	13 107	13 065
Result from Ordinary Activities	209	1 228	956	963	2 778

Comment

Revenue from Rates increased by \$0.439m in 2003-04 due mainly to a rise in the general rate levied on properties of 3.5%. Similarly, the increase in rate revenue in 2004-05 of \$0.782m was mainly due to a 6% rise in the general rate. The 2004-05 revenue was also impacted by the Reform Act, which resulted in the rating of previously exempt properties such as Crown Land.

The high level of grant funding in 2000-01, \$3.011m, was mainly attributable to 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 subdivision assets taken over by Council (\$0.684m) and a profit on disposal of property, plant and equipment (\$0.215m). In 2004-05, non-operating revenue consisted of subdivision assets taken over by Council (\$1.880m) and a profit on disposal of property, plant and equipment (\$0.132m).

The increase in employee expenses in 2004-05, \$0.420m, was due to an increase in total wages paid and the imposition of payroll tax as a consequence of changes under the Reform Act.

Depreciation expense increased by \$0.371m in 2004-05 as a result of the revaluation of roads, bridges, sewerage, water and building assets effective 1 July 2004. Previously, these asset classes were recognised on the cost basis.

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 garbage collection and recycling costs;
- Increased community grant funding;
- Payments for the purchase of land under roads; and
- Computer software upgrades and back-scanning of records.

Other operating expenses increased by a further \$0.052m in 2004-05 from \$6.504m in 2003-04 to \$6.556m in 2004-05. The 2004-05 expenditure included:

- Repair costs of \$0.166m relating to storm damage in February 2005;
- Costs associated with valuation services of \$0.090m;
- An increase in bulk water purchases of \$0.051m; and
- The imposition of land tax (\$0.032m) as a result of the Reform Act.

The above increases were offset by a decrease in statutory contributions of \$0.227m due to the removal of the library levy under the Reform Act.

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 major component of the 2004-05 Non-operating expenditure of \$3.039m is a

revaluation decrement relating to water infrastructure and bridge assets of \$2.947m.

Council recorded surpluses from ordinary activities totalling \$6.134m in the five years under review. The receipt of Roads to Recovery funding of \$1.083m and non-operating revenue of \$1.459m in 2000-01 contributed to the surplus recorded in that year of \$2.778m. The surpluses recorded in 2003-04 (\$1.228m) and 2004-05 (\$0.209m) were also impacted by non-operating revenue in those years of \$0.899m and \$2.012m respectively. In 2004-05, the non-operating revenue was offset by a revaluation decrement of \$2.947m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 576	5 657	5 713	5 777	5 829
Receivables	600	575	940	909	1 184
Inventories	168	142	124	126	110
Other	210	190	128	209	306
Total Current Assets	7 554	6 564	6 905	7 021	7 429
Payables	930	560	515	688	698
Borrowings	342	808	836	809	759
Provisions	945	864	773	655	572
Other	77	65	42	52	70
Total Current Liabilities	2 294	2 297	2 166	2 204	2 099
Working Capital	5 260	4 267	4 739	4 817	5 330
Property, plant and equipment	141 689	94 247	92 782	92 324	91 241
Investments	17 891	15 378	13 860	13 822	13 822
Other	51	26	37	44	53
Total Non-Current Assets	159 631	109 651	106 679	106 190	105 116
Borrowings	1 907	1 949	2 291	2 827	3 235
Provisions	146	305	209	175	169
Other	10	0	0	0	0
Total Non-Current Liabilities	2 063	2 254	2 500	3 002	3 404
Net Assets	162 828	111 664	108 918	108 005	107 042
Reserves	111 382	60 427	58 909	58 909	58 909
Retained surpluses	51 446	51 237	50 009	49 096	48 133
Total Equity	162 828	111 664	108 918	108 005	107 042

Comment

Council's cash balance increased by \$0.919m in 2004-05 due mainly to increased revenue from rates. Council held \$6.576m in cash and investments at 30 June 2005, which will assist with future sewerage and stormwater capital expenditure and to meet Council's current liabilities.

Total Borrowings decreased from \$3.994m at 30 June 2001 to \$2.249m at 30 June 2005 due to loan principal repayments being in excess of loan proceeds over that period. The decrease in the current liability from

\$0.808m at 30 June 2004 to \$0.342m at 30 June 2005 was due to the maturity of four loans during 2004-05.

Property, plant and equipment increased by \$47.442m during 2004-05 due mainly to the revaluation of roads, bridges, sewerage, water and building assets on 1 July 2004. Revaluation increments in respect of land, buildings, roads and sewerage assets credited to the Asset Revaluation Reserve totalled \$48.442m. This was offset by the revaluation decrement relating to water infrastructure and bridge assets of \$2.947m that was included in the Statement of Financial Performance as an expense.

The major component of Non-current investments is Council's interest in Esk Water. The investment was revalued in each of the past three financial years to reflect the increase in Council's share of the net assets of Esk Water.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	14 301	13 737	12 607	12 179	11 768
Payments to suppliers and employees	(11 664)	(11 344)	(10 677)	(10 111)	(9 653)
Interest received	415	369	349	370	346
Borrowing costs	(161)	(176)	(203)	(215)	(224)
Cash from operations	2 891	2 586	2 076	2 223	2 237
Proceeds from investments	0	509	0	0	1 873
Payments for investments	(790)	0	(960)	(746)	(1 627)
Payments for property, plant and equipment	(4 040)	(4 875)	(3 914)	(4 204)	(3 602)
Proceeds from sale of property, plant and equipment	359	442	145	271	238
Cash used in investing activities	(4 471)	(3 924)	(4 729)	(4 679)	(3 118)
Proceeds from borrowings	300	500	300	400	500
Repayment of borrowings	(808)	(854)	(819)	(754)	(757)
Cash from financing activities	(508)	(354)	(519)	(354)	(257)
Cash Flows from Government	2 216	2 145	2 150	2 012	3 011
Net increase/(decrease) in cash	128	453	(1 022)	(798)	1 873
Cash at the beginning of the period	641	188	1 210	2 008	135
Cash at the end of the period	769	641	188	1 210	2 008

Comment

An increase in cash of \$0.128m was recorded in 2004-05. It is noted that Council's total Cash and Short Term Deposits amounted to \$6.576m at 30 June 2005, compared with \$5.657m at 30 June 2004. This represented an overall increase in total funds held of \$0.919m. The difference between the overall increase of \$0.919m and the increase in the Cash Flow Statement \$0.128m is represented by the payments for short-term investments of \$0.790m.

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.

Payments for property, plant and equipment in 2004-05 of \$4.040m included road reconstructions, development of a waste transfer station at Bowens Jetty Road and improvements at the Riverside swimming pool.

Council recorded a net increase in cash in 2000-01 of \$1.873m, which was mainly attributable to the receipt of the Roads to Recovery funding of \$1.083m and transfers from short-term investments of \$0.246m. The investment of cash into short term investments contributed to cash deficits recorded in 2001-02 and 2002-03 of \$0.798m and \$1.022m respectively.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		1 236	959	867	633	1 858
Operating margin	>1.0	1.08	1.07	1.06	1.05	1.15
Financial Management						
Current ratio	>1	3.29	2.86	3.19	3.19	3.54
Cost of debt	7.5%	6.2%	6.3%	6.4%	6.4%	5.6%
Debt service ratio		6.0%	6.9%	7.1%	7.1%	6.8%
Debt collection	30 days	17	17	30	31	41
Creditor turnover	30 days	27	16	15	17	27
Capital Exp/Depreciation	100%	113%	152%	116%	131%	111%
Other information						
Employee Costs as % of Operating Expenses		30.89%	29.72%	29.19%	28.60%	27.30%
Staff numbers FTEs		87	84	83	80	79
Average staff costs (\$'000s)		55	51	48	48	43

Comment

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

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

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

The debt collection ratio decreased from 41 days in 2000-01 to 17 days in 2004-05 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% in all five 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 chapter).

Average staff costs increased from \$0.051m in 2003-04 to \$0.055m in 2004-05 due to a combination of:

- The imposition of payroll tax from 1 July 2004 (\$0.218m); and
- Pay rises under Council's Enterprise Bargaining Agreement.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations (excluding non-operating items) of \$5.553m. Council's total cash position also improved during this period.

The 2004-05 audit was completed with satisfactory results.

3 OTHER 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 performance of the following Councils:

	Population
Break O'Day;	6 000
Brighton;	13 700
Central Highlands;	2 600
Dorset;	7 450
Latrobe; and	8 350
Southern Midlands.	5 500

The audits of other medium and small councils were incomplete at the date of preparation of this Report. Reports on those Councils together with comparative analyses of Medium Councils and Small Councils will be included in my next Report.

3.1 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 19 August 2005 and an unqualified audit report was issued on 7 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	4 851	3 866	3 659	3 517	3 288
User charges	1 139	1 035	884	521	509
Grants	2 387	2 478	2 972	2 378	2 058
Other operating revenue	626	422	236	259	237
Non-operating revenue	235	0	69	0	10
Total Revenue	9 238	7 801	7 820	6 675	6 102
Employee costs	2 348	2 240	1 928	1 949	1 786
Borrowing costs	106	114	121	101	117
Depreciation	2 244	2 000	1 968	1 852	1 631
Other operating expenses	3 264	3 379	2 874	2 906	2 513
Non-operating expenses	0	633	0	46	0
Total Expenses	7 962	8 366	6 891	6 854	6 047
Result from Ordinary Activities	1 276	(565)	929	(179)	55

Comment

Revenue from rates increased by \$0.985m in 2004-05. The increase was due to a combination of factors including:

- The impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties;

- An increase in the rates and charges set by Council, including the minimum charge to be applied; and
- The impact of supplementary valuations during the year.

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 relates to gains on the sale of property, plant and equipment. The gain on sale in 2004-05 of \$0.235m is mainly comprised of a profit on disposal of land assets of \$0.296m.

Employee costs increased from \$2.240m in 2003-04 to \$2.348m in 2004-05 due mainly to:

- An increase in total wages paid due principally to the employment of additional staff. During 2003-04, there was an increase in the number of full-time equivalents (FTEs) from 45 to 50. The full impact of these new employees was not realised until 2004-05;
- The imposition of payroll tax as a result of changes under the Reform Act; and
- An increase in training costs for staff.

The effect of the above increases was offset by an increase in the amount of wages capitalised, from \$0.116m in 2003-04 to \$0.326m in 2004-05.

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.

Other operating expenses include government fees and levies, which decreased from \$0.334m in 2003-04 to \$0.291m in 2004-05. The decrease was primarily due to the impact of the Reform Act, which resulted in the removal of the library and planning levies and the imposition of land tax.

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. The increase in depreciation expense of \$0.244m in 2004-05 was mainly due to the impact of the revaluation of sewerage assets on 30 June 2004 and water assets on 1 July 2004.

Non-operating expenses in 2001-02 and 2003-04 related to losses incurred on the sale of property, plant and equipment.

A surplus from ordinary activities totalling \$1.516m was recorded in the five years under review.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 704	4 530	3 417	1 669	1 006
Receivables	271	421	342	541	907
Investments	654	621	2	2	2
Inventories	139	144	103	91	99
Other	240	252	256	275	451
Total Current Assets	8 008	5 968	4 120	2 578	2 465
Payables	926	782	398	395	326
Borrowings	144	162	150	214	233
Provisions	657	524	412	317	338
Total Current Liabilities	1 727	1 468	960	926	897
Working Capital	6 281	4 500	3 160	1 652	1 568
Property, plant and equipment	56 396	50 558	49 963	50 687	49 822
Other	0	36	90	126	0
Total Non-Current Assets	56 396	50 594	50 053	50 813	49 822
Borrowings	1 902	1 429	1 292	1 355	1 586
Provisions	28	39	17	37	15
Other	0	36	90	126	0
Total Non-Current Liabilities	1 930	1 504	1 399	1 518	1 601
Net Assets	60 747	53 590	51 814	50 947	49 789
Reserves	64 185	56 468	53 146	50 007	49 129
Retained surpluses	(3 438)	(2 878)	(1 332)	940	660
Total Equity	60 747	53 590	51 814	50 947	49 789

Comment

The balance of cash and investment assets has increased from \$1.008m at 30 June 2001 to \$7.358m at 30 June 2005. The increase was mainly attributable to increased revenue from rates, government grants and fees and charges and a concerted effort by Council to recover outstanding debts. It is noted that Council has budgeted to spend \$4.000m in 2005-06 on a new sewage treatment plant at St Helens.

In the first three years under review, Borrowings decreased from \$1.819m to \$1.442m. However, new loans totalling \$0.300m and \$0.616m were drawn down in June 2004 and 2005 respectively to finance the St Helens Sewage Treatment Plant project. This resulted in the Borrowings balance increasing to \$2.046m at 30 June 2005.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 799	5 457	5 268	4 820	3 996
Payments to suppliers and employees	(5 791)	(6 044)	(5 153)	(5 122)	(4 483)
Interest received	362	265	169	85	67
Borrowing costs	(107)	(104)	(123)	(117)	(148)
Cash from operations	1 263	(426)	161	(334)	(568)
Proceeds from investments	0	0	0	0	350
Payments for investments	(88)	(192)	0	0	0
Payments for property, plant and equipment	(2 491)	(1 346)	(1 348)	(1 382)	(1 155)
Proceeds from sale of property, plant and equipment	649	449	184	222	294
Cash used in investing activities	(1 930)	(1 089)	(1 164)	(1 160)	(511)
Proceeds from borrowings	616	300	0	0	0
Repayment of borrowings	(162)	(150)	(221)	(303)	(270)
Cash from financing activities	454	150	(221)	(303)	(270)
Cash Flows from Government	2 387	2 478	2 972	2 460	1 976
Net increase/(decrease) in cash	2 174	1 113	1 748	663	627
Cash at the beginning of the period	4 530	3 417	1 669	1 006	379
Cash at the end of the period	6 704	4 530	3 417	1 669	1 006

Comment

Before taking into account cash flows from Government, the Council recorded cash deficits from operations in three of the five years under review. A cash surplus of \$1.263m was recorded in 2004-05, which was mainly due to increased revenue from rates, as detailed in the Financial Performance section of this Report. The position after including receipts from government for operational purposes shows strong cash flows from operations in each year under review.

Payments for property, plant and equipment totalled \$2.491m in 2004-05, an increase of \$1.145m from 2003-04. Major capital projects included Gardens Road, Ansons Bay Road, the St Helens Sewage Treatment Plant and Industrial Estate development works.

The sale proceeds in 2004-05 of \$0.649m included \$0.409m relating to the sale of land assets. 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	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		1 041	68	860	(133)	45
Operating margin	>1.0	1.13	1.01	1.12	0.98	1.01
Financial Management						
Current ratio	>1	4.64	4.07	4.29	2.78	2.75
Cost of debt	7.5%	6.3%	6.6%	7.1%	7.6%	8.3%
Debt service ratio		3.0%	3.3%	4.4%	6.3%	6.9%
Debt collection	30 days	17	25	28	67	73
Creditor turnover	30 days	20	16	21	19	16
Capital Exp/Depreciation	100%	111%	67%	68%	75%	71%
Other information						
Employee costs as % of operating expenses		29%	29%	28%	29%	30%
Staff numbers FTEs		51	50	45	46	47
Average staff costs (\$'000s)		52	47	46	46	41

Comment

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

Council's Current ratio increased from 2.75 at 30 June 2001 to 4.64 at 30 June 2005 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 four years to 30 June 2004. However the level of capital expenditure increased in 2004-05, resulting in a ratio of 111%. It is noted that this capital expenditure includes capitalised labour costs of \$0.326m.

The Cost of debt has gradually reduced from 8.3% in 2000-01 to 6.3% in 2004-05 due to lower interest rates on the loans drawn down in 2003-04 and 2004-05 and the repayment of loans with higher interest rates. The Debt service ratio has also reduced over the same period from 6.9% to 3.0% caused by decreasing debt repayments and higher revenues. The lower ratio indicates Council is better able to service its debt.

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 further in the subsequent two years, reflecting Council's continued focus on debt recovery.

Average staff costs increased from \$0.047m in 2003-04 to \$0.052m in 2004-05 due to a combination of:

- The imposition of payroll tax from 1 July 2004;
- The full impact of the increase in the number of FTEs in 2003-04 not being recognised in the payroll expense for that financial year (refer comments made under the Financial Performance section of this chapter); and
- The introduction of Council's first Enterprise Bargaining Agreement effective 1 July 2004.

OVERALL COMMENT

In the five years to 30 June 2005, Council recorded a total operating surplus (excluding non-operating items) of \$1.881m. During this period Council's cash and net working capital positions improved significantly.

The 2004-05 audit was completed with satisfactory results.

3.2 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 13 700.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Council's financial statements were signed on 28 October 2005 and an unqualified audit report was issued on 31 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates, fees and charges	8 743	8 338	7 755	7 157	7 074
Grants	2 364	2 511	2 258	2 061	1 900
Other operating revenue	916	484	402	336	322
Non-operating revenue	4 843	1 005	420	670	1 914
Total Revenue	16 866	12 338	10 835	10 224	11 210
Employee costs	2 443	2 396	2 113	1 990	1 989
Borrowing costs	353	389	426	460	491
Depreciation	1 738	1 857	1 853	1 775	2 006
Other operating expenses	6 550	6 293	5 971	5 789	5 767
Non-operating expenses	0	0	1 559	31	113
Total Expenses	11 084	10 935	11 922	10 045	10 366
Result from Ordinary Activities	5 782	1 403	(1 087)	179	844

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. In 2004-05 the increase of \$3.838m was mainly attributable to contributions towards the Brighton Training Facility, \$2.432m, and increase in contributions for infrastructure assets, \$1.331m.

Non-operating expenses generally reflected the undepreciated balance of asset disposals.

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 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. 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 45% 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 two of the years under review. Depreciation on road assets was a probable major contributing factor. Road depreciation reduced in 2001-02 to \$0.630m due to a change in Council's accounting policy with regard to useful lives. In 2002-03 road depreciation stabilised at around this level despite a further reassessment of road component lives and road condition. These changes contributed to improved surpluses before non-operating revenues and expenses of \$0.052m and \$0.398m in 2002-03 and 2003-04 respectively.

For 2004-05 the operating surplus before non-operating revenue was \$0.939m. This was attributable to increased income from rates, fees and charges due to normal rises, increased other operating revenue arising from greater private works activity and a decrease in depreciation expense, following a reassessment of the useful lives of water, sewerage and drainage assets. These factors were partly offset by higher operating expenses.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 506	1 597	996	693	322
Receivables	1 138	643	918	957	1 082
Inventories	0	159	159	177	190
Other	204	185	161	95	162
Total Current Assets	3 848	2 584	2 234	1 922	1 756
Payables	246	6	3	71	42
Borrowings	526	505	478	446	414
Provisions	542	527	415	376	402
Other	1 884	1 077	784	631	633
Total Current Liabilities	3 198	2 115	1 680	1 524	1 491
Working Capital	650	469	554	398	265
Property, plant and equipment	88 329	73 603	73 070	68 596	68 963
Investments	6 229	5 799	5 453	6 873	6 873
Other	31	85	95	104	115
Total Non-Current Assets	94 589	79 487	78 618	75 573	75 951
Borrowings	4 090	4 693	5 251	5 728	6 175
Provisions	66	28	89	89	67
Total Non-Current Liabilities	4 156	4 721	5 340	5 817	6 242
Net Assets	91 083	75 235	73 832	70 154	69 974
Reserves	31 185	21 119	21 119	16 353	16 353
Retained surpluses	59 898	54 116	52 713	53 801	53 621
Total Equity	91 083	75 235	73 832	70 154	69 974

Comment

A 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. Revaluations in 2004-05 of bridges, water, sewerage and drainage assets together with additions relating to works at Brighton Training Facility and developer contributions resulted in an increase of \$14.636m in Property, plant and equipment.

Receivables at 30 June 2005 totalled \$1.138m, which included rate receivables of \$0.261m, \$0.206m in relation to water consumption and other debtors of \$0.795m, which included \$0.547m in relation to the Brighton Training Facility.

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 Council's net working capital position, achieved at the same time as increased investments in capital works and aided by the improved operating result in 2004-05.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	12 100	9 334	8 376	7 930	7 337
Payments to suppliers and employees	(8 748)	(8 878)	(8 405)	(8 181)	(7 582)
Interest received	180	147	108	83	68
Borrowing costs	(266)	(389)	(426)	(468)	(604)
Cash from operations	3 266	214	(347)	(636)	(781)
Payments for property, plant and equipment	(4 601)	(1 836)	(1 500)	(789)	(836)
Proceeds from sale of property, plant and equipment	343	103	220	34	138
Other	175	148	129	127	0
Cash used in investing activities	(4 083)	(1 585)	(1 151)	(628)	(698)
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	(638)	(539)	(457)	(425)	(536)
Cash from financing activities	(638)	(539)	(457)	(425)	(536)
Cash Flows from Government	2 364	2 511	2 258	2 060	1 900
Net increase/(decrease) in cash	909	601	303	371	(115)
Cash at the beginning of the period	1 597	996	693	322	437
Cash at end of the period	2 506	1 597	996	693	322

Comment

Council maintained cash and investment balances at an average of \$1.223m over the five-year period. At the same time, borrowings of \$2.595m were repaid resulting in a significant reduction in annual borrowing costs.

The increase in payments for property plant and equipment in 2004-05 mainly relates to the development of the Brighton Training Facility.

Government grants constituted 14.0% of revenue in 2004-05 and this cash inflow, together with net cash inflows from operations, \$3.266m, more than offset the investment in property, plant and equipment, \$4.601m, and repayments of borrowings. The \$0.909m improvement in cash position at 30 June 2005 includes an increase of \$0.671m in deposits held in trust.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		939	398	52	(460)	(957)
Operating margin	>1.0	1.08	1.04	1.01	0.95	0.91
Financial Management						
Current ratio	>1	1.20	1.22	1.33	1.26	1.18
Cost of debt	7.5%	7.6%	7.5%	7.4%	7.5%	7.5%
Debt service ratio		7.5%	8.2%	8.5%	9.3%	12.3%
Debt collection	30 days	42	26	42	49	56
Creditor turnover	30 days	9	0	0	5	3
Capital Exp/Depreciation		265%	99%	81%	44%	42%
Other information						
Employee costs as a % of operating expenses		22%	22%	20%	20%	19%
Staff numbers FTEs		49	43	41	41	40
Average staff costs (\$'000s)		50	56	52	49	50

Comment

Over much of the period of review Council's operating result has steadily improved and for the last three years has been positive.

Depreciation on road assets was a major contributing factor to the deficits in 2000-01 and 2001-02. 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, the average number of days taken to collect debtors remained consistently high, with the exception of 2003-04. For 2004-05 the ratio was affected by the higher than normal level of other debtors as noted earlier in this report.

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.

Since 2002-03 Council's ratio of Capital expenditure to depreciation improved, indicating it has begun to fund a sufficient level of capital expenditure, to ensure that asset replacement is consistent with the depreciation charges. In 2004-05 this ratio improved significantly due to increased level of capital works relating to the Brighton Training Facility.

While staff numbers increased in 2004-05 average staff costs decreased due to changes in the staff mix.

OVERALL COMMENT

The 2004-05 audit was completed with satisfactory results.

3.3 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 29 August 2005, with amended statements received on 10 October 2005. A **qualified audit report** was issued on 31 October 2005.

The qualification related to a contract Council entered into, in October 2004, for the provision of road construction services totalling \$3.212m. Council did not seek tenders when approving this contract.

The failure to invite tenders for this contract contravened Section 346 of the *Local Government Act 1993*, which requires a council to invite tenders for any contract valued at or above \$50 000.

I was advised by representatives of Council that the decision not to go to tender was made by the then General Manager who had apparently told the Council that it was not necessary to go to tender.

The financial statements appropriately record transactions to date relating to this contract. Expenditure to 30 June 2005 totalled \$1.198m. However, I am not in a position to quantify the effects, if any, on the contract sum had Council invited tenders. Further details are provided later in the summary.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	2 067	1 691	1 570	1 523	1 451
User charges	3 758	1 612	426	465	498
Grants	1 901	2 009	3 356	2 071	1 790
Other operating revenue	542	607	256	298	249
Non-operating revenue	207	410	116	273	273
Total Revenue	8 475	6 329	5 724	4 630	4 261
Employee costs	1 665	1 489	1 365	1 318	1 277
Borrowing costs	0	0	0	0	1
Depreciation	2 482	2 795	3 051	2 369	2 376
Other operating expenses	2 488	1 978	2 195	2 023	2 081
Non-operating expenses	231	1 714	177	362	289
Total Expenses	6 866	7 976	6 788	6 072	6 024
Result from Ordinary Activities	1 609	(1 647)	(1 064)	(1 442)	(1 763)

Comment

Revenue from rates increased by \$0.376m in 2004-05. The increase was primarily due to the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties.

User charges in 2003-04 and 2004-05 include special funding of \$1.052m and \$2.721m respectively. This funding forms part of a partnership agreement between the Council and the State Government for the Shack Sites road works project. At 30 June 2005, Council had expended \$1.198m of these funds, which is recorded as Work-in-progress.

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 these years.

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. In the 2004-05 year, Other operating revenue includes \$0.170m relating to the recognition of Council land not previously recorded, which was identified through the municipal property valuation.

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 \$0.177m to \$1.714m reflected the write-off

of the carrying amount of 10 kilometres of Hollow Tree Road. The Council reconstructed the road and capitalised \$1.415m during 2003-04.

Employee expenses have increased steadily over the five-year period under review. In 2004-05, the expense includes \$0.039m relating to payroll tax, which became payable from 1 July 2004 as part of the local government reform process.

Depreciation expense increased during 2002-03 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 initial four years under review. The surplus in 2004-05 is inflated because revenue includes \$2.721m funding from the State Government for a Shack Sites road works project. The corresponding expenditure will be capitalised and recorded on the Statement of Financial Position. The deficits recorded by Council are predominantly a result of it not budgeting to cover all operating expenses, particularly depreciation.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	4 357	3 292	2 542	2 056	1 910
Receivables	362	195	191	353	290
Inventories	23	29	38	39	52
Other	97	97	114	79	94
Total Current Assets	4 839	3 613	2 885	2 527	2 346
Payables	260	124	82	203	52
Borrowings	14	14	14	14	0
Provisions	479	492	485	513	471
Other	55	62	37	23	29
Total Current Liabilities	808	692	618	753	552
Working Capital	4 031	2 921	2 267	1 774	1 794
Property, plant and equipment	93 687	59 604	61 916	32 099	33 451
Other	24	31	30	37	43
Total Non-Current Assets	93 711	59 635	61 946	32 136	33 494
Borrowings	14	29	43	58	0
Provisions	42	47	43	38	32
Total Non-Current Liabilities	56	76	86	96	32
Net Assets	97 686	62 480	64 127	33 814	35 256
Reserves	69 235	34 345	33 652	2 301	2 457
Retained surpluses	28 451	28 135	30 475	31 513	32 799
Total Equity	97 686	62 480	64 127	33 814	35 256

Comment

Council's cash balances increased in both 2003-04 and 2004-05 primarily due to the receipt of \$1.052m and \$2.721m respectively. This funding forms part of a partnership agreement between the Council and the State Government, as mentioned previously. It is expected that \$2.624m will be expended in 2005-06 relating to the completion of the Shack Sites road works project.

The decrease in Receivables from \$0.353m in 2001-02 to \$0.191m in 2002-03 was due largely to Council actively pursuing rate debtors. Both rate and sundry debtors increased in 2004-05, but Council is taking appropriate action to recover the outstanding amounts.

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 was due to the timing of ongoing expense payments. The Payables balance at 30 June 2005 increased by \$0.136m primarily due to material capital creditor amounts outstanding, totalling \$0.180m relating to the Shack Sites road works project.

During 2001-02 Council repaid all its secured borrowings. The balances in current and non-current Borrowings from 2001-02 to 2004-05 represented a financing agreement for the supply of Council's computer system.

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. During 2004-05, Council undertook another revaluation of roads, bridges, drainage, sewerage, water, footpath, kerb and gutter assets to ensure the validity of its fair values relating to infrastructure assets. The revaluation process resulted in a revaluation increment of \$33.597m, which represents the majority of the movement in Property plant and equipment, \$34.083m, between 2003-04 and 2004-05.

As noted previously, Council has received State Government funding to complete the Shack Sites road works project. At the completion of the project, the ownership of the roads will be transferred to Council. Council has entered into an agreement with an external contractor for the completion of the project, for a contract sum of \$3.212m (subject to variation). At 30 June 2005, Council had expended \$1.198m, with a further \$2.624m expected to be paid in 2005-06. The current expenditure has been recorded in Work-in-progress and will be allocated to the appropriate infrastructure asset class on completion of the project.

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.

In 2004-05 reserves increased by \$34.890m as a result of the recognition of the asset revaluation increment, \$33.597m being transferred to the asset revaluation reserve and other reserve transfers.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 816	4 488	2 847	2 593	2 512
Payments to suppliers and employees	(4 921)	(4 076)	(4 125)	(3 453)	(3 739)
Interest received	231	168	129	146	128
Borrowing costs	0	0	0	0	(1)
Cash from operations	2 126	580	(1 149)	(714)	(1 100)
Proceeds from investments	7	7	4	4	2
Payments for property, plant and equipment	(3 029)	(2 063)	(1 647)	(1 307)	(542)
Proceeds from sale of property, plant and equipment	207	410	116	273	73
Cash used in investing activities	(2 815)	(1 646)	(1 527)	(1 030)	(467)
Repayment of borrowings	(15)	(14)	(13)	0	(13)
Cash from financing activities	(15)	(14)	(13)	0	(13)
Cash Flows from Government	1 769	1 830	3 175	1 890	1 600
Net increase/(decrease) in cash	1 065	750	486	146	20
Cash at the beginning of the period	3 292	2 542	2 056	1 910	1 890
Cash at the end of the period	4 357	3 292	2 542	2 056	1 910

Comment

The positive cash from operations in 2003-04 and 2004-05 was the result of the receipt of funding for Shack Sites roadworks, \$1.052m and \$2.721m respectively.

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 Road works 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 Road of \$0.673m, plant purchases including a backhoe and excavator of \$0.303m, and the Bothwell sewerage upgrade totalling \$0.386m.

In 2004-05, Council's expenditure in Payments for property, plant and equipment included \$1.111m on the Shack Sites road works project, \$0.516m on a new grader and truck, \$0.451m for the Bothwell Re-Use facility, \$0.120m for the completion of the independent living units and \$0.111m relating to the Hamilton waste disposal site.

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.

Council recorded cash surpluses from operations in all five years under review. However, as noted previously the completion of the Shack Sites road works project and the expected expenditure of \$2.624m will have a significant impact on the cash position in 2005-06.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		1 633	(343)	(1 003)	(1 353)	(1 747)
Operating margin	>1.0	1.25	0.95	0.85	0.76	0.70
Financial Management						
Current ratio	>1	5.99	5.22	4.67	3.36	4.25
Cost of debt	7.5%		-	-	-	-
Debt service ratio		0.2%	0.2%	0.2%	0.0%	0.4%
Debt collection	30 days	23	22	32	62	54
Creditor turnover	30 days	25	18	8	22	7
Capital Exp/Depreciation	100%	122%	74%	54%	55%	23%
Other information						
Employee costs as % of operating expenses		25%	24%	21%	23%	22%
Staff numbers FTEs		36	32	35	34	34
Average staff costs (\$'000s)		48	50	45	42	39

Comment

The financial performance ratios show that Council did not record an operating surplus in the initial four years under review. Excluding the \$2.721m State Government funding Council received for the Shack Sites road works project, a deficit would also have been recorded in 2004-05. The deficits 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.

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 2000-01 and 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.

In 2004-05, capital expenditure was significantly greater than the annual depreciation expense due to the work undertaken on the Shack Sites road works project, which is being fully funded by the State Government. If this

project is excluded from our analysis, Council's current level of capital expenditure is consistently below annual depreciation charges. This indicates that Council is eroding the current service potential of its infrastructure assets.

Employee costs, as a percentage of operating expenses were 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 FTE numbers. In 2004-05, average staff costs include payroll tax, which was effective 1 July 2004.

OVERALL COMMENT

In the five years under review, Council recorded total operating deficits (excluding non-operating items) of \$2.813m, although its net assets increased by \$62.430m over this period to \$97.686m, as a result of asset revaluations.

Non-current assets decreased by \$6.542m (before asset revaluations) over the five-year period, primarily due to depreciation expense of \$13.073m exceeding investment in property, plant and equipment of \$8.588m. This suggests that the Council should monitor its asset replacement policy to ensure its long-term sustainability.

The 2004-05 audit was completed with satisfactory results, however as noted previously a qualified audit report was issued because Council contravened Section 346 of the *Local Government Act 1993*, which requires a council to invite tenders for any contract valued at or above \$50 000.

3.4 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2005 and an unqualified audit report was issued on 28 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	4 739	4 009	3 771	3 326	3 341
User Charges	1 109	1 342	1 515	1 221	1 059
Grants	3 226	3 543	3 959	3 189	2 663
Other operating revenue	384	296	248	261	269
Non-operating revenue	473	342	325	192	253
Total Revenue	9 931	9 532	9 818	8 189	7 585
Employee costs	2 419	2 313	2 124	2 055	1 882
Borrowing costs	72	57	49	30	14
Depreciation	3 911	3 746	2 831	2 758	2 684
Other operating expenses	3 731	3 746	4 480	3 058	2 534
Non-operating expenses	465	369	269	183	297
Total Expenses	10 598	10 231	9 753	8 084	7 411
Result from Ordinary Activities	(667)	(699)	65	105	174

Comment

Revenue from rates increased from \$3.341m in 2000-01 to \$4.739m in 2004-05, a total increase of \$1.398m or 42%. 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 resulting in an increase in this area of \$0.300m from the prior year. Council introduced two-part water pricing during 2001-02 for the

Scottsdale and Bridport townships. Council levied substantial rate increases over the last two financial years to address prior year under-rating and high spending on capital works. The impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land, also added \$0.211m during 2004-05.

User charges decreased by \$0.173m during 2003-04, and by a further \$0.233m during 2004-05. The main factor in the decrease was the closure of the Simplot Australia Pty Ltd factory during December 2003, which was a major trade waste and water user.

Grant funding had 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. A further increase of \$0.165m was experienced during 2004-05, as a result of the revaluation of water, sewerage and stormwater assets as at 30 June 2004.

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. Other operating expenses during 2004-05 included payment for the municipal property revaluation and a contribution towards the Scottsdale Performing Arts Centre.

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.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 163	243	734	9	327
Receivables	491	825	863	561	545
Investments	0	4 300	4 100	4 200	3 500
Inventories	115	118	124	107	124
Other	132	86	41	99	86
Total Current Assets	6 901	5 572	5 862	4 976	4 582
Payables	368	309	1 108	256	318
Borrowings	177	159	136	129	53
Provisions	696	646	521	461	404
Other	361	236	172	247	224
Total Current Liabilities	1 602	1 350	1 937	1 093	999
Working Capital	5 299	4 222	3 925	3 883	3 583
Property, plant and equipment	113 113	111 593	97 894	70 468	70 215
Other	44	44	62	62	106
Total Non-Current Assets	113 157	111 637	97 956	70 530	70 321
Borrowings	1 005	739	873	709	247
Provisions	132	90	80	60	80
Other	0	0	0	0	38
Total Non-Current Liabilities	1 137	829	953	769	365
Net Assets	117 319	115 030	100 928	73 644	73 539
Reserves	45 029	42 692	27 890	618	618
Retained surpluses	72 290	72 338	73 038	73 026	72 921
Total Equity	117 319	115 030	100 928	73 644	73 539

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. During the 2004-05 year Council reviewed its cash policy and included term deposits previously shown as investments as cash.

Receivables decreased by \$0.334m during 2004-05 due to the closure of the Simplot Australia Pty Ltd factory. A debtor of \$0.369m was included at 30 June 2004, which was the final invoice for water usage and trade waste.

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. Further loans of \$0.460m were taken out during 2004-05 to assist with funding a Clearwater Reservoir at Bridport and the Performing Arts Centre at Scottsdale.

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. Sewerage, water and stormwater assets were revalued at 30 June 2004 resulting in a further net increment of \$14.802m. Land and building revaluations were undertaken based on information supplied by the Valuer-General as at 1 July 2004 and contributed \$1.973m to the total movement in the revaluation reserve of \$2.337m.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	6 881	6 255	5 687	5 160	4 924
Payments to suppliers and employees	(6 474)	(7 295)	(6 467)	(5 674)	(4 724)
Interest received	339	246	237	176	216
Borrowing costs	(65)	(59)	(48)	(16)	(16)
Cash from operations	681	(853)	(591)	(354)	400
Proceeds from investments	0	0	100	0	0
Payments for investments	0	(200)	0	(700)	(600)
Payments for property, plant and equipment	(2 941)	(2 996)	(3 143)	(3 150)	(2 798)
Proceeds from sale of property, plant and equipment	370	127	228	158	233
Cash used in investing activities	(2 571)	(3 069)	(2 815)	(3 692)	(3 165)
Proceeds from borrowings	460	25	300	570	300
Repayment of borrowings	(176)	(136)	(107)	(53)	(186)
Cash from financing activities	284	(111)	193	517	114
Cash Flows from Government	3 226	3 543	3 959	3 189	2 663
Net increase/(decrease) in cash	1 620	(490)	746	(340)	12
Cash at the beginning of the period	4 543	733	(13)	327	315
Cash at end of the period	6 163	243	733	(13)	327

Comment

Receipts from customers steadily increased over the period under review. There has been a corresponding increase in Payments to suppliers and employees. The larger increase in payments during 2004-05 was due to the \$1.106m (including GST) payment made for the Networking the Nation project.

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 subsequent years as the additional loans taken out began to be repaid.

Over the five-year period under review, Council invested net surplus cash of \$1.400m. 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. The majority of expenditure during 2004-05, once again, was on road and bridge infrastructure and totalled \$1.309m, with remaining payments including \$0.345m on water infrastructure, \$0.196m on sewerage infrastructure and \$0.785m on plant and equipment. Major items of plant and equipment included a backhoe and five trucks.

During the 2004-05 year Council reviewed its cash policy and included term deposits previously shown as investments as cash. It is for this reason that cash at the beginning of 2004-05, \$4.543m, did not equal cash at the end of 2003-04, \$0.243m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		(675)	(672)	9	96	218
Operating margin	>1.0	0.93	0.93	1.00	1.01	1.03
Financial Management						
Current ratio	>1	4.31	4.13	3.03	4.55	4.59
Cost of debt	7.5%	6.1%	6.1%	5.8%	6.2%	5.9%
Debt service ratio		2.5%	2.1%	1.6%	0.9%	2.8%
Debt collection	30 days	31	56	60	45	45
Creditor turnover	30 days	20	17	53	15	22
Capital Exp/Depreciation	100%	75%	80%	111%	114%	104%
Other information						
Employee costs as a % of operating expenses		24%	23%	22%	26%	26%
Staff numbers FTEs		48	50	49	49	49
Average staff costs (\$'000s)		54	50	48	46	42

Comment

The financial performance ratios show that 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 Australia Pty Ltd factory during the year which was a major

trade waste and water user. A further loss was incurred during 2004-05. Depreciation continued to not be fully funded and was also greater than budgeted due to the impact of the revaluations at 30 June 2004.

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 for the first four years under review. The increase in 2002-03 was due to an increase in rate debtors of \$0.068m and increases in other debtors of \$0.234m. Council took action under the provisions of the *Local Government Act 1993* during 2003-04 to recover outstanding rate debts resulting in rate debts reducing to \$0.151m at 30 June 2004. However, a large trade waste user charge and quarterly water usage charges for the Scottsdale and Bridport townships were raised in June 2004 and were not yet due for payment at 30 June, keeping the ratio at a high level. The 2004-05 debt collection ratio was consistent with benchmark.

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.

The average capital expenditure to depreciation ratio was near the benchmark for the five years under review. The ratio decreased during the last two years due to the increase in depreciation following the revaluation of road infrastructure previously referred to and slightly decreased capital expenditure.

OVERALL COMMENT

In the five years under review, Council recorded a total operating deficit (excluding non-operating items) of \$1.024m.

The 2004-05 audit was completed with satisfactory results.

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 8 350 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 7 September 2005 and an unqualified audit report was issued on 19 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	5 952	5 474	5 238	5 049	4 909
User Charges	886	960	732	703	763
Grants	1 053	1 181	1 274	1 028	1 886
Other operating revenue	667	569	471	402	406
Non-operating revenue	1 724	587	545	134	72
Total Revenue	10 282	8 771	8 260	7 316	8 036
Employee costs	2 535	2 211	1 862	1 535	930
Borrowing costs	136	112	106	91	87
Depreciation	2 066	1 876	1 690	1 585	1 284
Other operating expenses	4 213	3 796	3 606	3 727	4 106
Non-operating expenses	575	571	418	365	937
Total Expenses	9 525	8 566	7 682	7 303	7 344
Result from Ordinary Activities	757	205	578	13	692

Comment

Revenue from rates increased by \$0.478m in 2004-05. The increase was mainly due to the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land.

Revenue from user charges includes private works, which amounted to \$0.204m in 2003-04 compared with \$0.084m in 2004-05. The majority of the increased revenue in 2003-04 related to work undertaken by Council

staff in connection with the completion of services at a development in Latrobe.

The increased grant revenue in 2000-01 of \$1.886m was mainly attributable to funding of \$0.700m for Bakers Beach Road.

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. Non-operating revenue in 2004-05 included proceeds from the disposal of assets of \$0.857m and the recognition of subdivision assets of \$0.867m. The subdivision assets included road assets and water, sewerage and stormwater infrastructure.

Employee costs increased from \$0.930m in 2000-01 to \$1.535m in 2001-02 due mainly to the impact of 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.

Employee costs increased by \$0.324m in 2004-05 due mainly to:

- An increase in total wages paid caused by pay rises, the employment of additional staff and the payment of a redundancy; and
- The imposition of payroll tax as a result of changes under the Reform Act.

Borrowing costs increased from \$0.112m in 2003-04 to \$0.136m in 2004-05 due to a \$0.500m loan drawn down in June 2004.

The increase in depreciation expense in 2001-02 of \$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. Council revalued its road, sewerage, stormwater, bridge and building assets during 2004-05. The impact of the revaluation was the primary reason for the increase in depreciation expense of \$0.190m.

Other operating expenses rose by \$0.417m in 2004-05 due to a combination of factors including:

- Storm damage repair costs of \$0.194m;
- The write-off of a project that was previously capitalised to work-in-progress of \$0.080m;
- Land tax of \$0.066m applicable from 1 July 2004 under the Reform Act;

- Costs of \$0.043m associated with the purchase and subsequent leaseback of computer equipment;
- Costs of \$0.040m associated with a waste transfer station site rehabilitation study;
- Increased building levy reimbursements of \$0.032m;
- Legal fees of \$0.025m incurred in relation to a planning appeal;
- Mersey Industrial Site Survey costs of \$0.025m;
- Increased general insurance costs of \$0.025m;
- Increased kerbside recycling costs of \$0.024m;
- Camp Banksia consultation costs of \$0.015m; and
- Increased valuation costs of \$0.014m.

The above increases were offset by a decrease in government contributions and levies of \$0.159m due to the removal of the library and planning levies under the Reform Act.

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 \$2.245m. The government funding of \$0.700m for Bakers Beach Road contributed to the Council recording a surplus of \$0.692m in 2000-01. Similarly, the financial result for 2004-05 was assisted by the recognition of subdivision assets of \$0.867m without which Council would have operated at a deficit for the year of \$0.110m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 455	1 163	714	841	1 073
Receivables	261	419	262	223	235
Investments	0	1 163	1 102	1 046	517
Inventories	15	7	6	5	0
Other	179	191	119	72	262
Total Current Assets	2 910	2 943	2 203	2 187	2 087
Payables	615	798	436	405	643
Borrowings	367	318	264	175	156
Provisions	282	399	322	302	191
Other	868	350	134	87	141
Total Current Liabilities	2 132	1 865	1 156	969	1 131
Working Capital	778	1 078	1 047	1 218	956
Property, plant and equipment	63 284	52 310	46 316	45 557	44 585
Investments	3 930	3 829	3 501	3 278	4 532
Other	164	152	0	0	0
Total Non-Current Assets	67 378	56 291	49 817	48 835	49 117
Borrowings	1 658	1 880	1 586	1 342	1 316
Provisions	259	99	64	34	33
Other	471	512	492	475	535
Total Non-Current Liabilities	2 388	2 491	2 142	1 851	1 884
Net Assets	65 768	54 878	48 722	48 202	48 189
Reserves	24 963	14 830	8 880	8 880	8 880
Retained surpluses	40 805	40 048	39 842	39 322	39 309
Total Equity	65 768	54 878	48 722	48 202	48 189

Comment

At 30 June 2005 Council recorded total Cash and Investments of \$2.455m. In prior years, cash held in term deposits was recognised as a separate balance in the financial statements called Investments. In total, Council's cash and investments increased by \$0.129m in 2004-05.

The Receivables balance at 30 June 2004 of \$0.419m included \$0.110m owing from the State Government for flood mitigation funding.

The Payables balance at 30 June 2004 included a significant creditor relating to the refurbishment of the Council offices at Latrobe.

The balance of other current liabilities includes bonds and deposits held by Council in relation to subdivisions, footpath crossings and contract retentions. The balance increased significantly in 2004-05 due to the receipt of monies in relation to three large subdivisions.

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. As mentioned previously, Council revalued its road, sewerage, stormwater, bridge and building assets during 2004-05. The total revaluation increment credited to the asset revaluation reserve was \$10.032m.

The decrease in non-current Investments in 2001-02, \$1.254m was due to the wind-up of the Kentish-Latrobe Joint Authority. 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. The increases in the non-current Investment balance since 30 June 2002 relate to the revaluation of Council's investment in Cradle Coast Water to reflect the Authority's equity balance.

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

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	8 666	7 201	6 645	6 455	6 195
Payments to suppliers and employees	(7 434)	(6 297)	(5 829)	(5 818)	(5 359)
Interest received	167	158	128	120	145
Borrowing costs	(136)	(112)	(106)	(91)	(87)
Cash from operations	1 263	950	838	666	894
Proceeds from investments	90	140	160	580	88
Payments for investments	(15)	(109)	(139)	(554)	(303)
Payments for property, plant and equipment	(2 833)	(2 388)	(2 538)	(2 130)	(2 720)
Proceeds from sale of property, plant and equipment	779	544	322	134	72
Cash used in investing activities	(1 979)	(1 813)	(2 195)	(1 970)	(2 863)
Proceeds from borrowings	0	500	200	200	200
Repayment of borrowings	(321)	(266)	(209)	(156)	(139)
Cash from financing activities	(321)	234	(9)	44	61
Cash Flows from Government	1 166	1 078	1 239	1 028	1 886
Net increase/(decrease) in cash	129	449	(127)	(232)	(22)
Cash at the beginning of the period	2 326	714	841	1 073	1 095
Cash at the end of the period	2 455	1 163	714	841	1 073

Comment

Cash at the end of 2004-05 totalled \$2.455m. It is noted that for 2004-05, Council amended its definition of cash to include cash and investment balances. In prior periods, the cash balance excluded investments. It is for this reason that cash at the beginning of 2004-05, \$2.326m, did not equal cash at the end of 2003-04, \$1.163m.

The increase in Receipts from customers in 2004-05 of \$1.465m was primarily due to:

- The receipt of significant bonds and deposits relating to subdivisions; and
- Increased revenue from rates, as noted under the section relating to Financial Performance.

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

Proceeds from sale of assets in 2003-04, \$0.544m, related to \$0.173m for plant sales and \$0.371m for land sales at the Latrobe and Port Sorell Industrial Estates. Proceeds from sale of assets in 2004-05, \$0.779m, comprised \$0.289m from plant sales and \$0.490m from land sales.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		(392)	189	451	244	1 557
Operating margin	>1.0	0.96	1.02	1.06	1.04	1.24
Financial Management						
Current ratio	>1	1.36	1.58	1.91	2.26	1.85
Cost of debt	7.5%	6.2%	6.2%	6.3%	6.4%	6.4%
Debt service ratio		5.3%	4.6%	4.1%	3.4%	2.8%
Debt collection	30 days	10	10	16	14	15
Creditor turnover	30 days	22	45	22	17	29
Capital Exp/Depreciation	100%	137%	127%	150%	134%	212%
Other Information						
Employee costs as % of operating expenses		28.32%	27.65%	25.63%	22.12%	14.52%
Staff numbers FTEs		56	52	45	46	19
Average staff costs (\$'000s)		49	47	46	41	49

Comment

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

The deficit in 2004-05 was due to operating costs increasing by 11.9% in total while operating revenues increased by only 4.7% in total.

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 service ratio has increased from 2.8% to 5.3%, which reflects the fact that Council had new borrowings in all years, except 2004-05. The ratio increased in 2004-05 due to high debt repayments.

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 212% was recorded in 2000-01 due to significant expenditure on road infrastructure assets.

Employee costs as a percentage of operating expenses and average staff costs for 2000-01 and 2001-02 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 \$2.049m. The negative result from operations in 2004-05 requires monitoring by Council, however it is acknowledged that without the unforeseen costs due to the storm damage, the negative operating result would have been just under \$0.200m.

The 2004-05 audit was completed with satisfactory results.

3.6 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2005 and an unqualified audit report was issued on 24 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Rates	2 882	2 665	2 577	2 434	2 481
User charges	650	586	577	578	679
Grants	3 169	3 647	3 108	3 798	4 111
Other operating revenue	217	288	275	131	189
Non-operating revenue	511	279	284	481	157
Total Revenue	7 429	7 465	6 821	7 422	7 617
Employee costs	1 738	1 724	1 420	1 572	1 550
Borrowing costs	99	115	97	105	107
Depreciation	2 446	2 444	2 595	2 485	2 497
Other operating expenses	2 618	2 367	2 931	3 423	3 663
Non-operating expenses	526	420	1 736	775	251
Total Expenses	7 427	7 070	8 779	8 360	8 068
Result from Ordinary Activities	2	395	(1 958)	(938)	(451)

Comment

Revenue from rates increased by 16% from \$2.481m in 2000-01 to \$2.882m in 2004-05, an increase over the five year period of \$0.401m. Rates for 2004-05 included \$0.049m additional revenue from the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties.

Grant revenue was higher during the first year 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, 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 increased in 2003-04 as it included additional roads to recovery funding. No such funding was received during 2004-05. This was partially offset by \$0.600m funding from the State Government to complete construction and seal works on Woodsdale Road.

Council undertook a revaluation of its road assets effective from 1 July 2003. As part of the revaluation, Council reviewed the useful lives and depreciation policies for road assets and as a result depreciation expense for roads decreased by \$0.202m in 2003-04, contributing to the overall decrease in depreciation expense during that 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 replacements. 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. The majority of disposals during 2004-05 were scheduled plant and equipment replacements, however proceeds of \$0.100m were also received for the sale of waste management facilities.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	3 131	370	386	441	451
Receivables	513	429	560	500	731
Investments	0	2 824	1 670	1 674	2 535
Inventories	220	202	216	193	159
Other	0	0	27	51	49
Total Current Assets	3 864	3 825	2 859	2 859	3 925
Payables	214	254	215	308	404
Borrowings	145	151	205	174	181
Provisions	445	395	331	241	220
Other	191	91	89	126	229
Total Current Liabilities	995	891	840	849	1 034
Working Capital	2 869	2 934	2 019	2 010	2 891
Property, plant and equipment	65 859	65 997	65 948	67 654	67 878
Other	146	144	184	0	15
Total Non-Current Assets	66 005	66 141	66 132	67 654	67 893
Borrowings	1 290	1 436	1 587	1 222	1 400
Provisions	39	63	64	28	32
Other	33	66	73	0	0
Total Non-Current Liabilities	1 362	1 565	1 724	1 250	1 432
Net Assets	67 512	67 510	66 427	68 414	69 352
Reserves	33 783	33 374	32 081	32 247	32 775
Retained surpluses	33 729	34 136	34 346	36 167	36 577
Total Equity	67 512	67 510	66 427	68 414	69 352

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. Rate debts continued to decrease over the period as Council took steps to turn receivables into cash. The increase in receivables at 30 June 2005 is primarily due to \$0.060m outstanding from the sale of assets.

The investment balance was at a higher level at 30 June 2001, due mainly to an increase in cash flows from Government of \$0.487m during the year. 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. During the current year Council reviewed its cash policy and has included term deposits previously shown as investments as cash.

Other current liabilities increased during 2004-05, mainly as a result of a change in policy whereby payroll tax and workers compensation on-costs

are now shown as a separate liability, rather than as part of the Provisions balances. The current year also includes an increased GST liability at 30 June 2005 of \$0.057m.

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 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 have been taken out during the last two financial years under review.

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, payable over five years. There is an equivalent asset in other Non-current assets.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	3 792	3 857	3 625	3 749	3 295
Payments to suppliers and employees	(4 645)	(4 309)	(4 895)	(5 525)	(5 445)
Interest received	163	177	112	110	162
Borrowing costs	(100)	(116)	(97)	(107)	(110)
Cash from operations	(790)	(391)	(1 255)	(1 773)	(2 098)
Proceeds from investments	570	0	4	861	0
Payments for investments	0	(1 154)	0	0	(785)
Payments for property, plant and equipment	(2 801)	(2 192)	(2 592)	(3 022)	(1 542)
Proceeds from sale of property, plant and equipment	511	279	284	481	157
Cash used in investing activities	(1 720)	(3 067)	(2 304)	(1 680)	(2 170)
Proceeds from borrowings	0	0	570	0	200
Repayment of borrowings	(152)	(205)	(174)	(185)	(169)
Cash from financing activities	(152)	(205)	396	(185)	31
Cash Flows from Government	3 169	3 647	3 108	3 628	4 127
Net increase/(decrease) in cash	507	(16)	(55)	(10)	(110)
Cash at the beginning of the period	370	386	441	451	561
Cash at end of the period	877	370	386	441	451

Comment

Cash from operations remained fairly stable over the first three 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 gradually decreased for the first three 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 subsequent years.

Net surplus funds of \$0.504m were invested during the five years under review.

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. Payments for property, plant and equipment amounted to \$2.801m during 2004-05 and included the purchase of a grader and multiple vehicles. Trade-in of similar items of plant was reflected in the higher proceeds from sale.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		17	536	(506)	(644)	(357)
Operating margin	>1.0	1.00	1.08	0.93	0.92	0.95
Financial Management						
Current ratio	>1	3.88	4.29	3.40	3.37	3.80
Cost of debt	7.5%	6.5%	6.5%	6.5%	7.0%	7.0%
Debt service ratio		3.6%	4.5%	4.1%	4.2%	3.7%
Debt collection	30 days	47	48	65	61	84
Creditor turnover	30 days	15	21	14	18	29
Capital Exp/Depreciation	100%	115%	90%	100%	122%	62%
Other information						
Employee costs as a % of operating expenses		25%	26%	20%	21%	20%
Staff numbers FTEs		44	45	45	49	43
Average staff costs (\$'000s)		47	43	37	35	36

Comment

The financial performance ratios show that Council incurred operating losses for the first three years under review. An operating surplus of \$0.536m was recorded during 2003-04 due to increased grant revenue and a lower than anticipated depreciation expense, due to the revaluations of infrastructure assets. A small operating surplus was also achieved during 2004-05.

The Debt collection ratio has been 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 subsequent years with the debt collection period down to 47 days for the 2004-05 year.

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

Average staff costs increased during 2004-05 due to enterprise bargaining pay increases and the imposition of payroll tax as a result of changes under the Reform Act, \$0.068m.

OVERALL COMMENT

In the five years under review Council recorded a total deficit result from operations (excluding non-operating items) of \$0.954m.

The 2004-05 audit was completed with satisfactory results.

4 LOCAL GOVERNMENT WATER AUTHORITIES

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 relevant legislation.

Currently there are three water authorities operating in Tasmania:

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

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..."

These three water authorities have been established similarly to those businesses operating under the GBE Act. They are subject to the National Taxation Equivalent Regime (NTER) and pay dividends to their owner councils.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Cradle Coast Water	Esk Water	Hobart Water
	\$'000s	\$'000s	\$'000s
Operating revenue	8 889	9 531	23 386
Non-operating revenue	93	48	725
Total Revenue	8 982	9 579	24 111
Borrowing costs	1 321	120	2 432
Depreciation	1 339	2 485	5 182
Other operating expenses	4 756	4 016	11 448
Non-operating expenses	78	86	192
Total Expenses	7 494	6 707	19 254
Result from ordinary activities	1 488	2 872	4 857
Income tax expense	(240)	(972)	(1 485)
Result after taxation	1 248	1 900	3 372

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 48% of operating revenue, the major items being cost of sales and employee expenses. All three Authorities recorded positive Results from Ordinary Activities after taxation. The Authorities' profits before income tax averaged 22% of operating revenue.

The tax expenses reported represent tax effect amounts, not provisions for income tax.

FINANCIAL POSITION

	Cradle Coast Water	Esk Water	Hobart Water
	\$'000s	\$'000s	\$'000s
Cash	8	6 355	8 191
Receivables	422	153	5 921
Investments	1 080	0	0
Inventories	128	210	1 053
Other	312	870	243
Total Current Assets	1 950	7 588	15 408
Payables	361	329	1 434
Borrowings	2 207	2 000	9 900
Provisions	645	319	1 363
Other	774	409	808
Total Current Liabilities	3 987	3 057	13 505
Working Capital	(2 037)	4 531	1 903
Property, plant and equipment	62 258	112 987	174 089
Other	692	516	1 333
Total Non-Current Assets	62 950	113 503	175 422
Borrowings	19 091	0	23 298
Provisions	453	1 377	3 020
Other	0	5 313	5 504
Total Non-Current Liabilities	19 544	6 690	31 822
Net Assets	41 369	111 344	145 503
Capital	0	83 102	5 974
Reserves	31 431	26 911	127 906
Retained profits	9 938	1 331	11 623
Total Equity	41 369	111 344	145 503

Comment

The Receivables balance for Hobart Water was considerably greater than the other two Authorities, with the balance of \$5.921m including \$5.368m outstanding from Joint Authority members.

Other current assets included interest revenue accruals and prepayments for each Authority.

Both Hobart Water and Cradle Coast Water had significant amounts of accrued interest payable at year-end. Hobart Water had interest payable of \$0.808m and Cradle Coast Water had accrued interest payable of \$0.454m. These amounts are reflected within Other current liabilities.

Hobart Water's balance of current loan debt totalled \$9.900m due to the Authority's portfolio management activities designed to minimise interest costs.

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 taxes on future profits.

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 liabilities for Esk Water and Hobart Water represented deferred taxation equivalent liabilities. Due to its carried forward tax losses, Cradle Coast Water does not have a deferred tax liability.

CASH POSITION

	Cradle Coast Water	Esk Water Authority	Hobart Regional Water Authority
	\$'000s	\$'000s	\$'000s
Receipts from customers	9 458	9 904	23 748
Payments to suppliers and employees	(5 312)	(4 155)	(12 179)
Interest received	29	260	2 112
Borrowing costs	(1 319)	(120)	(4 095)
Taxation paid	0	0	0
Cash from operations	2 856	5 889	9 586
Payments for property, plant and equipment	(2 677)	(1 013)	(3 026)
Proceeds from sale of property, plant and equipment	93	48	313
Cash used in investing activities	(2 584)	(965)	(2 713)
Proceeds from borrowings	5 300	0	15 000
Repayment of borrowings	(5 327)	0	(15 000)
Dividends paid	(629)	(1 662)	(2 800)
Cash from financing activities	(656)	(1 662)	(2 800)
Net increase/(decrease) in cash	(384)	3 262	4 073
Cash at the beginning of the period	1 472	3 093	4 118
Cash at end of the period	1 088	6 355	8 191

Comment

All three Authorities had positive cash flows from operations. Only Cradle Coast Water recorded a net decrease in cash, with the other two Authorities recording significant increases in their cash balances.

Cradle Coast Water's decrease in cash holdings was primarily due to its relatively high investment in property plant and equipment during the year.

Hobart Water actively manages its debt portfolio in order to minimise interest costs. This results in material repayments and borrowings each financial period that is reflected in the cash flows from financing activities, reporting \$15.000m in proceeds from borrowings and the same amount in repayments during 2004-05.

FINANCIAL ANALYSIS

	Bench Mark	Cradle Coast Water	Esk Water	Hobart Water
Financial Performance				
Result from operations (\$'000s)		1 473	2 910	4 324
EBIT (\$'000s)		2 809	2 992	7 289
Operating margin	>1.0	1.20	1.44	1.23
Return on assets		4.3%	2.6%	3.9%
Return on equity		3.0%	1.8%	2.4%
Financial Management				
Debt to equity		51.5%	1.8%	22.8%
Debt to total assets		32.8%	1.7%	17.4%
Interest cover	>3	2.1	24.9	3.3
Current ratio	>1	0.5	2.5	1.1
Cost of debt	7.5%	6.2%	6.0%	6.6%
Debt service ratio		15%	1%	18%
Debt collection	30 days	17	6	86
Creditor turnover	30 days	23	41	17
Capital Exp/Depreciation		200%	41%	58%
Returns to Constituent Councils				
Dividends paid or payable (\$'000s)		744	1 761	3 400
Dividend payout ratio	50%	59.6%	92.7%	100.8%
Dividend to equity ratio		1.8%	1.7%	2.4%
Income tax paid or payable (\$'000s)		0	0	0
Effective tax rate	30%	-	-	-
Total return to Councils (\$'000s)		744	1 761	3 400
Total return to equity ratio		1.8%	1.7%	2.4%
Other information				
Staff numbers FTEs		27	25	70
Average staff costs (\$'000s)		66	65	73

Comment

The three Authorities all recorded operating profits, which is reflected in the positive operating margins. Cradle Coast Water recorded the highest returns on assets and equity of 4.3% and 3.0% respectively.

Cradle Coast Water's Debt to equity ratio of 51.5% and Debt to total assets ratio of 32.8% were considerably higher than the other Authorities. The corresponding ratios for Esk Water are less than the other two authorities, due to its overall debt balance to \$2.000m, which was significantly less than the other two Authorities.

The Cost of debt for all three Authorities was consistent and below the benchmark. The Debt service ratio for Cradle Coast Water is presented differently in this summary as compared to its individual section within this report. This was done to ensure the ratio was comparable to the result for Hobart Water. Both Cradle Coast Water and Hobart Water had significant repayments of borrowings during the year, however corresponding new loan borrowings offset the principal loan repayments. As there was no net effect on loan debt, principal repayments were excluded from the ratio calculation. Within the individual chapter for Cradle Coast Water, the principal repayments are used in the calculation of the ratio.

Cradle Coast Water recorded a current ratio below the benchmark of 1. This was due to a significant current borrowings balance of \$2.207m, which impacted upon its ratio. The authority is confident that it is 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. Esk Water had a higher than normal creditor turnover figure of 41, which was due to an unusually high level of capital creditors as at 30 June 2005.

As noted previously, Cradle Coast Water undertook considerable capital works during 2004-05, 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 89% over the last five years. The ratio for Esk Water averaged 38% 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 their 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 \$0.068m.

OVERALL COMMENT

The three Authorities recorded operating profits and have provided for a dividend payment to their constituent councils. As noted by the GPOC review the return on equity for all three Authorities remains low.

4.1 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 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.

A five-person Board of Management administers the Authority, and 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 31 August 2005 and an unqualified audit report was issued on 10 November 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	8 284	8 062	7 813	7 487	7 863
Interest revenue	29	42	54	81	103
Other operating revenue	576	305	224	176	45
Non-operating revenue	93	34	113	141	126
Total Revenue	8 982	8 443	8 204	7 885	8 137
Borrowing costs	1 321	1 314	1 351	1 393	1 451
Depreciation	1 339	1 291	1 240	1 270	1 227
Cost of sales (less depreciation)	2 084	2 183	2 138	2 136	1 819
Other operating expenses	2 672	2 364	2 151	2 067	2 097
Non-operating expenses	78	32	134	163	153
Total Expenses	7 494	7 184	7 014	7 029	6 747
Result from ordinary activities	1 488	1 259	1 190	856	1 390
Income tax expense	240	123	39	49	104
Result after taxation	1 248	1 136	1 151	807	1 286

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 2004-05 irrigation sales revenue increased to \$0.156m (2003-04, \$0.116m). During 2003-04 the Authority took over the operations of the State's fluoridation facilities within the Northwest region from the Department of Health and Human Services, which increased revenue for that year by \$0.102m. These operations were undertaken for the full year during 2004-05 contributing \$0.301m to revenue.

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. There was a small increase during 2004-05 as borrowings have been refinanced over the last two years.

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 noted above varied between 23% 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. As revenue from irrigation and fluoridation has increased, costs associated with these external works have also increased.

Non-operating expenses represented the written down value of non-current assets sold by the Authority.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	8	0	43	0	0
Receivables	422	475	369	395	475
Investments	1 080	1 740	1 588	1 700	2 374
Inventories	128	155	124	129	112
Other	312	383	393	358	227
Total Current Assets	1 950	2 753	2 517	2 582	3 188
Payables	361	295	487	307	332
Borrowings	2 207	1 395	711	695	662
Provisions	645	621	447	791	881
Other	774	965	1 074	846	751
Total Current Liabilities	3 987	3 276	2 719	2 639	2 626
Working Capital	(2 037)	(523)	(202)	(57)	562
Property, plant and equipment	62 258	61 504	60 463	57 402	56 796
Deferred tax equivalent asset	692	933	1 056	1 095	1 144
Total Non-Current Assets	62 950	62 437	61 519	58 497	57 940
Borrowings	19 091	20 199	20 656	21 367	22 034
Provisions	453	458	495	451	416
Total Non-Current Liabilities	19 544	20 657	21 151	21 818	22 450
Net Assets	41 369	41 257	40 166	36 622	36 052
Reserves	31 431	31 937	31 387	28 937	28 746
Retained profits	9 938	9 320	8 779	7 685	7 306
Total Equity	41 369	41 257	40 166	36 622	36 052

Comment

Receivables at 30 June 2001 included \$0.398m due from the local councils supplied by the Authority. At 30 June 2005, councils supplied by the Authority owed \$0.375m (2004, \$0.354m).

Inventories comprise 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.

Total borrowings decreased by \$1.955m, from \$22.696m in 2000-01 to \$21.298 in 2004-05. 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. A further loan was refinanced during 2004-05 increasing loan debt by \$1.100m. Repayments made on other loans, resulting in a net decrement to the overall loans balance of \$0.296m during 2004-05, offset this increase.

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

Other current liabilities represented accrued expenses at the end of the reporting period. At 30 June 2005 this included \$0.454m for accrued interest on loan borrowings (2004, \$0.451m; 2003, \$0.461m).

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	9 458	8 702	8 109	7 726	7 961
Payments to suppliers and employees	(5 312)	(5 164)	(4 118)	(4 249)	(4 126)
Interest received	29	43	55	84	100
Borrowing costs	(1 319)	(1 324)	(1 366)	(1 418)	(1 400)
Cash from operations	2 856	2 257	2 680	2 143	2 535
Payments for property, plant and equipment	(2 677)	(1 814)	(1 739)	(1 809)	(1 065)
Proceeds from sale of property, plant and equipment	93	34	113	141	126
Cash used in investing activities	(2 584)	(1 780)	(1 626)	(1 668)	(939)
Proceeds from borrowings	5 300	4 870	0	0	0
Repayment of borrowings	(5 327)	(4 911)	(667)	(626)	(587)
Dividends paid	(629)	(595)	(428)	(514)	(345)
Cash from financing activities	(656)	(636)	(1 095)	(1 140)	(932)
Net increase/(decrease) in cash	(384)	(159)	(41)	(665)	664
Cash at the beginning of the period	1 472	1 631	1 672	2 337	1 673
Cash at end of the period	1 088	1 472	1 631	1 672	2 337

Comment

The Authority's cash position declined in 2004-05 due to the high investment in Property, plant and equipment.

Receipts from customers have gradually increased over the five-year period. Payments to suppliers and employees increased from \$4.126m in 2000-01 to \$5.312m in 2004-05.

Payments for property, plant and equipment totalled \$9.104m over the five years under review. The majority of expenditure related to

infrastructure works including the roofing of reservoirs program that has been ongoing over the period; treatment plant improvements and site security works.

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. A further loan was refinanced during 2004-05 for \$5.300m, offsetting loan repayments of \$5.327m. Net loan repayments over the five-year period totalled \$1.948m.

Dividends paid totalled \$2.511m for the last five years.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		1 473	1 257	1 211	878	1 417
EBIT (\$'000s)		2 809	2 573	2 541	2 249	2 841
Operating margin	>1.0	1.20	1.18	1.18	1.13	1.21
Return on assets		4.3%	4.0%	4.1%	3.7%	4.7%
Return on equity		3.0%	2.8%	3.0%	2.2%	3.7%
Financial Management						
Current ratio	>1	0.49	0.84	0.93	0.98	1.21
Debt to equity		51.5%	52.3%	53.2%	60.2%	63.0%
Debt to total assets		32.8%	33.1%	33.4%	36.1%	37.1%
Interest cover	>3	2.1	2.0	1.9	1.6	2.0
Cost of debt	7.5%	6.2%	6.1%	6.2%	6.2%	6.3%
Debt service ratio		75%	74%	25%	26%	25%
Debt collection	30 days	17	21	17	19	22
Creditor turnover	30 days	23	23	40	24	33
Capital Exp/Depreciation		200%	141%	140%	142%	87%
Returns to Shareholders						
Dividends paid or payable (\$'000s)		744	629	595	428	514
Dividend payout ratio	50%	59.6%	55.4%	51.7%	53.0%	40.0%
Dividend to equity ratio		1.8%	1.5%	1.5%	1.2%	1.5%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		744	629	595	428	514
Total return to equity ratio		1.8%	1.5%	1.5%	1.2%	1.5%
Other information						
Staff numbers FTEs		27	28	25	24	24
Average staff costs (\$'000s)		66	63	62	56	54

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 \$22.696m in 2000-01 to \$21.298 in 2004-05.

The Current ratio remained below benchmark in all the years under review, excepting the 2000-01 year. Management is confident in being able to meet all short-term liabilities.

The increase in debt service ratio from 25% in 2002-03 to 74% in 2003-04 and 75% in 2004-05 reflects the debt rollover of \$4.870m in 2003-04 and \$5.300m in 2004-05. Had these borrowings not been rolled over the debt service ratio would have reduced to 15%.

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 four years under review. During these years the Authority incurred significant capital expenditure with the majority relating to the \$6.200m roofing of reservoirs program that commenced in 2001. The program includes twenty-six reservoirs spread over seven river systems.

Dividends paid or payable since 2000-01 were in accordance with Part 3A of the *Local Government Act 1993*.

As the Authority has tax losses, no tax equivalent payments have been made in the years under review.

OVERALL COMMENT

In the five years under review the Authority recorded a total operating surplus before tax of \$6.183m, (after tax \$5.628m).

The 2004-05 audit was completed with satisfactory results.

4.2 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 30 August 2005 and an unqualified audit report was issued on 5 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	9 008	8 949	8 943	8 598	8 011
Interest revenue	258	360	241	139	96
Other operating revenue	265	120	73	57	72
Non-operating revenue	48	72	81	65	106
Total Revenue	9 579	9 501	9 338	8 859	8 285
Borrowing costs	120	478	487	552	606
Depreciation	2 485	2 262	2 201	2 194	2 106
Cost of sales (less depreciation)	2 216	2 285	2 165	2 102	2 004
Other operating expenses	1 800	1 738	1 475	1 394	1 483
Non-operating expenses	86	119	84	71	136
Total Expenses	6 707	6 882	6 412	6 313	6 335
Result from ordinary activities	2 872	2 619	2 926	2 546	1 950
Income tax expense	972	839	914	875	613
Result after taxation	1 900	1 780	2 012	1 671	1 337

Comment

The majority of the Authority's revenue was derived from bulk water sales to municipal, industrial and wayside consumers. Two-part water pricing was introduced during the 2001-02 year, along with a continuing move towards more uniform pricing, which was achieved during the 2004-05 year.

Other operating revenue has increased over the years as the Authority has expanded its activities beyond standard water sales. During 2003-04 the Authority took over the operations of the State's fluoridation facilities within the North-East region from the Department of Health and Human Services which increased revenue. These operations were undertaken for the full year during 2004-05 which contributed to the further increase this year.

Non-operating revenue consisted of proceeds from the sale of non-current assets.

The level of borrowings reduced from \$11.000m as at 1 July 2000 to \$2.000m as at 30 June 2004. There was no change in the level of borrowings during the 2004-05 year. Borrowing costs correspondingly reduced each year, with a decrease between the 2000-01 and 2004-05 financial years of \$0.486m.

Cost of sales represents the production costs associated with collecting, conserving and treating the water to a saleable point. Depreciation is recorded as a separate charge, but the Authority includes a portion of depreciation as a 'cost of sales' item in its Financial Statements. The level

of depreciation has increased over the period, in relation to the increased asset values, through regular asset revaluations.

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

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 355	3 093	6 331	3 974	2 042
Receivables	153	589	229	634	384
Inventories	210	211	200	186	180
Other	870	825	778	978	638
Total Current Assets	7 588	4 718	7 538	5 772	3 244
Payables	329	177	65	43	93
Borrowings	2 000	0	5 000	1 000	0
Provisions	319	430	364	1 411	1 182
Other	409	290	632	362	572
Total Current Liabilities	3 057	897	6 061	2 816	1 847
Working Capital	4 531	3 821	1 477	2 956	1 397
Property, plant and equipment	112 987	100 754	92 377	96 576	98 179
Deferred tax equivalent asset	511	519	442	394	370
Other	5	6	6	6	6
Total Non-Current Assets	113 503	101 279	92 825	96 976	98 555
Borrowings	0	2 000	2 000	7 000	8 000
Deferred tax equivalent liabilities	5 313	4 349	3 433	2 482	1 583
Provisions	1 377	1 289	1 104	1 016	963
Total Non-Current Liabilities	6 690	7 638	6 537	10 498	10 546
Net Assets	111 344	97 462	87 765	89 434	89 406
Capital	83 102	83 102	83 102	83 102	83 102
Reserves	26 911	13 267	3 302	6 062	6 034
Retained profits	1 331	1 093	1 361	270	270
Total Equity	111 344	97 462	87 765	89 434	89 406

Comment

The cash balance held at 30 June 2004 dropped to \$3.093m following the repayment of borrowings of \$5.000m during June 2004.

Receivables for 2001-02 and 2003-04 were higher than usual due to the timing of payment of May water usage charges by some of the local councils supplied by the Authority. In these years the invoices were not paid until July, whereas in other years they were paid in June.

The composition of the inventories balance comprised sundry spares, chemicals and water on hand.

The majority of other current assets was accrued revenue for June municipal water sales.

Current provisions for the first two 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 subsequent years. Therefore provisions for these years included employee benefits only.

Current borrowings reduced to nil at 30 June 2004. At 30 June 2005 the remaining loan held by the Authority transferred to a current liability as it is due to be repaid during 2005-06.

Deferred tax equivalent liabilities totalled \$5.313m at 30 June 2005, which was net of 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. Revaluation increments of \$9.965m and \$13.644m were processed during 2003-04 and 2004-05, with the majority relating to the System Infrastructure class of assets. These revaluations were performed by the application of industry indices supplied by the AVO to the Authority's property, plant and equipment balances. The revaluation increments primarily reflected increases in construction costs. The next full revaluation is scheduled to occur with an effective date of 30 June 2006.

The adoption of AASB 1044 at 1 July 2002, resulted in an increased retained profits balance compared to prior years, as the final dividend payment was not transferred to a provision at the end of the financial year. The dividend policy of the Authority for reporting periods to 30 June 2004 remained to return all annual operating profits to shareholders, only the timing of recognition had changed. During the 2004-05 year a dividend management policy was introduced, as agreed with representatives of the member councils, whereby a portion of profits are retained within the Authority in order to fund future asset replacement costs. The amount of the unrecognised final dividend recommended by the Board of the Authority at 30 June 2005 was \$0.946m (2004, \$0.847m).

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	9 904	8 946	9 817	8 283	7 879
Payments to suppliers and employees	(4 155)	(3 952)	(3 711)	(3 855)	(3 371)
Interest received	260	352	234	136	108
Borrowing costs	(120)	(485)	(519)	(552)	(579)
Cash from operations	5 889	4 861	5 821	4 012	4 037
Payments for property, plant and equipment	(1 013)	(1 123)	(534)	(661)	(987)
Proceeds from sale of property, plant and equipment	48	72	81	65	72
Cash used in investing activities	(965)	(1 051)	(453)	(596)	(915)
Repayment of borrowings	0	(5 000)	(1 000)	0	(3 000)
Dividends paid	(1 662)	(2 048)	(2 011)	(1 484)	(1 016)
Cash from financing activities	(1 662)	(7 048)	(3 011)	(1 484)	(4 016)
Net increase/(decrease) in cash	3 262	(3 238)	2 357	1 932	(894)
Cash at the beginning of the period	3 093	6 331	3 974	2 042	2 936
Cash at end of the period	6 355	3 093	6 331	3 974	2 042

Comment

Expenditure on Property, plant and equipment during 2003-04 of \$1.123m included works at the Authority's treatment plants, with one major item being filter upgrades at the Reatta Road Treatment Plant. Payments during 2004-05, totalling \$1.013m, primarily consisted of the roofing of existing reservoirs, treatment plant works and progress towards the replacement of the Mt Leslie basin by the duplication of the Casino Reservoir.

A significant amount of borrowings, totalling \$9.000m were repaid during the years under review, including \$5.000m during 2003-04. Borrowing costs have reduced with the reduction in interest-bearing liabilities over the period.

Dividends paid for the five-year period totalled \$8.221m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		2 910	2 666	2 929	2 552	1 980
EBIT (\$'000s)		2 992	3 097	3 413	3 098	2 556
Operating margin	>1.0	1.44	1.39	1.46	1.41	1.32
Return on assets		2.6%	3.0%	3.4%	3.0%	2.5%
Return on equity		1.8%	1.9%	2.3%	1.9%	1.5%
Financial Management						
Current ratio	>1	2.48	5.26	1.24	2.05	1.76
Debt to equity		1.8%	2.1%	8.0%	8.9%	8.9%
Debt to total assets		1.7%	1.9%	7.0%	7.8%	7.9%
Interest cover	>3	24.9	6.5	7.0	5.6	4.2
Cost of debt	7.5%	6.0%	6.0%	6.9%	6.9%	6.9%
Debt service ratio		1%	58%	16%	6%	44%
Debt collection	30 days	6	24	9	27	17
Creditor turnover	30 days	41	21	10	7	12
Capital Exp/Depreciation		41%	50%	24%	30%	47%
Returns to Shareholders						
Dividends paid or payable (\$'000s)		1 761	1 780	2 012	1 683	1 337
Dividend payout ratio	50%	92.7%	100.0%	100.0%	100.7%	100.0%
Dividend to equity ratio		1.7%	1.9%	2.3%	1.9%	1.5%
Income tax paid or payable (\$'000s)		-	-	-	-	-
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		1 761	1 780	2 012	1 683	1 337
Total return to equity ratio		1.7%	1.9%	2.3%	1.9%	1.5%
Other information						
Staff numbers FTEs		25	27	26	26	27
Average staff costs (\$'000s)		65	64	59	57	53

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 all years under review was consistent with benchmark with the exception of the 2003-04 year. As there was no debt due to be repaid during the 2004-05 financial year, current liabilities were significantly less than current assets at 30 June 2004, resulting in the strong ratio in that year. Borrowings of \$2.000m are to be repaid during 2005-06 and as a result, the current ratio decreased at 30 June 2005.

The Debt collection ratio is dependent on the balance of receivables at 30 June each year. The timing of receipt of payment for May water usage invoices by the member councils has a significant impact on this ratio. During the 2003-03 and 2004-05 years the majority of these invoices were paid during June, whilst in the remainder of the years under review payment was not received until early July. The collection ratio was still within the Authority's terms of payment for this class of customer.

The creditor turnover ratio was consistently within benchmark except for the 2004-05 year, when the increased result of 41 days was due to an increase in the amount of payables at 30 June 2005 of \$0.329m. This increase included \$0.105m for capital works associated with the Casino Reservoir duplication project and a further \$0.117m of other capital items.

The capital expenditure to depreciation ratio was low, with the highest amount of 50%, being recorded in 2003-04. The Authority has 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 \$12.913m, (after tax \$8.700m) and paid \$8.221m in dividends to participating owner councils.

The 2004-05 audit was completed with satisfactory results.

4.3 HOBART REGIONAL WATER AUTHORITY

INTRODUCTION

The Hobart Regional Water Authority was established under section 38 of the *Local Government Act 1993* following the enactment of the *Hobart Regional Water (Arrangement) Act 1996*, which transferred from 1 January 1997 all assets, property, rights and liabilities of the former Hobart Regional Water Board to the Authority.

The 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 7 September 2005 and an unqualified audit report was issued on 9 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	23 386	21 500	20 591	18 485	19 223
Non-operating revenue	725	409	309	384	583
Total Revenue	24 111	21 909	20 900	18 869	19 806
Borrowing costs	2 432	2 309	2 177	1 939	2 187
Depreciation	5 182	4 766	4 697	4 568	4 547
Other operating expenses	11 448	10 834	10 531	9 024	10 243
Non-operating expenses	192	198	75	65	294
Total Expenses	19 254	18 107	17 480	15 596	17 271
Result from ordinary activities	4 857	3 802	3 420	3 273	2 535
Income tax expense	1 485	1 068	407	892	675
Result after taxation	3 372	2 734	3 013	2 381	1 860

Comment

Bulk water sales to constituent councils represented over 95% of normal operating revenue for each year under review. Operating revenue fluctuates in accordance with consumption, noting recent years' figures reflect drier conditions, growth in some areas and revenue from new contract services.

The Authority undertakes derivative trading as part of managing its debt and in doing so it generates interest income and it incurs swap gains and losses. In 2004-05 interest received from this activity amounted to \$1.721m (2003-04: \$2.128m) and swap gains in 2004-05 were \$nil (2003-04: \$0.289m). The net fair value of unrecognised swaps at 30 June 2005 was a net balance of \$1.061m loss (\$0.713m loss as at 30 June 2004), which, consistent with Australian Accounting Standards, has not been brought to account at 30 June 2005.

Non-operating income increased in 2004-05 due to higher interest income arising from the improved cash position.

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 referred to in the previous paragraph. On this basis, net annual borrowing costs since 2000-01 have averaged \$2.209m.

Other operating expenditure includes employee costs, royalties and direct costs of power and chemicals used in treatment. This operating expenditure generally fluctuates in line with water sales averaging around 50% of operating revenue throughout the five-year period under review.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	8 191	4 118	1 956	1 964	1 014
Receivables and Prepayments	6 164	5 634	5 199	5 670	4 644
Investments	0	0	0	0	0
Inventories	1 053	1 103	1 062	1 089	817
Total Current Assets	15 408	10 855	8 217	8 723	6 475
Payables	2 242	2 300	2 274	2 572	1 814
Borrowings	9 900	10 000	10 000	10 900	9 900
Provisions	1 363	1 235	1 339	3 445	3 894
Total Current Liabilities	13 505	13 535	13 613	16 917	15 608
Working Capital	1 903	(2 680)	(5 396)	(8 194)	(9 133)
Property, plant and equipment	174 089	167 904	159 984	161 046	161 686
Other	1 333	1 289	1 226	1 244	1 254
Total Non-Current Assets	175 422	169 193	161 210	162 290	162 940
Borrowings	23 298	23 198	23 198	22 298	23 298
Provisions	8 524	6 992	5 684	5 320	4 313
Total Non-Current Liabilities	31 822	30 190	28 882	27 618	27 611
Net Assets	145 503	136 323	126 932	126 478	126 196
Capital	5 974	5 974	5 974	5 974	5 974
Reserves	127 906	119 369	109 801	112 359	112 368
Retained profits	11 623	10 980	11 157	8 145	7 854
Total Equity	145 503	136 323	126 932	126 478	126 196

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). Cash increased in 2004-05 due to lower capital expenditure payments than in prior years together with an improved profit.

Receivables for 2004-05 comprised normal bulk water accounts to the Joint Authority members, \$5.368m (2003-04: \$4.891m), accrued interest of \$0.437m (2003-04: \$0.394m), and other receivables, \$0.017m (2003-04: \$0.037m).

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. This contributed to the improved profit result in that year.

The Authority's net working capital, now positive, improved significantly during the five years under review primarily due to:

- Improved cash flows, particularly in 2003-04 and 2004-05 mainly from lower investment in property, plant and equipment;

- Growth in receivables in line with pricing policies and consumption patterns; and
- A reduction in current provisions since 2002-03 with changes in accounting standards requiring no provision for dividends as noted below.

Other Non-current assets included future income tax benefits resulting from significant tax losses, which are available to be utilised to offset future profits. The balance of this asset varies from year to year according to the Result from ordinary activities, changes in tax rates and timing differences. No actual tax payments 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 2004-05 due to capital works costing \$2.951m being undertaken during the period, along with an upward revaluation of \$8.863m due to indexation, which also affected the asset revaluation reserve.

The low level of payables of \$1.814m in 2000-01 was due to capital creditors for contract work being paid out before the end of that year.

In 1999-00 the Authority appointed Macquarie Risk Advisory Services to actively manage its loan portfolio in order to minimise interest costs. This arrangement still exists and no reduction to debt has been made since 2000-01.

Non-current provisions included employee entitlements, superannuation and a provision for deferred income tax liability. This balance increased at each of 30 June 2004 and 2005 due to differences between accounting and tax depreciation increasing the deferred tax liability.

Due to changes in Australian Accounting Standards, no provision has been included for dividends payable since 2002-03 because the dividend had not been declared prior to 30 June, and this was reflected in the higher current provision balances in the years prior to 2002-03. The Authority's Board of Management has recommended a dividend, based on the 2004-05 operating results, of \$3.400m.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	23 748	22 152	22 161	19 017	19 524
Payments to suppliers and employees	(12 179)	(12 181)	(11 980)	(10 416)	(10 633)
Interest received	2 112	2 523	2 906	2 578	556
Borrowing costs	(4 095)	(4 635)	(4 838)	(3 998)	(2 583)
Cash from operations	9 586	7 859	8 249	7 181	6 864
Payments for property, plant and equipment	(3 026)	(2 911)	(6 258)	(3 993)	(4 791)
Proceeds from sale of property, plant and equipment	313	214	102	161	305
Cash used in investing activities	(2 713)	(2 697)	(6 156)	(3 832)	(4 486)
Proceeds from borrowings	15 000	25 000	58 300	11 900	15 000
Repayment of borrowings	(15 000)	(25 000)	(58 300)	(11 900)	(16 100)
Dividends paid	(2 800)	(3 000)	(2 100)	(2 400)	(2 500)
Cash used in financing activities	(2 800)	(3 000)	(2 100)	(2 400)	(3 600)
Net increase/(decrease) in cash	4 073	2 162	(7)	949	(1 222)
Cash at the beginning of the period	4 118	1 956	1 963	1 014	2 236
Cash at end of the period	8 191	4 118	1 956	1 963	1 014

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 payments to the State Government for the water royalty of \$1.190m in 2004-05 (\$1.143m in 2003-04).

Interest received included swap interest and has been high since 2000-01 as Hobart Water continued its trading in 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.

Dividend payments totalling \$12.800m were made to member councils over the five-year period.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations (\$'000s)		4 324	3 591	3 186	2 954	2 246
EBIT (\$'000s)		7 289	6 111	5 597	5 212	4 340
Operating margin	>1.0	1.23	1.20	1.18	1.19	1.13
Return on assets		3.9%	3.5%	3.3%	3.1%	2.5%
Return on equity		2.4%	2.1%	2.4%	1.9%	1.5%
Financial Management						
Debt to equity		22.8%	24.4%	26.2%	26.2%	26.3%
Debt to total assets		17.4%	18.4%	19.6%	19.4%	19.6%
Interest cover	>3	3.3	2.8	2.6	2.5	2.0
Current ratio	>1	1.1	0.8	0.6	0.5	0.4
Cost of debt	7.5%	7.3%	7.0%	6.6%	5.8%	6.6%
Debt service ratio		18%	22%	23%	22%	13%
Debt collection	30 days	86	84	82	98	88
Creditor turnover	30 days	17	15	16	36	22
Capital Exp/Depreciation		58%	61%	133%	87%	105%
Returns to Shareholders						
Dividends paid or payable (\$'000s)		3 400	2 800	3 000	2 100	2 400
Dividend payout ratio	50%	100.8%	102.4%	99.6%	88.2%	129.0%
Dividend to equity ratio		2.4%	2.1%	2.4%	1.7%	1.9%
Income tax paid or payable (\$'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return (\$'000s)		3 400	2 800	3 000	2 100	2 400
Total return to equity ratio		2.4%	2.1%	2.4%	1.7%	1.9%
Other information						
Staff numbers FTEs		70	69	65	63	62
Average staff costs (\$'000s)		73	72	67	65	62

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 asset and equity base, returns on assets and on equity were low.

The Current ratio has continued to improve and is now above the 1:1 benchmark due primarily to the Authority's strong cash position at 30 June 2005.

Cost of debt has remained steady since 2001-02.

Water sales to member councils are billed quarterly resulting in the high debt collection ratio. The Authority experiences no difficulty collecting these debts.

The capital expenditure to depreciation ratio is low in 2003-04 and 2004-05 due to the timing of capital projects. The Authority's planned capital expenditure programs for the next three years should result in this ratio increasing above 100%.

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 low.

OVERALL COMMENT

The audit of the financial statements for 2004-05 was completed with satisfactory results.