Tasmanian
Audit Office

# Report of the Auditor-General
# No. 6 of 2011-12

## Auditor-General's Report on the Financial Statements of State entities

## Volume 4 Part II

Local Government Authorities 2010-11

November 2011

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# THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (the Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities which includes an Agency, Council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor.

We also audit those elements of the Treasurer's Annual Financial Report which report on financial transactions in the Public Account, the General Government Sector and the Total State Sector financial statements.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing financial reports, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to State entities to ensure sound financial management.

In the main accountable authorities prepare financial reports consistent with Accounting Standards and other mandatory financial reporting requirements in Australia. On occasion reports are "special purpose financial reports" such as the Public Account Statements. In all cases our audits are conducted in accordance with Australian Auditing Standards.

Following a financial audit, we issue a variety of reports to State entities and Responsible Ministers, and we report periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits, compliance audits and carry out investigations. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), legislation, account balances or projects.

Investigations can relate only to public money or to public property.

Performance and compliance audits and investigations are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year. In doing so the Auditor-General is providing information to the Parliament to assist both the Legislative Council and the House of Assembly in their review of the performance of Executive Government.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

TASMANIA

# 2011
# PARLIAMENT OF TASMANIA

## REPORT OF THE AUDITOR-GENERAL
## No. 6 of 2011-12

## Volume 4
## Part II

## Local Government Authorities 2010-11

## November 2011

*Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the Audit Act 2008*

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# MAJOR CITY COUNCILS

# CLARENCE CITY COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011, with amended financial statements received on 16 September 2011. An unqualified audit report was issued on 21 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments. The audit was completed satisfactorily with no major matters outstanding.

## FINANCIAL RESULTS

Our analysis shows that Council generated a Net Operating Deficit of $0.549m in 2010-11 (2009-10, $2.539m). It is our view that, to ensure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis before capital grants and other non-operating items but inclusive of depreciation. However, this Deficit represented only 1.1% of operating revenues, a significant improvement over the prior year.

It is also noted that on a before net interest basis, Council's deficit in 2010-11 was $3.754m. This highlights the impact of interest revenues on Council's operating performance. Interest earned in 2010-11 was $3.293m and averaged $3.344m over the past four years.

Council generated a Net Surplus of $3.406m (2009-10, $10.145m) and a Comprehensive Surplus of $10.907m (2009-10, $9.725m). The Comprehensive Surplus included the net impacts of upward asset revaluations of $6.343m and an increase in Council's interest in Southern Water of $1.158m.

Consistent with the Comprehensive Surplus of $10.907m, Council's Net Assets increased to $658.861m, from $647.956m in the previous year. As at 30 June 2011 Council's Net Working Capital was $44.398m, up from $43.086m, due mainly to higher cash holdings.

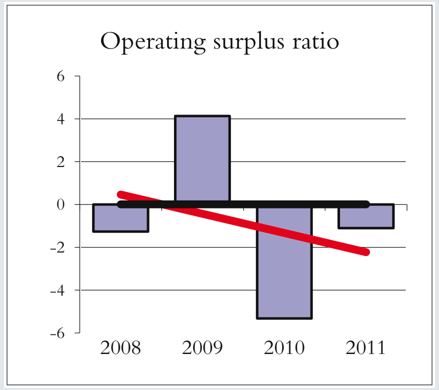
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

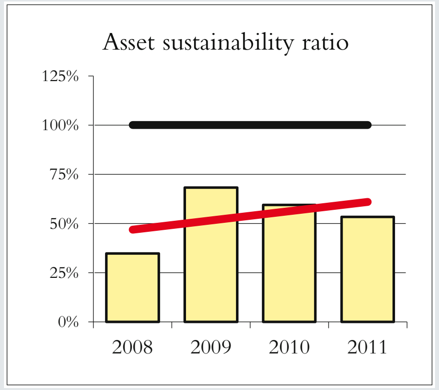
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. Within the graphs, the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because, while Council's has created a long term asset management plan, the data is yet to be prepared in a format that readily enables the ratio to be calculated. Council is continuing to develop its plans, which will assist such analysis being undertaken in the future.

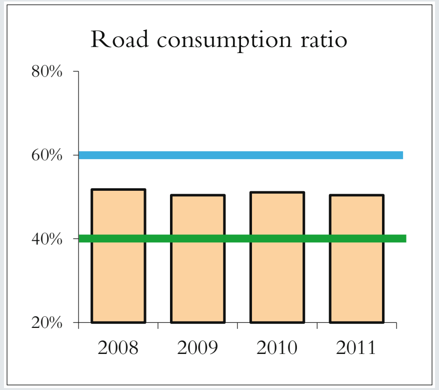
In general, the ratios indicate:



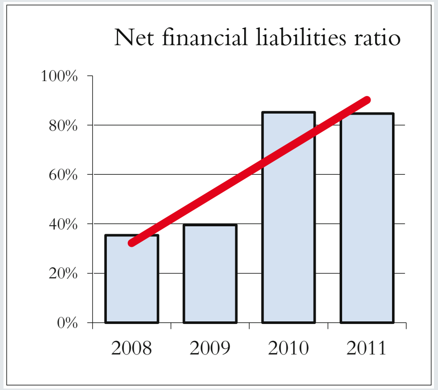

Council recorded operating deficits in each of the past two years, however the smaller deficit recorded in the 2010-11 has led to a trend line indicating that these deficits are limited to a negative ratio of 2. The negative ratios indicate that, other than in 2008-09, Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.




The asset sustainability ratio, also referred to as the asset renewal ratio, was below the 100% benchmark in all four years under review, and 53% in 2010-11. This indicates that subject to levels of maintenance expenditure and the existence of long term asset management plans, and based on our 100% benchmark, Council was under investing in existing assets.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 50% of the service potential of its road assets. This ratio shows that Council's road infrastructure has reached the half-way point of its life cycle, indicating moderate financial sustainability risk.




Council recorded a positive net financial liabilities position with liquid assets well in excess of its current and non-current liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet all future commitments and having a capacity to borrow.

Council's total liabilities consisted of payables, employee provisions and borrowings.

### Governance

A review of Council's governance arrangements indicated that it:

- had an audit committee in place which influences an internal audit program and follows up internal audit work done
- had prepared a long-term asset management plan
- had a documented financial management plan

However, based on our assessment, Council could achieve a better governance result if its audit committee charter included a requirement for the committee to assess, on Council's behalf, financial sustainability and if it were required to review Council's annual financial statements and recommend signing by the General Manager. Such a review would include reviewing accounting policies used, methods used to account for unusual transactions, significant estimates and judgements.

It was also noted that, while Council had a long-term asset management plan, it was not reviewed or updated with sufficient regularity. Governance could be further improved if the plan was subject to scrutiny by the audit committee and if information from the plan was sufficiently detailed to enable Council, or its audit committee, to undertake financial analysis, including the asset renewal funding ratio.

Our assessment of the financial management plan also identified a lack of scrutiny by the audit committee and we further noted that Council had not formally adopted the plan.

## Conclusion as to financial sustainability

Taken together these ratios provide differing messages when considering Council's financial sustainability. From a financial operating perspective, Council's operating surplus was below the benchmark for three of the four years of the analysis, although there was an improved result in 2010-11. This indicates moderate financial sustainability risk.

Council's net financial liabilities ratio was positive indicating low financial sustainability risk, a strong ability to service debt and a capacity to borrow should the need arise.

On the other hand, Council's asset sustainability ratio indicates, based on our 100% benchmark, that it has been under-investing in existing assets over the period of the analysis and its asset consumption ratio is in the moderate risk range.

Council's audit committee achieved a low risk rating. Greater involvement of the audit committee in finalising Council's annual financial statements and overseeing its financial and asset management plans would strengthen existing governance arrangements.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council was at moderate financial sustainability risk from an operating and asset management perspective but low financial sustainability risk from a net financial liabilities and governance perspective.

### Management comments on this assessment of its financial sustainability

Council notes comments relating to both its net operating position and its ongoing asset management. Both have been negatively impacted by the transfer of water and sewerage operations to a separate authority from 1 July 2009. A strategy is in place to counter the effects of this transfer over time.

Physical effort in undertaking infrastructure renewal has been hampered by a number of constraints, particularly around capacity issues. However, in addition to physical delivery of asset renewal, the provision of specific funding for future renewal works is also a critical element of Council's asset management strategy. Council holds a dedicated pool of some $25 million which will be critical in meeting future renewal needs, and the building of this financial capacity is not recognised in the asset sustainability ratio.

Council has formally adopted asset management and sustainability as topics forming part of its current programme to be reviewed by its Audit Committee.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 | 2010-11 | 2009-10 |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 36 849 | 36 949 | 35 120 |
| Fees and charges | 3 906 | 4 251 | 4 178 |
| Grants ** | 5 192 | 4 936 | 4 948 |
| Other revenue | 118 | 324 | 685 |
| **Total Revenue** | **46 065** | **46 460** | **44 931** |
| Employee costs | 12 889 | 13 367 | 12 664 |
| Depreciation | 9 500 | 12 513 | 12 271 |
| Other expenses | 24 347 | 24 334 | 25 195 |
| **Total Expenses** | **46 736** | **50 214** | **50 130** |
| **Net Operating (Deficit) before** | **(671)** | **(3 754)** | **(5 199)** |
| Finance costs | (96) | (88) | (114) |
| Interest revenue | 1 778 | 3 293 | 2 774 |
| **Net Operating Surplus (Deficit)** | **1 011** | **(549)** | **(2 539)** |
| Capital grants | 0 | 0 | 1 524 |
| Financial assistance grant received in advance ** | 0 | 656 | 625 |
| Offset Financial assistance grant in advance ** | 0 | (625) | (570) |
| Share of interest in associate | 0 | (64) | (74) |
| Gain (loss) on disposal of equipment | 0 | (469) | 151 |
| Profit from part sale of share of Copping | 0 | 0 | 74 |
| Contribution non current assets | 160 | 4 457 | 10 954 |
| **Net Surplus** | **1 171** | **3 406** | **10 145** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non current assets | 0 | 6 343 | 40 458 |
| Fair value initial adjustment in Southern Water | 0 | 0 | (40 878) |
| Current year fair value adjustment in Southern Water | 0 | 1 158 | 0 |
| **Total comprehensive income items** | **0** | **7 501** | **(420)** |
| **Comprehensive Surplus** | **1 171** | **10 907** | **9 725** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit of $0.549m compared to a deficit of $2.539m in the previous year. This improvement of $1.990m was principally due to Council containing its total costs to levels similar to 2009-10. Comments on individual line items include:

- increased rates revenue of $1.829m, consistent with the rates resolution passed by Council in June 2010
- Other expenses decreased by $0.861m, as Council made a concerted effort to decrease expenditure in a number of areas. Categories of expenditure where savings were made included external plant hire, materials and contracts, insurance and family day care expenditure
- Employee costs increased by $0.703m, which was expected due to the introduction of the new staff enterprise agreement signed in October 2010
- Interest revenue increased by $0.519m, due to higher interest rates and levels of cash holdings invested
- lower Other reveue down by $0.361m as the prior year amount included some revenues received as Council assisted Southern Water in billing processes during the Corporation's set up phase
- higher Depreciation expense of $0.242m, due to the impact of revalued stormwater and parks and recreation equipment as at 1 July 2010.

Council recorded a Net Surplus of $3.406m compared to $10.145m in 2009-10. This decline was mainly attributed to lower non-current assets contributed to Council and because no capital grants were received this year.

Overall, Council recorded a Comprehensive Surplus of $10.907m for 2010-11, compared to a surplus of $9.725m in 2009-10. The current year's result included a revaluation increment of $6.343m, the majority of which related to the revaluation of Council's stormwater assets. Council also recorded an increment in its investment in Southern Water in 2010-11, amounting to $1.158m. In the prior year, the revaluation increment, which related to Council's road assets, was offset by a write-down of its investment in Southern Water of $40.878m to $200.567m.

Excluding non-operating items, Council budgeted for a Surplus of $1.011m, which was $1.529m higher than the actual deficit of $0.518m. The result was mainly due to higher than budgeted depreciation charges of $3.013m which arose because Council had yet to budget for the full depreciation charge. This was offset somewhat by actual interest revenue earned being $1.515m greater than the budgeted figure.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and cash equivalents | 49 331 | 46 893 |
| Receivables | 3 031 | 2 723 |
| Prepayments | 131 | 144 |
| Other | 589 | 654 |
| **Total Current Assets** | **53 082** | **50 414** |
| Payables | 5 771 | 4 262 |
| Borrowings | 137 | 674 |
| Provisions - employee benefits | 2 776 | 2 392 |
| **Total Current Liabilities** | **8 684** | **7 328** |
| **Net Working Capital** | **44 398** | **43 086** |
| Property, plant and equipment | 413 170 | 405 507 |
| Investments in associates | 236 | 301 |
| Investment in water corporation | 201 725 | 200 567 |
| Receivables | 865 | 123 |
| **Total Non-Current Assets** | **615 996** | **606 498** |
| Borrowings | 1 001 | 1 138 |
| Provisions - employee benefits | 532 | 490 |
| **Total Non-Current Liabilities** | **1 533** | **1 628** |
| **Net Assets** | **658 861** | **647 956** |
| Reserves | 274 714 | 265 744 |
| Accumulated surpluses | 384 147 | 382 212 |
| **Total Equity** | **658 861** | **647 956** |

### Comment

As outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $10.905m.

Movements between Accumulated surplus and Reserves were mainly due to the revaluation of fixed assets being recorded within the Asset Revaluation Reserve and the creation of a Fair Value reserve, to account for the valuation of Council's investment in Southern Water. Transfers to other reserves were also made to provide for future infrastructure renewal.

Net Assets increased by $10.905m to $658.861m. Reasons for line items movements included:

- increased cash holdings, up $2.438m, which is discussed in the Cash Flow Statement section of this Chapter
- higher Payables, $1.509m, mainly due to Council having a number of high value capital invoices outstanding at year end
- lower Borrowings, down $0.537m, due to repayments of loans
- higher Property, Plant and Equipment, up $7.663m, reflecting:
    - a revaluation increment for several fixed asset groupings, including stormwater infrastructure, $6.343m,
    - newly commissioned items mainly roads, stormwater infrastructure and parks and recreation equipment, recorded at $14.999m,
    - less the annual Depreciation charge, 12.513m,
- greater investment in Southern Water, $1.158m,
- increased non-current receivables of $0.742m, which included a new loan provided to the Copping Joint Authority of $0.800m
- higher employee benefits of $0.426m, influenced by increased wage rates as per the recently signed enterprise agreement.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 44 774 | 46 822 |
| Cash flows from government | 4 967 | 5 003 |
| Payments to suppliers and employees | (39 077) | (42 875) |
| Interest received | 3 192 | 2 590 |
| Finance costs | (90) | (279) |
| **Cash from operations** | **13 766** | **11 261** |
| Capital grants and contributions | 0 | 1 524 |
| Payments for property, plant and equipment | (10 319) | (13 878) |
| Proceeds from sale of property, plant and equipment | 465 | 403 |
| **Cash (used in) investing activities** | **(9 854)** | **(11 951)** |
| Repayment of borrowings | (674) | (647) |
| Loans advanced | (800) | 0 |
| **Cash from (used in) financing activities** | **(1 474)** | **(647)** |
| **Net increase (decrease) in cash** | **2 438** | **(1 337)** |
| Cash at the beginning of the year | 46 893 | 59 709 |
| Less cash transferred to Southern Water | 0 | (11 479) |
| **Cash at end of the year** | **49 331** | **46 893** |

### Comment

Council's cash balance increased by $2.438m to $49.331m as at 30 June 2011. The main contributing factor to this was the fact that Cash from operations exceeded the combination of investments in property, plant and equipment, loans advanced and repayments of borrowings.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, cash from operations increased by $2.505m to $13.766m which included:

- Council's operating deficit of $0.549m adjusted for depreciation of $12.513m, a non-cash item, providing $11.964m in operating cash flows
- the impact of a higher Payables balance, which increased by $1.509m, that did not result in a cash outflow in 2010-11.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (549) | (2 539) | 2 708 | (737) |
| Operating surplus ratio * | > 0 | (1.10) | (5.32) | 4.13 | (1.27) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 53% | 60% | 68% | 35% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 50.4% | 51.1% | 50.4% | 51.8% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 42 145 | 40 660 | 25 920 | 20 570 |
| Net financial liabilities ratio * *** | 0-(50%) | 84.7% | 85.2% | 39.6% | 35.4% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 8.86 | 10.05 | 2.88 | 2.95 |
| Current ratio | 1:1 | 6.11 | 6.88 | 2.62 | 2.66 |
| Interest coverage | 3:1 | 151.96 | 39.36 | 16.41 | 10.07 |
| Asset investment ratio | >100% | 82% | 113% | 144% | 72% |
| Self financing ratio | | 27.7% | 23.6% | 37.8% | 29.2% |
| Own source revenue | | 90.1% | 89.6% | 89.6% | 96.2% |
| Debt collection | 30 days | 27 | 25 | 21 | 30 |
| Creditor turnover | 30 days | 21 | 10 | 24 | 37 |
| Rates per capita ($) | | 698 | 674 | 925 | 859 |
| Rates to operating revenue | | 74.3% | 73.6% | 72.7% | 75.6% |
| Rates per rateable property ($) | | 1 564 | 1 447 | 2 028 | 1 972 |
| Operating cost to rateable property ($) | | 2 130 | 2 071 | 2 674 | 2 642 |
| Employee costs expensed ($'000s) | | 13 367 | 12 664 | 14 104 | 13 205 |
| Employee costs capitalised ($'000s) | | 1 479 | 1 198 | 1 199 | 1 241 |
| **Total employee costs ($'000s)** | | **14 846** | **13 862** | **15 303** | **14 446** |
| Employee costs as a % of operating expenses | | 27% | 25% | 22% | 22% |
| Staff numbers (FTEs) | | 220 | 217 | 250 | 243 |
| Average staff costs ($'000s) | | 67 | 64 | 61 | 59 |
| Average leave balance per FTE ($'000s) | | 15 | 13 | 12 | 11 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

## Comment

Financial ratios relating to Profitability, Asset management and Liability management were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios were well above benchmark in all years under review, indicating an ability to meet short-term commitments. This was due to the significant level of cash and investments held at the end of each year. The high interest coverage ratios reflect Council's low level of finance costs associated with its borrowings.

# GLENORCHY CITY COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011. Following the audit, the financial statements were re-signed on 7 September 2011 and an unqualified audit report was issued on the same day.

## KEY FINDINGS AND DEVELOPMENTS

Council recognises a provision for decommissioning and rehabilitating its landfill site at Jackson Street and to manage the site after closure. The amount of the provision is a combination of estimated restoration costs and the useful life of the landfill. Currently, cost is based on internal estimates. We recommended that Council obtain an independent estimate of the cost for capping, rehabilitation and on-going maintenance of the landfill site and its useful life.

The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $3.376m in 2010-2011 (2010, Deficit $5.981m). The improved result was due primarily to higher rates, interest income, fees and charges and lower employee costs, as detailed in the Comprehensive Income Statement section of this Chapter. It is our view that, to ensure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis before capital grants and other non-operating items but inclusive of depreciation. This situation needs to be addressed by Council. In this respect it is pleasing to note that Council's final Net Operating Deficit was significantly better than its budgeted position which was a deficit of $8.320m.

Council recorded a Net Surplus of $7.724m (2009-10, $1.466m), which included Capital grants of $4.714m, contributions of non-monetary assets, $2.564m, and Gain on revaluation of investment properties, $3.411m. The Net Operating Deficit of $3.376 m represented 6.8% of operating revenues.

The Comprehensive Surplus of $44.873m included the impact of upward asset revaluations, $36.013m, and fair value adjustment of Council's interest in Southern Water, $1.136m.

Consistent with the Comprehensive Surplus of $44.873m, Council's Net Assets increased to $676.157m from $631.284m the previous year. As at 30 June 2011 Council had Net Working Capital of $20.328m up from $15.828m in the previous year, due to higher cash and receivables.

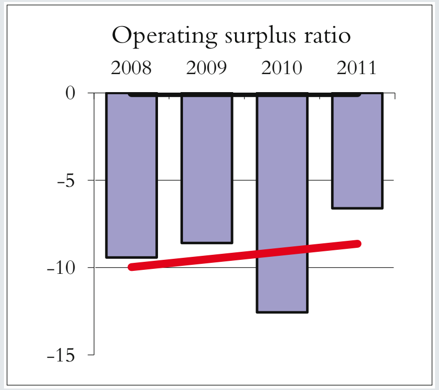
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

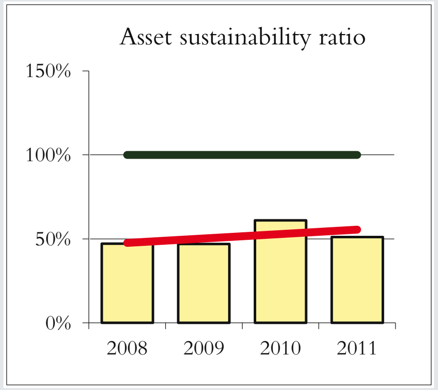
#### Relevant financial sustainability ratios

The following four graphs, and the discussion about the asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



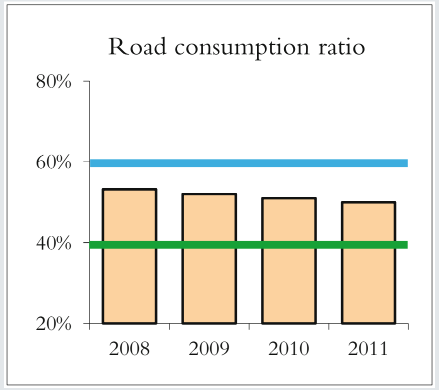

Council's operating surplus ratios reflect operating deficits in all four years. The negative ratios indicate that Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. The average ratio for the four years was negative 9.3 placing Council in the moderate risk range.




Asset sustainability ratio, although improving, was below benchmark in all four years under review. Council's average ratio was 52% which is well below the 100% benchmark, indicating, subject to levels of maintenance expenditure and its long-term asset management plan, Council was under investing in existing assets. However, the trend line is positive.

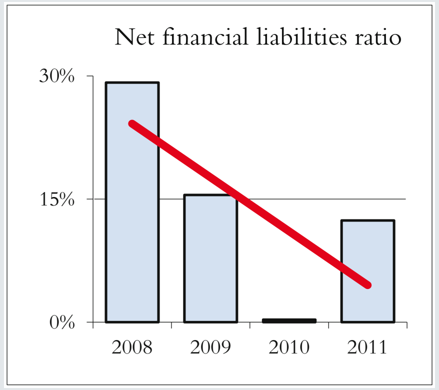
### Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 91% at 30 June 2011, based on planned asset replacement expenditure. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2021-22. Its financial plan covers a 10-year period.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2011 Council used (consumed) approximately 50% of the service potential of its road infrastructure assets. This indicates a moderate financial sustainability risk.




Council recorded a positive ratio in all four years under review, as liquid assets exceeded total liabilities. The positive Net financial liabilities ratio indicated a strong liquidity position, with Council able to meet its commitments.

### Governance

A review of governance arrangements indicated Council had an audit committee, with the Committee:

- comprised of two independent members and three Alderman
- required to liaise with Council's external auditors
- taking an oversight role of Council's financial statements
- overseeing the internal audit program which is undertaken by an external accounting firm.

In addition, Council had a long-term asset management and financial management plans. The asset management plan covers a period from 2011-12 to 2021-22, is detailed, regularly reviewed and covers all the elements required in relation to Council's key infrastructure assets. The long-term financial plan covers a 10-year period. Both plans are formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's ongoing operating deficits indicate it may not be generating sufficient revenue to meet operating requirements.

Council's liquidity was strong indicating it was in a sound position to meet its short-term commitments and may have a capacity to borrow should the need arise.

Asset sustainability ratio of 51% indicates Council may not be sufficiently investing in its existing assets and its road consumption ratio was in the moderate risk range at around 50%. These ratios were mitigated to an extent by Council's 91% asset renewal funding ratio.

Based on these ratios we concluded that at 30 June 2011, Council was at moderate risk from an operating and asset management perspective but low financial sustainability risk from financial liabilities and governance perspectives.

Management comments on this assessment of its financial sustainability

There are a number of medium/long term strategies in place to assist with Council's financial sustainability now and into the future. These strategies include:

- A revised emphasis on the strategic plan for the City that will help to formulate significant major projects required for our City's development, and steer our asset management strategies going forward. The Strategic Plan for the City will be intrinsically linked to the Council's financial sustainability plan and any new investment strategy will be assessed using the financial sustainability framework.
- Restructure of the organisation and review of Council's administrative overhead costs. The restructure will result in efficiencies and savings across the organisation, and will be structured to facilitate the activities necessary for the new approach to our strategic plan for the City.
- Reduced reliance on rates income and increased emphasis on alternative sources of income within Council's risk framework.
- Reviewing our level of borrowings which as shown by our strong liquidity, where Council has the capacity to repay subject to fixed rate break costs and future interest costs. Any future borrowings will be matched to long term investment strategies (when necessary).
- Gradual annual increase in Council's replacement and renewal (R&R) asset investment over the next six years to close the gap between the value of our spending on renewal and replacement assets and the value of depreciation expense. Council's projected R&R asset program is currently matched against straight line depreciation expense which due to our increased emphasis on city maintenance, potentially overstates the "required" level of spending. Management is investing funds into a state of the art Asset Management System (AMS), and is also investigating the feasibility to change the method of depreciation from straight line to condition based thereby more accurately reflecting the level of investment required for effective R&R asset spend.
- Whole of life costing for any significant investment into the City's new asset development.
- Continual development of our financial management systems such as implementation of a robust Budget Module to facilitate monthly variance analysis, financial year end forecasting, and long term financial projections. All new financial systems (this includes the AMS) are expected to be fully integrated with each other where obvious relationships exists, culminating into a more effective long term Financial Sustainability modelling tool with its key performance indicators.

## COMPREHENSIVE INCOME STATEMENT

| | **2010-11** | **2010-11** | **2009-10** |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 22 806 | 23 112 | 19 810 |
| Fees and charges | 9 560 | 10 670 | 9 416 |
| Grants ** | 4 590 | 5 375 | 5 323 |
| Other revenue | 12 417 | 10 558 | 12 096 |
| **Total Revenue** | **49 373** | **49 715** | **46 645** |
| Employee costs | 18 631 | 17 908 | 18 186 |
| Depreciation | 16 716 | 14 506 | 13 881 |
| Other expenses | 22 622 | 21 392 | 20 670 |
| **Total Expenses** | **57 969** | **53 806** | **52 737** |
| **Net Operating Deficit before** | **(8 596)** | **(4 091)** | **(6 092)** |
| Finance costs | (744) | (686) | (655) |
| Interest revenue | 1 020 | 1 401 | 938 |
| **Net Operating Deficit** | **(8 320)** | **(3 376)** | **(5 809)** |
| Capital grants | 4 283 | 4 714 | 2 674 |
| Financial assistance grant received in advance ** | 0 | 597 | 571 |
| Offset Financial assistance grant in advance ** | 0 | (571) | 0 |
| Insurance recovery | 0 | 0 | 2 186 |
| Contributions of non-current assets | 0 | 2 564 | 2 016 |
| Net gain(loss) on disposal of property,infrastructure, plant | 355 | 385 | (172) |
| Gain on revalution of investment properties | 0 | 3 411 | 0 |
| **Net Surplus (Deficit)** | **(3 682)** | **7 724** | **1 466** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 36 013 | 18 799 |
| Fair value initial adjustment Southern Water | 0 | 0 | (74 093) |
| Current year fair value adjustment Southern Water | 0 | 1 136 | 0 |
| **Total comprehensive income items** | **0** | **37 149** | **(55 294)** |
| **Comprehensive Surplus (Deficit)** | **(3 682)** | **44 873** | **(53 828)** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Deficits.*
*The Offset figure enable the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenue of $4.091m, compared to a Deficit of $6.092m in 2009-10. The lower deficit was predominately due to:

- increased Rates revenue of $3.302m (17%), due to higher general rate and municipal revaluations
- higher dividends from Southern Water. The dividend in 2010-11 was $7.428m. Dividend revenue in 2009-10 was $8.870m which included $1.494m of accrued dividends received in 2010-11
- controlling employee costs and other expenses which decreased by only $0.444m.

After accounting for net interest revenues and expenses Council recorded an Operating Deficit of $3.376m (2009-10, Deficit or $5.809m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $1.081m per annum over the past four years.

Council reported a Net Surplus of $7.724m in 2010-11 (2009-10, $1.466m) mainly due to:

- Capital grants, $4.714m, comprising funding for Glenorchy Arts Sculpture Park (GASP), $2.542m, Derwent Park Stormwater Reuse, $0.924m, King George V Infrastructure, $0.650m, Road to Recovery Program, $0.448m, and Tolosa Park Criterium Circuit, $0.150m
- assets contributed by developers, $2.564m,
- Gain on revaluation of investment properties, $3.411m.

Total Comprehensive Surplus totalled $44.873m in 2010-11 (2009-10, Deficit of $53.828m) comprising:

- fair value revaluations of non-current assets of $36.013m which included roads and bridges, $6.618m, stormwater and drainage, $3.616m, land, $24.679m, buildings, $0.979m, plant and vehicles, $0.088m and equipment and furniture, $0.033m
- increase in the investment in Southern Water, $1.136m, due to Council's interest in Southern Water's higher net assets at 30 June 2011.

Council budgeted for a Net Operating Deficit of $8.320m but generated an actual Net Operating Deficit of $3.376m, an improvement of $4.944m, 59.42%, due predominantly to higher Fees and charges and savings in Employee costs, Depreciation and Other expenses.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 24 045 | 20 119 |
| Receivables | 2 835 | 1 331 |
| Inventories | 147 | 122 |
| Other | 1 989 | 3 573 |
| **Total Current Assets** | **29 016** | **25 145** |
| Payables | 2 228 | 2 618 |
| Borrowings | 1 200 | 1 374 |
| Provisions - employee benefits | 4 151 | 4 397 |
| Other | 1 109 | 928 |
| **Total Current Liabilities** | **8 688** | **9 317** |
| **Net Working Capital** | **20 328** | **15 828** |
| Property, plant and equipment | 463 147 | 427 776 |
| Investment in water corporation | 198 040 | 196 904 |
| Investment properties | 6 487 | 3 059 |
| Other | 3 | 7 |
| **Total Non-Current Assets** | **667 677** | **627 746** |
| Borrowings | 9 266 | 9 787 |
| Provisions - employee benefits | 1 510 | 1 431 |
| Other | 1 072 | 1 072 |
| **Total Non-Current Liabilities** | **11 848** | **12 290** |
| **Net Assets** | **676 157** | **631 284** |
| Reserves | 304 345 | 265 460 |
| Accumulated surpluses | 371 812 | 365 824 |
| **Total Equity** | **676 157** | **631 284** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $44.873m. Net Assets increased by the same amount to $676.157m. Major line item movements included:

- higher Cash and financial assets of $3.926m. Refer to the Cash Flow Statement section of this Chapter for further explanation
- increased Receivables, $1.504m, due to three significant outstanding debts relating to the Derwent Park Stormwater Reuse Project, $0.924m, the Vodaphone Mobile Tower, $0.171m, and Tolosa Park Reserve Maintenance, $0.140m,
- lower Other current assets, $1.584m, due to the prior year including the final dividend from Southern Water, $1.200m,
- decreased Borrowings, $0.695m, due to repayments of loans

- higher Property, plant and equipment, $35.371m, reflecting:
  - a revaluation increment of $36.013m
  - newly commissioned items mainly roads, buildings and stormwater costing $14.128m
  - less annual Depreciation charge, $14.506m,
- increased Investment in Southern Water of $1.136m as discussed in the Comprehensive Income Statement section of this Chapter
- higher Investment properties, $3.428m, due to upward revaluation at 30 June 2011.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 37 922 | 35 833 |
| Cash flows from government | 5 670 | 5 984 |
| Payments to suppliers and employees | (41 297) | (41 112) |
| Interest received | 1 558 | 687 |
| Finance costs | (686) | (655) |
| **Cash from operations** | **3 167** | **737** |
| Capital grants and contributions | 4 714 | 2 674 |
| Dividends received - Southern Water | 8 922 | 7 375 |
| Payments for property, plant and equipment | (12 572) | (10 839) |
| Proceeds from sale of property, plant and equipment | 385 | 277 |
| Insurance recovery | 0 | 2 186 |
| **Cash from investing activities** | **1 449** | **1 673** |
| Proceeds from borrowings | 680 | 680 |
| Repayment of borrowings | (1 370) | (1 461) |
| **Cash (used in) financing activities** | **(690)** | **(781)** |
| **Net increase in cash** | **3 926** | **1 629** |
| Cash at the beginning of the year | 20 119 | 18 875 |
| Less cash transferred to Southern Water | 0 | (385) |
| **Cash at end of the year** | **24 045** | **20 119** |

### Comment

At 30 June 2011, Council's total cash balance of $24.045m comprised cash at bank, on hand and short-term investments. Its cash position improved by $3.926m during 2010-11 with Cash from operations of $3.167m and Capital grants and contributions, $4.714m, Dividends received from Southern Water, $8.922m, and Proceeds from sale of property, plant and equipment, $0.385m, being partly utilised to fund Payments for property, plant and equipment totalling $12.572m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $2.430m to $3.167m which included:

- Council's operating deficit of $3.376m adjusted for depreciation of $14.506m, a non-cash item, providing $11.130m in operating cash inflows, offset by
- cash inflows from dividends received from Southern Water, $8.922m, being recorded as an investing activity for cash flow purposes.

Major capital expenditure projects during the period included the completion of the road upgrading program and other road works, $6.131m, GASP, $2.759m, and the KGV project, $0.717m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (3 376) | (5 981) | (5 592) | (5 902) |
| Operating surplus ratio * | >0 | (6.60) | (12.57) | (8.59) | (9.41) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 51% | 61% | 47% | 47% |
| Asset renewal funding ratio* ** | 90%-100% | 91% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 50.0% | 51.0% | 52.1% | 53.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (6 344) | (157) | (10 086) | (18 297) |
| Net financial liabilities ratio | 0-(50%) | (12.4%) | (0.3%) | (15.5%) | (29.2%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 5.28 | 4.93 | 3.06 | 1.73 |
| Current ratio | 1:1 | 3.34 | 2.70 | 1.90 | 1.23 |
| Interest coverage | 3:1 | 3.62 | 0.13 | 8.28 | 7.29 |
| Asset investment ratio | >100% | 87% | 78% | 61% | 58% |
| Self financing ratio | | 6.2% | 1.5% | 19.1% | 18.9% |
| Own source revenue | | 89.5% | 88.8% | 91.5% | 89.4% |
| Debt collection | 30 days | 31 | 17 | 16 | 18 |
| Creditor turnover | 30 days | 5 | 14 | 13 | 15 |
| Rates per capita ($) | | 518 | 446 | 941 | 886 |
| Rates to operating revenue | | 45.2% | 41.6% | 64.3% | 62.5% |
| Rates per rateable property ($) | | 1 096 | 947 | 2 016 | 1 905 |
| Operating cost to rateable property ($) | | 2 584 | 2 562 | 3 405 | 3 335 |
| Employee costs expensed ($'000s) | | 17 908 | 18 186 | 20 615 | 19 275 |
| Employee costs capitalised ($'000s) | | 2 606 | 2 175 | 2 417 | 2 156 |
| **Total employee costs ($'000s)** | | **20 514** | **20 361** | **23 032** | **21 431** |
| Employee costs as a % of operating expenses | | 33% | 34% | 29% | 28% |
| Staff numbers (FTEs) | | 273 | 254 | 297 | 310 |
| Average staff costs ($'000s) | | 75 | 80 | 78 | 69 |
| Average leave balance per FTE ($'000s) | | 21 | 23 | 21 | 18 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Glenorchy City Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liability management were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Council's Liquidity and Current ratios were above benchmark in all four years under review, indicating an ability to meet short-term commitments.

Interest coverage ratios increased in 2010-11 due to improved cash from operations, mentioned earlier. The drop in 2009-10, followed the transfer of debt to Southern Water.

Asset investment ratios show Council's total capital expenditure was well below its depreciation expense in all years under review which suggests Council was not adequately investing in new and existing assets.

Debt collection days were better than benchmark in all years except 2010-11 which was the result of the significant outstanding debts at 30 June 2011 mentioned previously.

Council's positive Self-financing ratios indicate it generated operating cash flows which contributed towards its capital expenditure programs. The reduction in 2009-10 was likely to have related to the loss of water and sewerage rating income. Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on recurrent grant funding to the extent of only 10.5% (2009-10, 11.2%).

Rates statistics were comparatively consistent over the first two years of review. The change in 2009-10 was mainly due to the transfer of the water and sewerage activities and Council not rating for these services. Rates to operating revenue decreased in 2009-10 to 41.6% highlighting the relative importance of grant and dividend income following the transfer of water and sewerage activities. The increase in 2010-11 reflected higher general rates and municipal revaluations, mentioned earlier.

Employee costs as a percentage of operating costs increased slightly in 2009-10 following the transfer of water and sewerage activities and the subsequent loss of water and sewerage expenditure, including bulk water purchases.

Average staff costs decreased in 2010-11, mainly due to increased Staff numbers, from 254 in 2009-10 to 273 in 2010-11. The Staff numbers increase was mainly driven by Derwent Entertainment Centre employees who increased from approximately 5 permanent and 10 casual staff in 2009-10 to 7.82 permanent and 20 casual staff in 2010-11.

# HOBART CITY COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 9 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major issues outstanding.

In 2010-11, Council completed the expansion of its Centrepoint Car Park, which increased the capacity to 798 car parking spaces.

Council entered into an agreement with a private developer in 2009 to purchase, on a strata title basis, a new car park to be constructed adjacent to the existing Argyle Street Car Park. The extension will add a further 540 car parking spaces and is due to be completed in 2011-12. Council agreed to pay for the additional spaces on a staged basis with progress payments made throughout the construction.

Comments made in our 2009-10 Report indicated Council experienced negative operational impacts from the water and sewerage reforms. This was still evident in 2010-11 although to a lesser extent as indicated by higher cash generated from operations of by $2.884m and a lower Net Operating Deficit by $1.745m.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit before non operating items of $2.257m in 2010-11, (2010, deficit $4.002m). While an improvement, this result was $1.452m worse than the budgeted Net Operating Deficit of $0.805m. As we noted last year, it is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis. Council has not operated above break-even and achieved a result worse than its budgeted deficit. Audit notes Council plans to address this. Its 20 year long-term financial management plan indicates a targeted breakeven for its underlying operating result. The plan reports overall small surpluses from 2012 onwards with one year in the period, 2019, projecting a $1.037m deficit and five years in this period projecting small deficits of $0.251m or less.

After accounting for capital grants and other non operating items, Council reported a Net Surplus of $0.243m (2009-10, $2.542m) and after accounting for fair value movements in its infrastructure, investment in Southern Water and its defined benefit superannuation obligations it reported a Comprehensive deficit of $7.052m ($177.866m).

Consistent with the Comprehensive deficit of $7.052m, Council's Net Assets decreased to $863.951m, down from $871.003m at 30 June 2010. As at 30 June 2011 Council had Working Capital of $15.408m and was in a strong position to meet its commitments. Its cash and investment balances totalled $30.295m, with $3.503m of this balance identified as restricted as it represented unexpended grants or heritage funds.

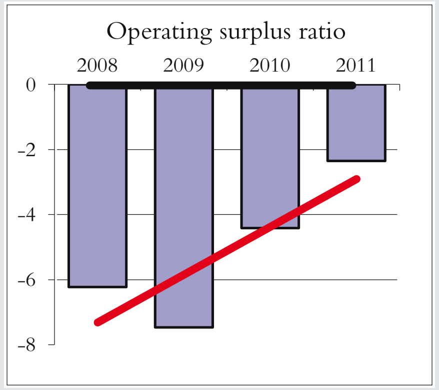
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

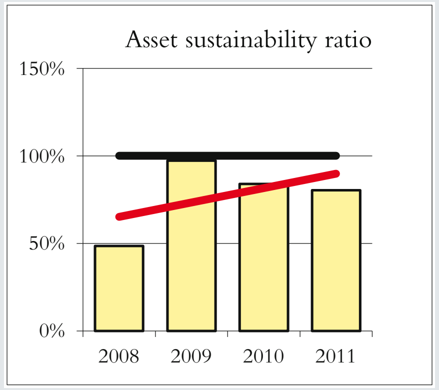
### Relevant financial sustainability ratios

The following four graphs and the discussion about asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



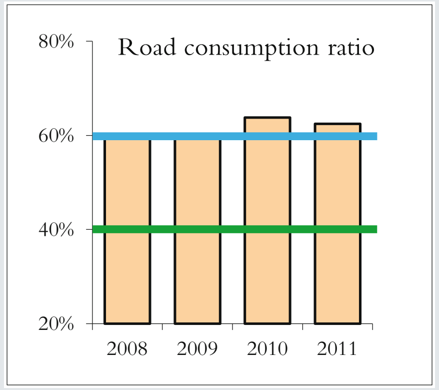

Council recorded operating deficits in each of the past four years, with the trend indicating a move towards a break-even or surplus position. This is consistent with Council's 20 year long-term financial management plan. As noted in prior years Council generates a high percentage of its revenue internally and is not heavily reliant on grant funding. However, operating deficits indicate that revenue generated by Council is not sufficient to fulfil all of its operating requirements, including its depreciation charge.




The asset sustainability ratio, also referred to as the asset renewal ratio, was below the 100% benchmark in all four years under review. In its long term financial management plan Council reports that it aims for an average ratio of 77% over the 20 year period commencing 2012. At this point in time Council considers that it is not under-investing in its assets and creating a burden for future generations. Council's view is that over the next 20 years period, relative to the long term nature of its assets, asset renewal requirements are lower. Asset planning by Council indicates that asset renewal requirements will eventually increase beyond the 20 year period and this will be prudently factored in with updates to the financial plan.

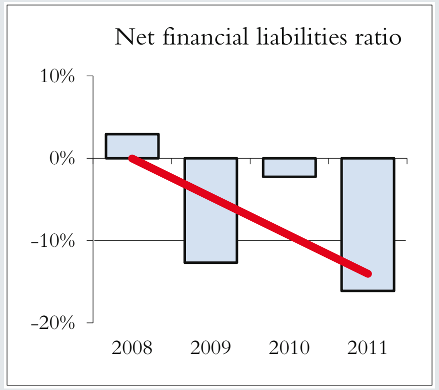
### Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 100% at 30 June 2011. This is based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's Long-Term Financial Management Plan 2012 -2032. Renewal forecasts were completed by Council's Asset Services and included in the Overarching Asset Management Plan 2010, which was endorsed by the Asset Management Steering Committee in April 2011. We understand it is Council's intention to undertake renewal works in line with its long-term asset management plan.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2011 Council had used (consumed) approximately 38% of its road assets. This indicates Council had overall low financial sustainability risk as this relates to its road infrastructure.




Council recorded a negative Net financial liabilities ratio in each of the past three years. The ratio is calculated by dividing net financial liabilities at balance date by operating income for the financial year. Council's negative ratios are within the benchmark of 0% to -50% and still indicate a strong liquidity position, with Council being able to meet all future commitments and having a capacity to borrow.

### Governance

A review of Council's governance arrangements indicated that it:

- had an audit committee in place along with an active internal audit program
- in addition to aldermanic members, the audit committee had a requirement for two independent members which was met
- had prepared a long-term asset management plan – this is reviewed every year by the Asset Management Steering Committee
- had a documented long-term financial management plan – this is also reviewed every year by the Finance Committee and adopted by the Council.

The Audit Committee's responsibilities in respect of financial statements included:

- being satisfied that the financial statements are supported by appropriate management and audit sign-off
- reviewing the financial statements and recommending and providing advice to the Council on the adoption of the audited financial statements taking into account audit recommendations and adjustments
- reviewing the processes in place designed to ensure that financial information included in Council's annual report is consistent with the signed financial statements.

While these arrangements are appropriate, as they relate to reviewing Council's annual financial statements the Audit Committee's involvement is 'after the event' in that their review was conducted after completion of the audit, not prior to their signature by the General Manager. While this is consistent with legislative responsibilities outlined in the *Local Government Act 1993*, best practice is that the Committee have a role in reviewing the financial statements prior to signature by the General Manager.

## Conclusion as to financial sustainability

Taken together these ratios provide differing messages when considering Council's financial sustainability. From a financial operating perspective, Council's operating surplus was below the benchmark for all four years of the analysis, although there was an improved result in 2010-11. The target in 2012 is breakeven. This indicates moderate financial sustainability risk.

Council's net financial liabilities ratio was negative but below 20% indicating a strong liquidity position, with Council able to meet its commitments and having a capacity to borrow.

On the other hand, Council's asset sustainability ratio indicates, based on our 100% benchmark, that it has been under-investing in existing assets over the period of the analysis whereas its road asset consumption ratio was marginally in the low risk range. Asset planning by Council indicates that asset renewal requirements will increase beyond 2032 and that it will factor in updates to its financial plan together with a transition to a higher ratio over the same period.

While improvements could be made, Council's governance arrangements are satisfactory indicating low risk on this criteria.

Based on these assessments we concluded that at 30 June 2011, Council was at low financial sustainability risk from an asset management, net financial liabilities and governance perspective but moderate risk from an operating perspective.

### Management comments on this assessment of its financial sustainability

The Hobart City Council strongly believes it is financially sustainable. As noted, Council has recorded a modest operating deficit and is budgeting for a small surplus in 2011-12. With respect to asset investment, though a low risk conclusion has been drawn, Council does not agree with the assertion it is under investing in its assets. This view is reliant on the asset sustainability ratio which we do not consider to be an appropriate indicator. We continue to lobby the Auditor-General on this issue. We do not agree that asset renewal expenditure should equal, or exceed depreciation expense, every year. There can be many valid reasons why the two amounts will differ and the use of this indicator is not universally supported within the asset management industry. Our asset management plans reveal that over the coming 20 year period, our asset renewal requirements will consistently be less than depreciation. Our 20 year financial plan reveals those requirements will be fully funded, and that cash reserves will accumulate over the period, to fund larger renewal requirements thereafter. This is sustainable asset management practice.

Council concurs with the low financial risk assessments for debt management and governance.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 58 226 | 58 455 | 55 051 |
| Fees and charges | 26 042 | 26 314 | 25 922 |
| Grants ** | 2 965 | 4 497 | 3 600 |
| Other revenue | 4 606 | 4 635 | 4 080 |
| **Total Revenue** | **91 839** | **93 901** | **88 653** |
| Employee costs | 42 907 | 44 605 | 41 543 |
| Depreciation | 16 574 | 15 764 | 15 918 |
| Other expenses | 34 407 | 37 234 | 36 302 |
| **Total Expenses** | **93 888** | **97 603** | **93 763** |
| **Net Operating (Deficit) before** | **(2 049)** | **(3 702)** | **(5 110)** |
| Finance costs | (771) | (773) | (844) |
| Interest revenue | 2 015 | 2 218 | 1 952 |
| **Net Operating (Deficit)** | **(805)** | **(2 257)** | **(4 002)** |
| Capital grants | 0 | 1 977 | 1 532 |
| Financial assistance grant received in advance ** | 0 | 719 | 617 |
| Offset Financial assistance grant in advance ** | 0 | (617) | (672) |
| Contribution from Southern Water to repay loan debt | 0 | 0 | 5 067 |
| Contributions of non-current assets | 0 | 421 | 0 |
| **Net Surplus (Deficit)** | **(805)** | **243** | **2 542** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | (4 223) | (62 332) |
| Fair value initial adjustment Southern Water | 0 | 0 | (119 852) |
| Current year fair value adjustment Southern Water | 0 | 1 135 | 0 |
| Actuarial gain (loss) defined benefit superannuation plan | 0 | (4 207) | 1 776 |
| **Total comprehensive income items** | **0** | **(7 295)** | **(180 408)** |
| **Comprehensive (Deficit)** | **(805)** | **(7 052)** | **(177 866)** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Deficit.*
*The Offset enables the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenue and non-operating items of $3.702m, a $1.408m improvement on the $5.110m deficit in 2009-10. The improved result was due to:

- an increase in Rates and charges of $3.404m or 6.2%, reflecting an annual increase in the rates levied on land and buildings, offset partly by a decrease in the base on which the rates are levied
- increased Other revenue, $0.555m, mainly attributable to an increase in commercial revenue, $0.467m, from additional space rented at Hobart Council Centre and increased stall rentals at the Taste Festival, offset by
- increases in Employee costs, $3.062m or 7.4%, due to an increase in staff numbers and indexation of salaries and wages and other increments in line with the Council's Enterprise Agreement.

In 2010-11, Council received a grant $1.191m from the Australian Government to upgrade the Domain Tennis Centre, including the construction of new grandstands. Costs associated with the upgrade were expensed in the same year and included in Other expenses.

After accounting for a net interest income of $1.445m, Council made a Net Operating Deficit of $2.257m. Interest revenue, which averaged $2.519m over the past four years, was a significant source of revenue.

Overall, Council reported a Net Surplus of $0.243m due to

- Capital grants, $1.977m, comprising funding under the Road to Recovery Program, $0.640m, upgrade to power and lighting at North Hobart Oval, $0.500m, and other capital works
- assets contributed by developers, $0.421m.

After excluding capital grants, Council budgeted for a deficit in each of the past four years. However, Council's budget position is improving with an anticipated move to break-even. As noted earlier, Council's financial modelling indicates it is moving towards small surplus operating results commencing 2012-13.

Other Comprehensive Income totalled $7.295m in 2010-11 comprising:

- fair value revaluation decrement of non-current assets of $4.223m, represented by a decrease in the value of buildings, $11.288m, partly offset by an increase value of roads and bridges, $2.701m, pipes, drains and rivulets, $2.325m, other structures, $1.094m.
- increased investment in Southern Water, reflecting the increase in Southern Water's net assets
- an Actuarial loss of $4.207m, on the Hobart City Council's Superannuation Fund.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 30 295 | 38 661 |
| Receivables | 3 109 | 3 222 |
| Inventories | 331 | 334 |
| Other | 22 | 200 |
| **Total Current Assets** | **33 757** | **42 417** |
| Payables | 5 204 | 6 477 |
| Borrowings | 352 | 201 |
| Provisions – employee benefits | 9 457 | 8 460 |
| Other | 3 336 | 2 927 |
| **Total Current Liabilities** | **18 349** | **18 065** |
| **Net Working Capital** | **15 408** | **24 352** |
| Property, plant and equipment | 656 586 | 651 160 |
| Investment in water corporation | 197 856 | 196 721 |
| Investment property | 24 414 | 24 407 |
| Other | 226 | 244 |
| **Total Non-Current Assets** | **879 082** | **872 532** |
| Borrowings | 7 603 | 6 105 |
| Provisions – employee benefits | 1 321 | 1 401 |
| Superannuation liability | 13 915 | 10 655 |
| Other | 7 700 | 7 720 |
| **Total Non-Current Liabilities** | **30 539** | **25 881** |
| **Net Assets** | **863 951** | **871 003** |
| Reserves | 479 184 | 485 254 |
| Accumulated surpluses | 384 767 | 385 749 |
| **Total Equity** | **863 951** | **871 003** |

### Comment

Total Equity decreased by $7.052m at 30 June 2011 which was Council's Comprehensive Deficit for the year as reported in the Comprehensive Income Statement.

The corresponding decrease in Net Assets, $7.052m, was a result of:

- a decrease in Cash and financial assets, $8.366m, discussed in the Cash Flow Statement section of this Chapter
- lower Payables, $1.273m, mainly due to a decrease in accrued capital expenditure of $1.015m
- a net increase in Borrowings, $1.649m, to assist with funding of capital works
- a net increase in Provisions for employee benefits, $0.917m, due to an indexation of salaries and wages and other increments
- increased Property, plant and equipment, $5.426m, representing new additions, $27.560m, including Centrepoint Car Park, $8.441m, roads and bridges, $5.176m, and plant and equipment, $2.786m, less Depreciation, $15.764m, disposals, $2.147m, and decreases in asset values arising from asset revaluations, $4.223m,
- an increase in the value of Council's investment in Southern Water, $1.135m, representing Council's share of an increase in Southern Water's net assets
- an increase in Superannuation liability, $3.260m, due primarily to an increase the actuarial losses, $4.207m, which arose mainly from worse than expected returns on fund assets.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 92 402 | 87 406 |
| Cash flows from government | 4 717 | 3 594 |
| Payments to suppliers and employees | (85 136) | (79 785) |
| Interest received | 2 123 | 1 999 |
| Finance costs | (402) | (458) |
| **Cash from operations** | **13 704** | **12 756** |
| Capital grants and contributions | 1 977 | 1 588 |
| Dividends received - Hobart Water | 0 | 0 |
| Dividends received - Southern Water | 2 096 | 1 860 |
| Payments for property, plant and equipment | (28 213) | (20 274) |
| Proceeds from sale of property, plant and equipment | 421 | 652 |
| **Cash (used in) investing activities** | **(23 719)** | **(16 174)** |
| Proceeds from borrowings | 1 850 | 1 750 |
| Contribution from Southern Water to repay loan debt | 0 | 5 067 |
| Repayment of borrowings | (201) | (5 020) |
| **Cash from financing activities** | **1 649** | **1 797** |
| **Net (decrease) in cash** | **(8 366)** | **(1 621)** |
| Cash at the beginning of the year | 38 661 | 40 282 |
| **Cash at end of the year** | **30 295** | **38 661** |

### Comment

Council's cash balance decreased by $8.366m to $30.295m at 30 June 2011. The main contributing factor to the decrease was $23.719m spent on investing activities, funded by cash generated from operations, $13.704m, net proceeds from borrowings, $1.649m, and from existing cash, $8.366m. The cash balance on hand of $30.295m comprised cash at bank and on hand, $3.770m, term deposits, $24.000m, and other investments at call of $2.525m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $2.884m to $13.704m which included:

- Council's Net surplus of $0.243m adjusted for depreciation of $15.764m and other non-cash movements in property, plant and equipment of $1.728m, providing $17.735m in operating cash inflows, offset by
- cash inflows from dividends received from Southern Water $2.096m and capital grants of $1.977m being recorded as an investing activity for cash flow purposes.

Cash used in investing activities, $23.719m, included payments for the redevelopment of the Argyle Street and Centrepoint Car Parks, $13.408m and $3.302m respectively, and road improvements, $2.901m.

At 30 June 2011, Council reported that $3.503m (2009-10, $3.424m) of the cash balance was restricted as it was held for specific purposes, such as heritage funding, provision of parking facilities, public open space etc. Council noted the majority of the remaining cash was "earmarked" for specific purposes, mainly replacement of assets and other capital works.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating deficit ($'000s) | | (2 257) | (4 002) | (7 592) | (6 036) |
| Operating surplus ratio * | > 0 | (2.35) | (4.42) | (7.47) | (6.23) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 80% | 84% | 97% | 49% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 62.5% | 63.8% | 60.3% | 59.7% |
| Building consumption ratio | | 66.5% | 63.4% | 65.3% | 66.2% |
| Drainage consumption ratio | | 33.9% | 34.2% | 34.3% | 35.1% |
| Parks and recreation consumption ratio | | 47.7% | 52.6% | 49.7% | 50.4% |
| Total asset consumption ratio * | | 59.3% | 60.1% | 59.5% | 59.0% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (15 484) | (2 063) | (12 901) | 2 828 |
| Net financial liabilities ratio *** | 0-(50%) | (16.1%) | (2.3%) | (12.7%) | 2.9% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.96 | 4.55 | 3.19 | 4.23 |
| Current ratio | 1:1 | 1.84 | 2.35 | 2.00 | 2.53 |
| Interest coverage | 3:1 | 33.09 | 26.85 | 13.09 | 14.86 |
| Asset investment ratio | >100% | 179% | 127% | 140% | 67% |
| Self financing ratio | | 14.3% | 14.1% | 14.1% | 16.4% |
| Own source revenue | | 95.3% | 96.0% | 97.0% | 97.3% |
| Debt collection | 30 days | 12 | 15 | 14 | 16 |
| Creditor turnover | 30 days | 19 | 24 | 32 | 27 |
| Rates per capita ($) | | 1 167 | 1 104 | 1 368 | 1 306 |
| Rates to operating revenue | | 60.8% | 60.8% | 66.8% | 67.0% |
| Rates per rateable property ($) | | 2 479 | 2 339 | 2 894 | 2 788 |
| Operating cost to rateable property ($) | | 4 106 | 4 020 | 4 656 | 4 417 |
| Employee costs expensed ($'000s) | | 44 605 | 41 543 | 40 426 | 37 049 |
| Employee costs capitalised ($'000s) | | 1 436 | 1 787 | 2 907 | 2 312 |
| **Total employee costs ($'000s)** | | **46 041** | **43 330** | **43 333** | **39 361** |
| Employee costs as a % of operating expenses | | 46% | 44% | 37% | 36% |
| Staff numbers (FTEs) | | 596 | 591 | 597 | 581 |
| Average staff costs ($'000s) | | 77 | 73 | 73 | 68 |
| Average leave balance per FTE ($'000s) | | 18 | 17 | 16 | 16 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*
*** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liability management were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios were above benchmark in all years under review, indicating Council's ability to meet its short-term commitments. This was due mainly to a significant level of cash and investments held at the end of each year. The slight decline in both ratios this year was a result of cash being used to finance capital works.

Asset investment ratio was above benchmark for the last three years, reflecting significant capital projects undertaken by Council, including the expansion of Centrepoint and Argyle Street Car Parks, redevelopment of Council's administration building, CBD revitalisation and construction of Sandy Bay Beach seawall.

Rates ratios fell in 2010 due to the transfer of water and sewerage assets. Average rates increased by 6.2%.

The increase in Total employee costs was a combination of an increase in Staff numbers, up 5 FTEs, annual indexation of salaries and wages and other increments. Average staff costs increased by 5.4% in line with the Enterprise Agreement, comprising annual indexation and other increments.

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 31 August 2011.

## KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major matters outstanding.

The Invermay flood protection enhancement project was once again a significant capital project during the year. The initial project budget was $39.000m funded equally by the State Government, the Commonwealth Government and Council. During 2009-10, the budgeted cost for the project increased by approximately $23.000m, with Council seeking additional funding from both the State and Commonwealth Governments. In 2010-11, the increase in the budgeted project cost was revised downwards to $20.250m and the State and Commonwealth Governments committed an additional $6.750m each to the project. Council received $5.750m of the additional funding from the State Government in June 2011. This amount was recorded as a deposit liability at 30 June 2011 as it was subject to funding conditions being met.

In 2010-11, Council received distributions from the Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd (Ben Lomond Water) totalling $2.107m. Council was not initially allocated a priority dividend, but subsequent to 30 June 2010 the eligibility for priority dividends was reassessed.

## FINANCIAL RESULTS

Council recorded a Net Operating Deficit after net financing revenue of $0.623m in 2010-11 (2009-10, surplus of $0.793m). While we acknowledge this result was considerably better than the estimated deficit of $3.949m, it is our view that, to ensure long-term financial sustainability, Council should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of depreciation. The deficit of $0.623m represented 0.76% of operating revenues (including interest revenue).

Council generated a Net Surplus of $8.774m (2009-10, $258.120m) and a Comprehensive Surplus of $137.017m ($127.779m). The Comprehensive Surplus included the net impact of asset revaluations, $142.808m, offset by a net write-down in Council's interest in Ben Lomond Water of $13.850m.

Consistent with the Comprehensive Surplus of $137.017m, Council's Net Assets increased to $1.416bn, up from $1.279bn on the previous year. As at 30 June 2011 Council had Net Working Capital of $28.419m and was in a strong position to meet its commitments. Council's cash and investment balances totalled $60.395m, with $16.027m restricted or held as deposits.

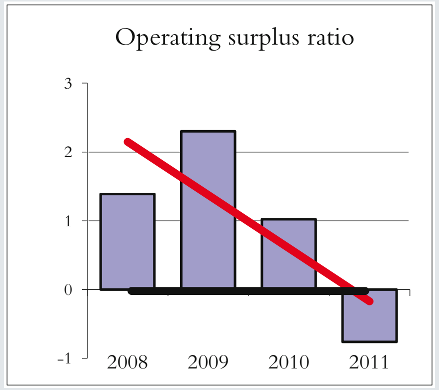
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

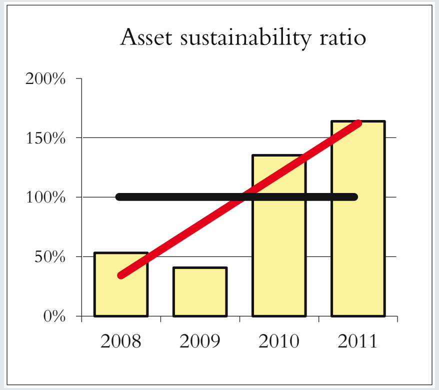
### Relevant financial sustainability ratios

The following four graphs, and the discussion about the asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:




Council recorded an operating deficit in 2010-11 compared with surpluses in the prior three years. Over the four year period, Council averaged an Operating surplus ratio of 0.99%, which was above benchmark. This indicates that over the period under review, Council generated sufficient revenue to fulfil its operating requirements, including depreciation charges. However, the trend line indicates a deteriorating ratio which is a situation Council will need to monitor.

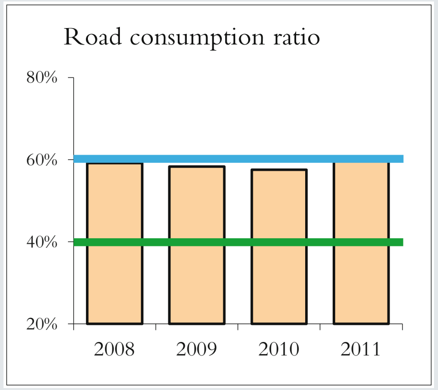



The ratio shows Council's capital expenditure on maintaining its current capacity to provide services was above benchmark in 2009-10 and 2010-11, but well below in the preceding two years. The average over the period was 98%, slightly below our 100% benchmark. The lower ratio in 2007-08 and 2008-09 was partly due to the large proportion of capital expenditure on new assets in those years which included the Launceston aquatic centre and Invermay flood protection enhancement project; both projects were enhancements on existing infrastructure. Despite this, and subject to levels of maintenance expenditure and the long-term asset management plan, compared to our 100% benchmark, Council substantially invested in existing assets.

### Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 100% at 30 June 2011. This is based on future planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's capital expenditure database for the period 2012 to 2021. The database, completed by Council's Infrastructure Directorate, details all renewals works required to maintain services to ratepayers. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.

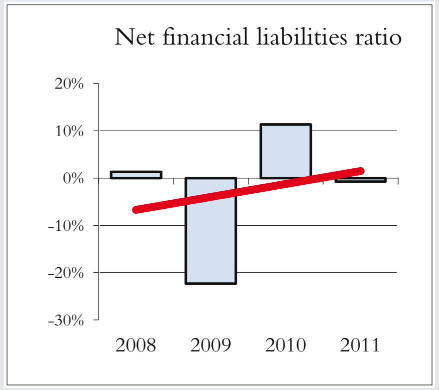
In addition, Council has a rolling ten year asset management plan, currently covering the period 2012 to 2021, for road infrastructure and is currently completing plans for other asset classes. Council's long-term financial management plan also covers the same ten year period.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2011 Council had used (consumed) approximately 40% of the service potential of its road infrastructure assets.

This indicates a low financial sustainability risk, with Council 30 June 2011, having sufficient capacity to continue to provide services to its ratepayers.




Council recorded a negative ratio at 30 June 2011, with total liabilities exceeding liquid assets by $0.623m, which represented less than 1% of operating revenue. The negative ratio is well within our benchmark of nil to negative 50%.

Council was in a sound liquidity position able to meet existing commitments. The high ratio in 2008-09 was mainly due to current liabilities at 30 June 2009 including a deposit liability for $20.000m related to funding for the flood protection enhancement project. State and Commonwealth funding was received in 2007-08 and 2008-09 but recorded as a deposit liability until the grant conditions were met in August 2009.

### Governance

A review of Council's governance arrangements indicated Council has an audit committee with membership consisting of three Aldermen. The Committee:

- oversees the internal audit program, undertaken by an external accounting firm
- liaises with the external auditors.

Although the Committee reviews quarterly financial reports, it does not take an active role in the review of Council's annual financial statements. Based on our review, Council's audit committee could be improved by appointing independent members with relevant expertise and governance would be further improved if the Committee played a role in reviewing the annual financial statements prior to their submission to the General Manager for signature.

Council's long-term asset management and financial management plans were both given low risk ratings as the plans were detailed, evidence existed that they were regularly reviewed, covered all of the key elements required and both were formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council generally recorded surpluses and generated sufficient revenue to meet operating requirements including depreciation.

Asset sustainability ratio indicated Council, based on our 100% benchmark, underinvested in existing assets over the past four years although levels of investment improved over this period. Council's Road asset consumption ratio remained steady at around 60% over the four year period and its road infrastructure had sufficient service potential to meet the requirements of ratepayers.

Council's liquidity was strong indicating a sound position to meet its short-term commitments and a capacity to borrow should the need arise.

From a governance perspective, Council has an active audit committee but which does not take an active role in the review of Council's financial statements. Council has both long-term asset management and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2011, Council was at low financial sustainability risk in all respects.

### Management comments on this assessment of its financial sustainability

The conclusion is supported. There are ongoing challenges with completion of the flood levee project and transitioning to a sustained level of distribution revenue from Ben Lomond Water.

The operating result for 2011 was also significantly adversely affected by the expensing of a major stormwater separation project ($1.6m).

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 49 546 | 50 228 | 47 013 |
| Fees and charges | 17 124 | 16 959 | 17 495 |
| Grants ** | 5 882 | 6 443 | 6 997 |
| Ben Lomond Water investment revenue | 1 000 | 2 107 | 0 |
| Other revenue | 2 064 | 2 326 | 2 409 |
| **Total Revenue** | **75 616** | **78 063** | **73 914** |
| Employee costs | 30 396 | 28 502 | 26 128 |
| Depreciation | 15 718 | 16 254 | 15 855 |
| Other expenses | 33 840 | 36 806 | 33 878 |
| **Total Expenses** | **79 954** | **81 562** | **75 861** |
| **Net Operating (Deficit) before** | **(4 338)** | **(3 499)** | **(1 947)** |
| Finance costs | (1 459) | (1 078) | (899) |
| Interest revenue | 1 848 | 3 954 | 3 639 |
| **Net Operating Surplus (Deficit)** | **(3 949)** | **(623)** | **793** |
| Capital grants | 8 542 | 8 333 | 27 282 |
| Financial assistance grant received in advance ** | 0 | 1 031 | 990 |
| Offset Financial assistance grant in advance ** | 0 | (990) | (908) |
| Infrastructure take-up adjustments | 0 | 1 023 | (1 950) |
| Museum collections take up | 0 | 0 | 231 913 |
| **Net Surplus** | **4 593** | **8 774** | **258 120** |
| **Other Comprehensive Income** | | | |
| Actuarial gains (losses) | 0 | (715) | 2 307 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | (132 648) |
| Fair value adjustment arising from change in allocation order | 0 | (16 580) | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 2 730 | 0 |
| Asset revaluations | 0 | 142 808 | 0 |
| **Total comprehensive income items** | **0** | **128 243** | **(130 341)** |
| **Comprehensive Surplus** | **4 593** | **137 017** | **127 779** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enables the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit before Finance cost and Interest revenue of $3.499m, compared with the $1.947m deficit in 2009-10. The higher deficit was predominately due to:

- increased Employee costs up $2.374m, 9.1%. This increase was mainly due to an increase in average FTEs from 397 in 2009-10 to 418 in 2010-11 and pay rises under Council's Enterprise Agreement

- increased Other expenses, $2.928m, 8.6%, due to higher costs in the provision of Council services
- lower Fees and charges, $0.536m, and grant revenue, $0.544m, partly offset by
- increased Rates revenue, $3.215m, 6.8%, related to a higher general rate, fire levy and waste management charges
- distributions from Ben Lomond Water of $2.107m. The distributions included dividends, tax equivalent payments and loan guarantee fees.

After accounting for net finance revenue Council recorded an Operating Deficit of $0.623m (2009-10, surplus of $0.793m) highlighting the importance of interest revenue to Council's annual operating performance. Interest revenues were $2.106m more than budget, a significant reason for the improved performance compared to budget.

After Capital grants and Infrastructure take-up adjustments, Council produced a Net Surplus of $8.774m in 2010-11. The surplus was considerably lower than the 2009-10 result of $258.120m, when Council recognised its Museum collection assets for the first time in, which were independently valued at $231.913m.

Capital grants totalled $8.333m (2009-10, $27.282m) and included $4.000m in funding from the State and Commonwealth Governments for the Aurora Stadium northern stand.

Infrastructure take-up adjustments represented assets identified by Council and brought to account for the first time as well as subdivision assets taken over by Council during the year. The assets recognised are offset by expenditure not capitalised. This primarily represented capital works completed that exceeded Council's internally assessed replacement cost and therefore not recorded as capital additions.

Other Comprehensive Income totalled $128.243m in 2010-11, comprising:

- fair value revaluation of non-current assets of $142.808m which included roads and bridges, $81.528m, land, $34.605m, and buildings, $14.516m,
- decreased investment in Ben Lomond Water due to two factors. Firstly, an unfavourable adjustment of $16.580m arising from Council's final ownership interest, initially based on an interim allocation order by the Treasurer, at 55.3%, applied to Ben Lomond Water's net assets on this basis at 30 June 2010. This changed to 51.9% when the final allocation order was made. The $16.580m represented Council's lower interest of 3.4% at 30 June 2010. Secondly, the $2.730m increase being Council's 51.9% interest in higher net assets of Ben Lomond Water at 30 June 2011
- an Actuarial loss of $0.715m on the City of Launceston Employees Superannuation Fund.

The table below summarises Council budget position before and after accounting for capital grants.

| | **2010-11** | **2009-10** | **2008-09** | **2007-08** |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| Budgeted net surplus (deficit) | 4 593 | 24 891 | 7 250 | 1 627 |
| Budgeted capital grants | (8 542) | (27 656) | (6 458) | (2 395) |
| **Budgeted surplus (deficit) less capital grants** | **(3 949)** | **(2 765)** | **792** | **(768)** |

Council budgeted for a deficit before capital grants in all years except 2008-09. It is our expectation that Council should budget, as a minimum, to break-even. While the budget was in deficit, as noted previously, Council achieved an operating surplus in 2009-10 and a significantly lower deficit in 2010-11.

At 30 June 2011, Council managed two controlled authorities set up under section 29 of the *Local Government Act 1993*, being the Launceston Flood Authority and the York Park and Inveresk Precinct Authority. The Upper Tamar River Improvement Authority (UTRIA) was wound up on 27 October 2008 and its operations and activities taken over by the newly created Launceston Flood Authority on the same date.

The revenues and expenses of these three authorities, as disclosed in Council's financial statements, were:

| | **2010-11** | **2009-10** | **2008-09** | **2007-08** |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| **Upper Tamar River Improvement Authority*** | | | | |
| Revenues | 0 | 0 | 254 | 573 |
| Expenses | 0 | 0 | (399) | (1 011) |
| **Net surplus (deficit)** | **0** | **0** | **(145)** | **(438)** |
| **Launceston Flood Authority** | | | | |
| Revenues | 730 | 1 136 | 1 193 | 0 |
| Expenses | (310) | (1 094) | (715) | 0 |
| **Net surplus (deficit)** | **420** | **42** | **478** | **0** |
| **York Park and Inveresk Precinct Authority** | | | | |
| Revenues | 1 258 | 1 275 | 863 | 609 |
| Expenses | (2 604) | (2 531) | (2 000) | (1 756) |
| **Net surplus (deficit)** | **(1 346)** | **(1 256)** | **(1 137)** | **(1 147)** |
| * *Authority wound up during 2008-09* | | | | |

The table illustrates that the York Park and Inveresk Precinct Authority incurred deficits in all years, with these facilities subsidised by Council.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 60 395 | 67 746 |
| Receivables | 4 711 | 4 103 |
| Inventories | 611 | 615 |
| Other | 409 | 1 003 |
| **Total Current Assets** | **66 126** | **73 467** |
| Payables | 22 212 | 26 225 |
| Borrowings | 2 336 | 1 754 |
| Provisions - employee benefits | 5 636 | 5 408 |
| Other | 7 523 | 2 574 |
| **Total Current Liabilities** | **37 707** | **35 961** |
| **Net Working Capital** | **28 419** | **37 506** |
| Property, plant and equipment | 927 567 | 766 671 |
| Investment in water corporation | 255 800 | 269 650 |
| Museum collection | 231 913 | 231 913 |
| Other | 258 | 258 |
| **Total Non-Current Assets** | **1 415 538** | **1 268 492** |
| Borrowings | 13 042 | 13 327 |
| Provisions - employee benefits | 782 | 735 |
| Superannuation liability | 3 623 | 2 667 |
| Other | 10 575 | 10 351 |
| **Total Non-Current Liabilities** | **28 022** | **27 080** |
| **Net Assets** | **1 415 935** | **1 278 918** |
| Reserves | 554 221 | 402 987 |
| Accumulated surpluses | 861 714 | 875 931 |
| **Total Equity** | **1 415 935** | **1 278 918** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $137.017m during 2010-11. Net Assets increased by the same amount to $1.415bn. Major line item movements included:

- Cash and financial assets decreased by $7.351m. Refer to the Cash Flow Statement section of this Chapter for further explanation
- Payables decreased by $4.013m primarily due to Council finalising the purchase of several properties acquired for the Invermay flood protection enhancement project
- Other current liabilities increased by $4.949m as Council recorded a liability, $5.750m, for additional State Government funding received in June 2011 for the Invermay flood protection enhancement project
- Property, plant and equipment increased by $160.896m due primarily to:
    - asset revaluations of $142.808m, which included roads infrastructure, drainage infrastructure, land, buildings and refuse disposal assets plus the recognition of gulley pit assets, $23.428m, which now exceed the asset recognition threshold
    - capital additions of $34.050m, which included work undertaken on the Aurora Stadium northern stand, Queen Victoria Museum Royal Park refurbishment, flood levee program and plant and equipment additions, offset by
    - Depreciation expense of $16.254m
- Council's investment in Ben Lomond Water being written down by $13.850m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 73 044 | 70 086 |
| Cash flows from government | 6 484 | 7 080 |
| Payments to suppliers and employees | (66 445) | (65 679) |
| Interest received | 3 638 | 3 639 |
| Finance costs | (871) | (628) |
| **Cash from operations** | **15 850** | **14 498** |
| Capital grants and contributions | 7 753 | 5 282 |
| Grants received in advance | 5 750 | 580 |
| Distributions from investments | 2 107 | 709 |
| Payments for property, plant and equipment | (39 787) | (28 033) |
| Proceeds from sale of property, plant and equipment | 679 | 538 |
| **Cash (used in) investing activities** | **(23 498)** | **(20 924)** |
| Proceeds from borrowings | 2 076 | 6 000 |
| Repayment of borrowings | (1 779) | (1 532) |
| **Cash from financing activities** | **297** | **4 468** |
| **Net (decrease) in cash** | **(7 351)** | **(1 958)** |
| Cash at the beginning of the year | 67 746 | 70 873 |
| Less cash transferred to Ben Lomond Water | 0 | (1 169) |
| **Cash at end of the year** | **60 395** | **67 746** |

### Comment

At 30 June 2011, Council's total cash balance of $60.395m comprised cash at bank and on hand, $0.618m, special committees, $0.117m, and bank guaranteed bills and deposits, $59.660m. The bills and deposits were included within the definition of cash as they all had short-term maturities.

At 30 June 2011, Council reported $16.027m (2009-10, $22.152m) of its investment balance was restricted (being held for specific purposes or recorded as prepaid deposits). Restricted funds included $6.741m ($17.945m) in grant funding unexpended, $5.750m ($nil) in grant funds held as a deposit liability and $1.504m ($1.405m) in trust and bequest funds.

Council's cash position decreased by $7.351m in 2010-11. This was due to Cash from operations, $15.850m, capital grants and contributions, $13.503m, distributions from Ben Lomond Water, $2.107m, net borrowings, $0.297m, being insufficient to meet Payments for property plant and equipment totalling $39.787m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $1.352m to $15.850m which included:

- Council's operating deficit of $0.623m adjusted for depreciation of $16.254m, a non-cash item, providing $15.631m in operating cash inflows
- the impact of cash applied to reduce the Payables balance related to operating creditors by $2.098m during 2010-11, which excludes the impact of movements in accrued expenses and the work in progress balance, offset by
- cash inflows related to returns from Ben Lomond Water, $2.107m, being recorded as an investing activity for cash flow purposes.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (623) | 793 | 2 323 | 1 295 |
| Operating surplus ratio * | > 0 | (0.76) | 1.02 | 2.30 | 1.39 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 164% | 135% | 41% | 53% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 60.5% | 57.6% | 58.4% | 59.1% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (623) | 8 808 | (22 507) | 1 228 |
| Net financial liabilities ratio * *** | 0-(50%) | (0.8%) | 11.4% | (22.3%) | 1.3% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 2.08 | 2.39 | 1.29 | 1.70 |
| Current ratio | 1:1 | 1.75 | 2.04 | 1.17 | 1.50 |
| Interest coverage | 3:1 | 17.20 | 22.09 | 26.36 | 34.75 |
| Asset investment ratio | >100% | 245% | 177% | 188% | 139% |
| Self financing ratio | | 19.3% | 18.7% | 24.8% | 28.0% |
| Own source revenue | | 92.1% | 91.0% | 93.8% | 94.0% |
| Debt collection | 30 days | 26 | 23 | 25 | 26 |
| Creditor turnover | 30 days | 27 | 26 | 28 | 37 |
| Rates per capita ($) | | 763 | 717 | 1,015 | 957 |
| Rates to operating revenue | | 61.2% | 60.6% | 65.5% | 66.7% |
| Rates per rateable property ($) | | 1 678 | 1 605 | 2 282 | 2 177 |
| Operating cost to rateable property ($) | | 2 761 | 2 620 | 3 402 | 3 218 |
| Employee costs expensed ($'000s) | | 28 502 | 26 128 | 30 980 | 28 136 |
| Employee costs capitalised ($'000s) | | 2 021 | 1 563 | 2 317 | 2 312 |
| **Total employee costs ($'000s)** | | **30 523** | **27 691** | **33 297** | **30 448** |
| Employee costs as a % of operating expenses | | 34% | 34% | 31% | 31% |
| Staff numbers (FTEs) | | 418 | 397 | 475 | 471 |
| Average staff costs ($'000s) | | 73 | 70 | 70 | 65 |
| Average leave balance per FTE ($'000s) | | 15 | 15 | 16 | 15 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*
*** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Council's Liquidity ratio was above benchmark in 2010-11 and 2009-10, which indicated an ability to meet short-term commitments. However, the ratio was adversely impacted by current obligations at 30 June 2009 and 2008 related to funds received in advance for the flood levee project. A better indicator of ability to meet short-term commitments was the Current ratio which was above benchmark each year.

Asset investment ratio shows Council's total capital expenditure was well above its depreciation expense in all years under review.

Council's positive Self financing ratios indicate it was generating operating cash flows which contributed towards its capital expenditure programs. The reduction in 2009-10 mainly related to the loss of water and sewerage rating income. Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on recurrent grant funding to the extent of only 7.9% (2009-10, 9.0%).

Creditor turnover was better than benchmark in all years under review, except for 2007-08. Council's policy is to pay outstanding creditors within a 30-day period, however, creditor balances at 30 June historically included invoices for large capital projects causing some distortions.

Rates statistics were relatively consistent over the first two years of review. The change in 2009-10 was mainly due to the transfer of the water and sewerage activities with Council no longer rating for these services. Rates to operating revenue decreased in 2009-10 to 60.6% highlighting the relative importance of grant and dividend income following the transfer of water and sewerage activities.

Employee costs as a percentage of operating costs increased slightly in 2009-10 following the transfer of water and sewerage activities and the subsequent loss of water and sewerage expenditure, including bulk water purchases.

Average staff costs increased slightly in 2010-11, mainly due to pay rises under Council's Enterprise Agreement and additional superannuation and retiring provision expenses. Average leave balances per FTE were fairly consistent over the four year period.

Total employee costs increased by $2.832m for the reasons previously outlined in the Comprehensive Income Statement section of this Chapter. Council's staff numbers increased due to the filling of vacancies in infrastructure operations, planning and administration. In addition, new employees were appointed in information technology, parks and administration.

# MEDIUM COUNCILS

# BRIGHTON COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 16 September 2011.

## KEY FINDINGS AND DEVELOPMENT

Our commentary in this Chapter is on the consolidated financial results of Brighton Council therefore inclusive of its 100% interest in controlled subsidiary Microwise Australia Pty Ltd (Microwise). A summary of Microwise's financial performance is provided at the end of this Chapter.

The audit was completed with satisfactory results with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $1.419m in 2010-11 (2009-10, $1.275m). It reported a Net Surplus of $2.304m ($2.957m) and a Comprehensive Surplus of $4.335m ($17.861m). The Comprehensive Surplus was after bringing to account an increment associated with a revaluation of non-current physical assets, $1.709m, and an increase in the fair value of Council's investment in Southern Water, $0.322m.

Consistent with the Comprehensive Surplus of $4.335m, Council's Net Assets increased to $166.577m, from $162.242m the previous year. At 30 June 2011 Council had Net Working Capital of $3.267m, a decrease of $0.417m from the prior year, due mainly to lower Cash and Financial assets at 30 June 2011.

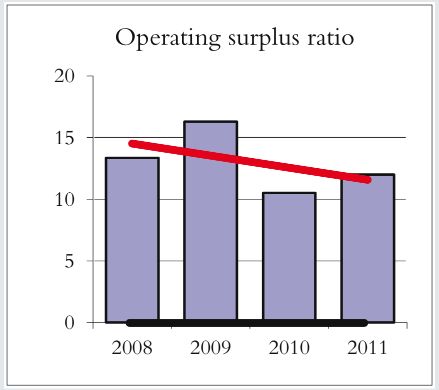
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

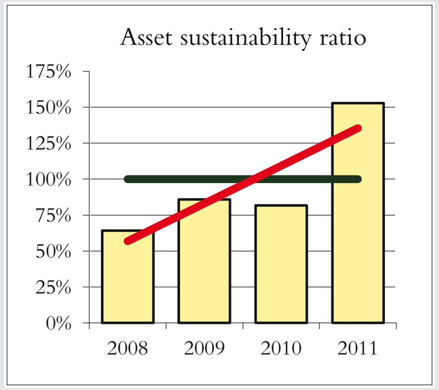
### Relevant financial sustainability ratios

The following four graphs and the discussion about asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



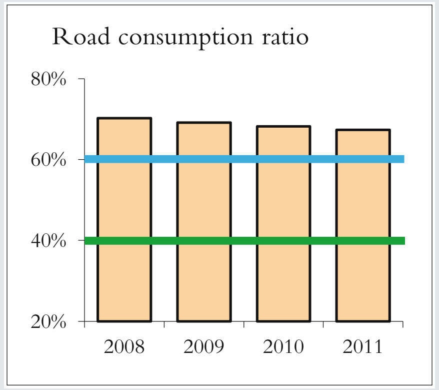

The positive operating surplus ratios reflected Council's operating surpluses for the past four years. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges for those years.




Asset sustainability ratio was below the 100% benchmark in the initial three years under review but improved substantially to be above the benchmark in 2011. Over the four year period, Council's average ratio was 103%, slightly above benchmark.

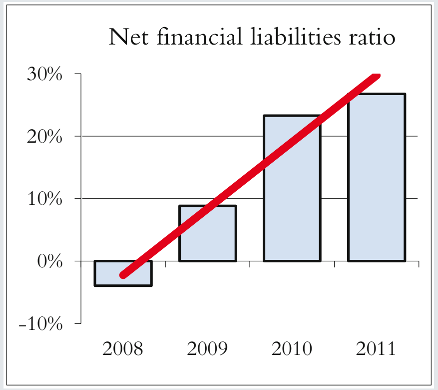
#### Asset renewal funding ratio

Based upon Council's long-term asset management plan the asset renewal funding ratio was 100% at 30 June 2011. This was based on future planned asset replacement expenditure for the next ten years equalling future asset replacement expenditure actually required.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2011 Council had used (consumed) approximately 33% of the service potential of its road infrastructure indicating, at that point in time, its roads had the capacity to continue to provide services to its ratepayers.




Council recorded positive Net financial liabilities ratios with liquid assets well in excess of current and non-current liabilities in three of the four years under review. This was mainly due to Council progressively repaying its Borrowings over the period such that by 30 June 2011 borrowings were nil. Council's positive ratios indicate a strong liquidity position, with Council able to meet its current commitments.

Council's total liabilities at 30 June 2011 consisted of payables, employee provisions, deposits held in trust and revenue received in advance.

### Governance

A review of Council's governance arrangements indicated Council:

- does not have an audit committee
- had both a long-term asset management plan and a long-term financial management plan.

Although Council did not have an audit committee, they did have in place a Finance Committee, which operates similarly to an audit committee in some respects. However, Council's committee did not have any independent members, it played no role in oversighting Council's annual financial statements and Council had no internal audit function. Existence of these aspects would enhance Council's governance arrangements.

Council has long-term asset management and financial management plans for periods of ten and twenty years, respectively. These plans were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's surpluses in each of the past four years indicated it is generated sufficient revenue to meet operating requirements.

Asset sustainability ratio indicates Council increased its expenditure on existing assets in 2010-11 such that, over the period, expenditure reached an average of 103%, slightly above our benchmark. Council's road asset consumption ratio varied between 65% and 70% over the period indicating it was in a sound position to continue to provide services to its ratepayers.

Asset renewal funding ratio was positive, showing Council plans to meet its capital expenditure requirements.

Council improved its liquidity over the four year period, therefore it was in a sound position to meet short-term commitments and may have a capacity to borrow should the need arise.

Council did not have an audit committee but had in place long-term asset management and financial management plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council had moderate risk from a governance perspective but low financial sustainability risk from an operating, asset management and financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

Brighton Council supports the Auditor General's positive assessment of the Council's financial sustainability in regard to its operating, asset management and financial liabilities.



## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 6 255 | 6 470 | 6 095 |
| Fees and charges | 1 123 | 936 | 911 |
| Grants ** | 2 310 | 2 173 | 2 311 |
| Other revenue | 2 646 | 1 930 | 2 511 |
| **Total Revenue** | **12 334** | **11 509** | **11 828** |
| Employee costs | 2 579 | 2 240 | 2 748 |
| Depreciation | 2 308 | 2 459 | 2 429 |
| Other expenses | 5 477 | 5 675 | 5 593 |
| **Total Expenses** | **10 364** | **10 374** | **10 770** |
| **Net Operating Surplus before:** | **1 970** | **1 135** | **1 058** |
| Finance costs | (62) | (28) | (77) |
| Interest revenue | 240 | 312 | 294 |
| **Net Operating Surplus** | **2 148** | **1 419** | **1 275** |
| Capital grants | 0 | 155 | 155 |
| Financial assistance grant received in advance ** | 0 | 419 | 402 |
| Offset Financial assistance grant in advance ** | 0 | (402) | (397) |
| Land and buildings identified | 0 | 195 | 904 |
| Contributions of non-current assets | 0 | 518 | 618 |
| **Net Surplus** | **2 148** | **2 304** | **2 957** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 1 709 | 10 429 |
| Fair value initial adjustment Southern Water | 0 | 0 | 4 475 |
| Current year fair value adjustment Southern Water | 0 | 322 | 0 |
| **Total comprehensive income items** | **0** | **2 031** | **14 904** |
| **Comprehensive Surplus** | **2 148** | **4 335** | **17 861** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance has been shown separately after net Operating Surplus.*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Surplus before net financing revenues of $1.135m, a slight improvement from $1.058m in 2009-10. The improved result was due to a combination of the following factors:

- increased rates revenue, $0.375m, due to a higher general rate
- decreased Grants revenue of $0.138m due to lower grants received in 2010-11 including :
  - Department of Health & Human Services, $0.409m,(2009-10, $0.510m),
  - Department of Economic Development, $0.014m ($0.081m),
  - Local Government Association of Tasmania, $0.013m ($0.038m),
  - Public Works & Engineering Foundations, $0.004m ($0.032m),

- lower employee costs, $0.508m, related to less staff working in professional services, mainly due to the completion of a short term contract finishing during 2010-11
- decreased other revenue, $0.581m, due primarily to lower gains from disposal of assets, $0.265m, and reduced revenue generated by Microwise, $0.242m.

After accounting for Interest revenue and Finance costs, Council made a Net Operating Surplus of $1.419m (2009-10, $1.275m), highlighting the relative importance of interest revenue to Council's annual operating performance.

Council's Net Surplus in 2010-11 was $2.304m (2009-10, $2.957m). The decrease in Net Surplus result was attributable to Land and buildings identified, $0.195m ($0.904m), and Subdivision contributions, $0.518m ($0.618m).

Other comprehensive income totalled, $2.031m comprising:

- fair value revaluation of non-current assets, $1.709m, which represented one year's indexation of infrastructure, buildings and land
- Council's higher investment in Southern Water, $0.322m, being its 6.1% interest in the net assets of Southern Water at 30 June 2011.



## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 4 202 | 5 139 |
| Receivables | 269 | 579 |
| Other | 260 | 283 |
| **Total Current Assets** | **4 731** | **6 001** |
| Payables | 669 | 1 196 |
| Borrowings | 0 | 296 |
| Provisions - employee benefits | 678 | 663 |
| Other | 117 | 162 |
| **Total Current Liabilities** | **1 464** | **2 317** |
| **Net Working Capital** | **3 267** | **3 684** |
| Property, plant and equipment | 107 220 | 103 538 |
| Investment in Southern Water | 56 188 | 55 866 |
| Other | 0 | 12 |
| **Total Non-Current Assets** | **163 408** | **159 416** |
| Borrowings | 0 | 765 |
| Provisions - employee benefits | 99 | 93 |
| **Total Non-Current Liabilities** | **99** | **858** |
| **Net Assets** | **166 577** | **162 242** |
| Reserves | 65 978 | 63 947 |
| Accumulated surpluses | 100 599 | 98 295 |
| **Total Equity** | **166 577** | **162 242** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $4.335m. Net Assets increased by the same amount to $166.577m. Major line item movements included:

- decreased Cash and financial assets, $0.936m, predominately due to repayment of Borrowings. Refer to Cash flow section of this Chapter
- lower receivables, $0.310m, primarily due to timing differences in particular the short term contract finishing during 2010-11
- lower payables, $0.527m, due mainly to timing differences and a large payment received in 2009-10 from the Department of Infrastructure, Energy and Resources of $0.220m which was recorded as revenue received in advance
- decreased total Borrowings, $1.061m, due to Council extinguishing its Borrowings during the year
- higher Property, plant and equipment of $3.682m due to:
  - capital additions, $5.182m,
  - revaluation increment of $1.709m due to the indexation of infrastructure, buildings and land
  - offset by depreciation expense, $2.459m, and disposals of $0.750m
- higher investment in Southern Water of $0.322m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 9 556 | 9 920 |
| Cash flows from government | 2 190 | 2 316 |
| Payments to suppliers and employees | (9 423) | (9 376) |
| Interest received | 312 | 294 |
| Finance costs | (28) | (77) |
| **Cash from operations** | **2 607** | **3 077** |
| Capital grants and contributions | 155 | 155 |
| Dividends received - Southern Water | 1 026 | 953 |
| Payments for property, plant and equipment | (4 469) | (3 591) |
| Proceeds from sale of property, plant and equipment | 794 | 520 |
| Other | 12 | 4 |
| **Cash used in investing activities** | **(2 482)** | **(1 959)** |
| Repayment of borrowings | (1 061) | (443) |
| **Cash (used in) financing activities** | **(1 061)** | **(443)** |
| **Net (decrease) increase in cash** | **(936)** | **675** |
| Cash at the beginning of the year | 5 139 | 4 464 |
| **Cash at end of the year** | **4 202** | **5 139** |

### Comment

Council's total cash balance at 30 June 2011 of $4.202m comprised cash at bank and on hand, $0.909m, and term deposits, $3.294m. The deposits were included within the definition of cash as they all had short-term maturities.

Overall cash decreased by $0.936m due to lower cash from operations, higher net investments in property, plant and equipment and repayment of all borrowings.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.470m to $2.607m in 2010-11 which included:

- Council's operating surplus of $1.419m adjusted for depreciation of $2.459m, a non cash item, providing $3.878m in operating cash inflows
- cash inflows from dividends received from Southern Water, $1.026m, recorded as an investing activity for cash flow purposes but in the net operating surplus
- the impact of cash applied to reduce Payables by $0.527m
- cash received by recovering Receivables to the extent of $0.310m.

Payments for property, plant and equipment of $4.469m mainly included capital work on stormwater, landscaping and Foreshore Walkways including:

- Stormwater – Cartwright Street, Augustus Street and Stonefield Road
- Landscaping – Brighton and Bridgewater
- Foreshore Walkways - Gagebrook.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 1 419 | 1 275 | 2 599 | 1 834 |
| Operating surplus ratio * | >0 | 12.00 | 10.52 | 16.28 | 13.35 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 153% | 82% | 86% | 64% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 67.4% | 68.2% | 69.2% | 70.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 3 168 | 2 826 | 1 411 | (540) |
| Net financial liabilities ratio** *** | 0-(50%) | 26.8% | 23.3% | 8.8% | (3.9%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 5.69 | 3.46 | 2.02 | 1.89 |
| Current ratio | 1:1 | 3.23 | 2.59 | 1.75 | 1.62 |
| Interest coverage | 3.1 | 92.11 | 38.96 | 22.22 | 19.55 |
| Asset investment ratio | >100% | 182% | 148% | 148% | 177% |
| Self financing ratio | | 22.1% | 25.4% | 27.6% | 33.1% |
| Own source revenue | | 81.6% | 80.9% | 84.8% | 85.8% |
| Debt collection | 30 days | 13 | 30 | 31 | 17 |
| Creditor turnover | 30 days | 7 | 9 | 13 | 11 |
| Rates per capita ($) | | 396 | 386 | 583 | 519 |
| Rates to operating revenue | | 54.7% | 50.3% | 55.5% | 59.7% |
| Rates per rateable property ($) | | 933 | 882 | 1 361 | 1 299 |
| Operating cost to rateable property ($) | | 1 499 | 1 569 | 2 052 | 1 885 |
| Employee costs expensed ($'000s) | | 2 240 | 2 748 | 2 514 | 2 080 |
| Employee costs capitalised ($'000s) | | 828 | 416 | 1 122 | 1 246 |
| **Total employee costs ($'000s)** | | **3 068** | **3 164** | **3 636** | **3 326** |
| Employee costs as a % of operating expenses | | 22% | 25% | 19% | 17% |
| Staff numbers (FTEs) | | 48 | 51 | 54 | 56 |
| Average staff costs ($'000s) | | 63 | 63 | 67 | 59 |
| Average leave balance per FTE ($'000s) | | 16 | 15 | 15 | 12 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *This benchmark is negative anticipating a situation where total liabilities exceeds liquid assets.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Brighton Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Interest coverage ratios reflect Council's low level of finance costs associated with its borrowings. The increase in 2010-11 was due to low Finance costs which resulted from repayment of all borrowings.

Liquidity and Current ratios were above benchmark in all years under review indicating an ability to meet short-term commitments. This was mainly due to low levels of unpaid creditors and repayment of all borrowings.

Asset investment ratio was above benchmark over the last four years and indicates Council invested strongly in new and existing assets for the period under review.

Self financing ratio steadily declined over the four year period. The decrease in 2010-11 was primarily due to the lower Cash from operations outlined in the Cash Flow Statement section of this Chapter. Own source revenue was constant over the period with Council generating approximately 80% of its operating revenue from its own sources, such as rate and fees and charges.

Debt collection turnover improved in 2010-11 to be within benchmark, mainly due to reduction in Receivables at 30 June 2011.

Creditor turnover was better than benchmark in all years under review reflecting Council's policy of paying outstanding creditors on a timely basis.

Rates statistics were comparatively consistent over the first two years of review. The change in 2009-10 was mainly due to the transfer of the water and sewerage activities and Council not rating for these services. From 2009-10, rates statistics increased with rate rises, however, the Operating costs to rateable properties reduced in 2010-11 due to lower operating costs as noted in the Comprehensive Income Statement section of this Chapter.

Total employee costs reduced by $0.096m due primarily to less staff working in professional services.

Employee costs as a percentage of operating costs increased in 2009-10 primarily due to offsetting impacts of savings from the transfer of seven FTEs to Southern Water, which will have saved approximately $0.500m, offset by normal annual salary increases.

## RESULT OF SUBSIDIARY ENTITY

### Microwise Australia Pty Ltd

Microwise is a wholly owned incorporated entity that was formed by Council to:

- own and manage the intellectual property contained in the Propertywise software product
- create and develop new software products to meet the identified needs of existing and potential customers within local government and other public and private sectors
- provide software maintenance and technical support to existing customers
- provide upgrades and enhancements to a portfolio of products
- manage the relationship with marketing organisations to achieve market coverage and representation.

## FINANCIAL PERFORMANCE

| | **2010-11** | **2009-10** | **2008-09** |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Revenue | 488 | 730 | 343 |
| Expenditure | 186 | 291 | 270 |
| **Profit** | **302** | **439** | **73** |
| **Brighton Council Equity** | **664** | **483** | **257** |

*Excludes financial transactions with Council*

## Comment

Microwise recorded a profit of $0.302m, which decreased by $0.137m from the previous year. The lower profit was mainly attributable to the completion of a short term contract on 23 January 2011. The contract was in place for 2009-10, resulting in higher Revenue and Expenditure in that year.

# BURNIE CITY COUNCIL

## INTRODUCTION

Council has a controlling interest in three entities. The financial statements of these entities have been consolidated into Council's financial statements and the financial information reported in this Chapter is the consolidated position. Refer to Results of Subsidiary Entities at the end of this Chapter for details about each of the following subsidiaries:

- Burnie Airport Corporation Unit Trust (BAC) - On 1 February 2002 Council purchased a 51% interest in BAC, which operates the Burnie Airport, for $0.510m. At 30 June 2011, Council's investment interest was recorded at $0.813m.
- Tas Communications Unit Trust (TCU) - During 2002-03, Council created an incorporated body with share capital of one hundred dollars issued to Council. At 30 June 2011, Council's investment interest was recorded at $2.103m.
- Burnie Sports and Events Unit Trust (BSE) – During 2006-07, Council established a 100% ownership interest in BSE at a cost of ten dollars, which represented the issued units of the Trust. At 30 June 2011, Council's investment interest was recorded at $0.320m.

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011 and an unqualified audit report was issued on 23 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

At 30 June 2011 Council indexed its roads and footpaths based on Australian Bureau of Statistics construction indices and drainage assets based the Consumer Price Index. The indexation was based on Council's last full revaluation of relevant asset classes at 30 June 2005. The considerable time period since the last full revaluation and each subsequent year of indexation increases the risk the carrying amount of roads and drainage assets do not reflect fair value (written down replacement cost). We recommend Council undertake a full revaluation of these asset classes in 2011-12.

In the notes to Council's financial statements for the year ended 30 June 2011, it included a contingent liability that detailed its involvement in an ongoing legal dispute with Mr Blackley related to the proposed sale of Camdale foreshore land. Financial settlement depended on the success of an appeal which was listed to come before the Tasmanian Supreme Court.

In October 2011, the Full Court ruled in favour of the appellant. Council is liable for damages and legal costs, which have not yet been determined. Council is currently reviewing its position and may seek further advice on the matter. It is possible that some damages and costs may be covered by insurance.

The audit was completed satisfactorily with no other major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $0.514m in 2010-11 (2009-10, $1.167m Deficit). The improved result was primarily due to increased Rates, $0.693m, Fees and charges, $1.908m, and Grants revenue, $0.851m, offset by higher Employee costs, $1.610m.

Council achieved a Net Surplus of $4.150m (2009-10, $7.008m) and a Comprehensive Surplus of $18.631m (Deficit, $23.650m). The Comprehensive Surplus included asset revaluation increments, $18.913m and an increase in Council's interest in Cradle Mountain Water, $0.206m, offset by impairment losses incurred by BAC, $4.638m.

Consistent with the Comprehensive surplus of $18.631m, less an adjustment for the minority interest ownership of BAC, Council's Net Assets increased to $333.367m, up from $314.672m on the previous year. As at 30 June 2011 Council had Net Working Capital of $7.021m, up from $4.577m in 2010 due mainly to increased cash and significant reduction in year end payables.

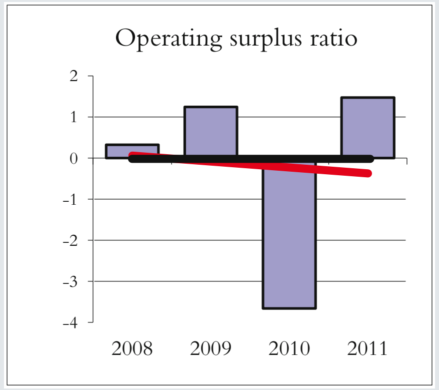
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

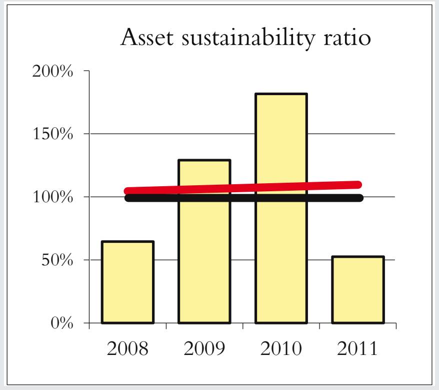
### Relevant financial sustainability ratios

The following four graphs and the discussion about Asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:




Council recorded positive Operating surplus ratios in three of the four years under review. The operating deficit in 2010 likely resulted from transferring water and sewerage activities to Cradle Mountain Water. Overall, Council averaged a negative ratio over the four year period of (0.6), indicating it did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

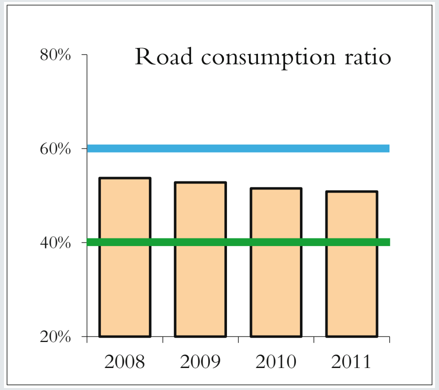



Asset sustainability ratio was below benchmark in two of the four years under review but over the four year period it averaged 107%, which was above benchmark. This indicated adequate investment over the period in existing assets.

#### Asset renewal funding ratio

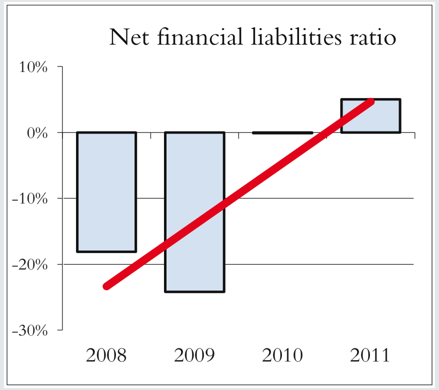
Council's long-term asset management plan information, included in its financial management strategy, indicated an asset renewal funding ratio of 100% based on planned asset replacement expenditure over the next 10 years. Council's asset management plan forecasts expected and required renewal expenditure to 2028-29 and covers transport, bridges and culverts, parks, reserves and cemetery assets. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.

The ratio of 100% exceeds our budget of between 90 and 100%.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011 Council had used (consumed) approximately 49% of the service potential of its road infrastructure assets. The ratio declined steadily over the period with a maximum of 46% reached in 2008. This indicates a moderate financial sustainability risk. Overall, at this point in time, Council's assets had sufficient capacity to continue to provide services to ratepayers. However, this ratio, when read with the asset sustainability ratio, may indicate Council's investment in its road infrastructure is declining.




Council recorded a positive net financial liabilities position with liquid assets in excess of current and non-current liabilities, at 30 June 2011. The significant improvement in 2010 was a direct result of Council transferring loan debt of $16.481m to Cradle Mountain Water. The situation at 30 June 2011 indicates low risk.

Council's total liabilities consisted of payables, trust funds and deposits, employee provisions and borrowings.

### Governance

Council's governance arrangements indicated it did not have an audit committee in 2010-11. However, a committee will operate in 2011-12, with a schedule of delegation of authority and operating procedures prepared. At the time of preparing this report, Council was selecting independent members for the committee. Council does not operate an internal audit function.

Council has a long-term asset management plan and a long-term financial management strategy. Its asset management plan covers all major infrastructure asset classes and extends to 2029 and its financial management strategy covers the ten year period 2012-2021. Both plans are reviewed regularly and approved by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council improved its operating result and recorded an operating surplus in 2010-11, compared to a deficit in 2009-10. The average for the four years under review was below benchmark.

Asset sustainability ratio indicated Council, based on our 100% benchmark, adequately invested in existing assets over the past four years. Council's Road consumption ratio was is in the moderate risk range, and its asset renewal funding ratio in the low risk range.

Council's Net financial liabilities ratio is now positive indicating liquidity was strong.



From a governance perspective, Council was in the process of introducing an audit committee and has asset management plans for all major asset classes and a financial management strategy.

Based on these ratios and governance arrangements we concluded that at 30 June 2011, Council was at a moderate sustainability risk from an operating and governance perspective but low sustainability risk from asset management and net financial liabilities perspectives.

### Management comments on this assessment of its financial sustainability

Council has been managing its finances from a high level of desire to ensure sustainability whilst achieving the strategic objectives of Council. Council's Financial Management Strategy (FMS) has been developed to provide Council with a strategic framework when developing its annual plan and budget estimates. The strategy incorporates the asset renewal needs of the city and provides for expected peaks and troughs in Council asset renewal expenditure.

Council's average negative operating surplus ratio for the four year period has placed Council at moderate operating sustainability risk. It should be noted that Council achieved an operating surplus in three of the four years recorded. The large operating deficit in 2010 has resulted in a four year negative result. 2010 was a particularly challenging year for Council with organisational adjustment required as a result of water and sewerage reform and a significant storm event in September 2009.

Council's FMS demonstrates Council's ability to move to a low operating sustainability risk position in the medium term. If Council follow the general thrust of the FMS when setting the Annual Plan and Budget Estimates it will show strong financial sustainability into the future.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 17 671 | 17 910 | 17 217 |
| Fees and charges | 7 124 | 11 872 | 9 964 |
| Grants ** | 3 515 | 3 778 | 2 927 |
| Other revenue | 1 859 | 915 | 1 371 |
| **Total Revenue** | **30 169** | **34 475** | **31 479** |
| Employee costs | 11 027 | 13 352 | 11 742 |
| Depreciation | 7 027 | 7 270 | 7 314 |
| Other expenses | 12 405 | 13 600 | 13 856 |
| **Total Expenses** | **30 459** | **34 222** | **32 912** |
| **Net Operating Surplus (Deficit) before** | **(290)** | **253** | **(1 433)** |
| Finance costs | 0 | (183) | (163) |
| Interest revenue | 431 | 444 | 429 |
| **Net Operating Surplus (Deficit)** | **141** | **514** | **(1 167)** |
| Capital grants | 4 007 | 3 245 | 7 981 |
| Financial assistance grant received in advance ** | 0 | 572 | 521 |
| Offset Financial assistance grant in advance ** | 0 | (521) | (486) |
| Fair value adjustment to investment in associate | 0 | 0 | (252) |
| Non-Current asset recognition adjustment | 0 | 0 | 411 |
| Contributions of non-current assets | 200 | 340 | 0 |
| **Net Surplus** | **4 348** | **4 150** | **7 008** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 18 913 | 4 838 |
| Impairment of non-current assets | 0 | (4 638) | 0 |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | (35 496) |
| Current year fair value adjustment Cradle Mountain Water | 0 | 206 | 0 |
| **Total comprehensive income items** | **0** | **14 481** | **(30 658)** |
| **Comprehensive Surplus (Deficit)** | **4 348** | **18 631** | **(23 650)** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit. The balances exclude Council's subsidiary entities.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Surplus before net financing revenues of $0.253m, compared to a deficit of $1.433m in the prior year, an improvement of $1.686m. The improved result was predominantly due to:

- higher Rates of $0.693m, largely due to general rate and waste service charge rises
- increased Fees and charges of $1.908m, due mainly to higher sales revenue from TCU, $0.681m, additional parent fees and childcare income, $0.389m and increased aeronautical income, $0.107m,
- increased Grants of $0.851m, mainly due to higher Financial Assistance Grants, $0.269m, and operational funding for the Autism Centre, $0.574m, offset by
- higher Employee costs of $1.610m, due to the impact of a full year of operations from the Autism Centre, $0.509m, (10 FTEs), enterprise bargaining pay rises and a slight increase in employee numbers.

Net Operating Surplus increased to $0.514m compared to a deficit of $1.167m in the previous year and budgeted surplus of $0.141m.

After Capital grants, $3.245m, and Contributions of non-current assets, $0.340m, Council recorded a Net Surplus of $4.150m in 2010-11 which was $2.858m less than the $7.008m surplus in 2009-10. The decrease was mainly attributed to:

- lower Capital grants in 2010-11 of $4.736m. Capital grants received in 2009-10 included funding for the Makers Workshop and Waterfront, $1.000m, Boardwalk, $1.145m, West Park, $1.091m, and Autism Centre, $1.752m, offset by
- the improved net operating result in 2010-11, $1.686m.

Other Comprehensive Income of $14.481m included:

- fair value revaluation of non-current assets of $18.913m which mainly represented indexation of roads, footpaths and drainage assets
- an increase in Council's interest in the net assets of Cradle Mountain Water at 30 June 2011 of $0.206m
- impairment of BAC's non-current assets by $4.638m. BAC reviewed the carrying amount of its roads, runways and building assets in 2010-11 and determined the carrying amount exceeded the asset's value in use. Consequently, the assets were impaired and written-down to their value in use.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 6 408 | 6 064 |
| Receivables | 3 499 | 3 684 |
| Non-current assets held for resale | 663 | 752 |
| Inventories | 316 | 276 |
| Other | 198 | 13 |
| **Total Current Assets** | **11 084** | **10 789** |
| Payables | 2 054 | 4 228 |
| Provisions - employee benefits | 1 776 | 1 571 |
| Other | 233 | 413 |
| **Total Current Liabilities** | **4 063** | **6 212** |
| **Net Working Capital** | **7 021** | **4 577** |
| Property, plant and equipment | 272 331 | 255 766 |
| Investment in water corporation | 58 088 | 57 882 |
| Receivables | 16 | 18 |
| **Total Non-Current Assets** | **330 435** | **313 666** |
| Borrowings | 2 110 | 2 193 |
| Provisions - employee benefits | 274 | 246 |
| Provision for rehabilitation | 1 705 | 1 132 |
| **Total Non-Current Liabilities** | **4 089** | **3 571** |
| **Net Assets** | **333 367** | **314 672** |
| Reserves | 82 116 | 65 360 |
| Accumulated surpluses | 247 865 | 243 653 |
| Outside equity interest | 3 386 | 5 659 |
| **Total Equity** | **333 367** | **314 672** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Council's Comprehensive surplus was $18.631m whereas Council's Total Equity increased by $18.695m. The net difference of $0.064m was attributable to Council recording the outside equity interest for the 49% of BAC that is owned by an external party.

Net Assets increased to $333.367m. Major line item movements included:

- increased Cash and financial assets, $0.344m, discussed later in the Cash Flow Statement section of this Chapter
- decreased Payables of $2.174m mainly due to the balance at 30 June 2010 including large amounts related to several major projects, specifically the Burnie Tennis Club Upgrade, West Park precinct development and Oakleigh Pedestrian crossing. At 30 June 2011, there were no significant projects in progress
- higher Property, plant and equipment of $16.565m due to:
    - revaluations, $18.913m, from indexation of roads, footpaths and drainage assets
    - additions, $9.971m, offset by
    - Depreciation, $7.270m, disposals, $2.222m, and impairment losses, $4.638m
- increased Provision for rehabilitation, $0.573m, following a review of potential costs and areas to rehabilitate.



## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 31 958 | 30 196 |
| Cash flows from government | 4 212 | 3 476 |
| Payments to suppliers and employees | (30 677) | (29 058) |
| Interest received | 536 | 673 |
| Finance costs | (183) | (181) |
| **Cash from operations** | **5 846** | **5 106** |
| Capital grants and contributions | 3 570 | 8 779 |
| Insurance recovery | 0 | 1 574 |
| Payments for investment in controlled entities | (157) | (24) |
| Dividends received - Cradle Mountain Water | 208 | 129 |
| Payments for property, plant and equipment | (9 470) | (22 688) |
| Proceeds from sale of property, plant and equipment | 434 | 132 |
| **Cash (used in) investing activities** | **(5 415)** | **(12 098)** |
| Repayment of borrowings | (83) | 0 |
| **Cash (used in) financing activities** | **(83)** | **0** |
| **Net (decrease) increase in cash** | **348** | **(6 992)** |
| Cash at the beginning of the year | 6 060 | 13 056 |
| **Cash at end of the year** | **6 408** | **6 064** |

### Comment

Council's cash balance at 30 June 2011, $6.408m, comprised cash at bank and on hand, $0.689m and short-term deposits of $5.719m. Its cash position improved by $0.348m during 2010-11 with Cash from operations $5.846m, Capital grants and contributions, $3.570m, and Proceeds from sale of property, plant and equipment, $0.434m, being more than sufficient to fund Payments for property, plant and equipment, $12.085m, and Repayment of borrowings, $0.083m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.740m to $5.846m which included:

- Council's Net operating surplus, $0.514m, adjusted for depreciation, $7.270m, a non-cash item, provided $7.784m in operating cash inflows, offset by
- cash inflows from Cradle Mountain Water, $0.208m, recorded as an investing activity for cash flow purposes
- the impact of cash applied to reduce the Payables balance by $2.174m during 2010-11.

Payments for property, plant and equipment of $9.470m included:

- Oakleigh Park pedestrian access, $0.601m,
- waterfront development – stage 2, $0.688m,
- coastal pathways, $1.047m,
- Autism Centre, $1.048m,
- plant, computer equipment, vehicle purchases and plant replacements, $1.158m,
- road works, rural, $1.291m, and urban, $1.408m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 514 | (1 167) | 487 | 123 |
| Operating surplus ratio * | >0 | 1.47 | (3.66) | 1.24 | 0.32 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 53% | 182% | 129% | 64% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 50.9% | 51.5% | 52.8% | 53.8% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 1 755 | (35) | (9 476) | (6 922) |
| Net financial liabilities ratio * *** | 0%-(50%) | 5.0% | (0.1%) | (24.2%) | (18.1%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 4.33 | 2.10 | 2.55 | 3.94 |
| Current ratio | 1:1 | 2.73 | 1.74 | 2.25 | 3.07 |
| Interest coverage | 3:1 | 30.95 | 27.21 | 8.76 | 7.95 |
| Asset investment ratio | >100% | 130% | 310% | 199% | 89% |
| Self financing ratio | | 16.7% | 16.0% | 33.7% | 25.9% |
| Own source revenue | | 89.2% | 90.8% | 93.0% | 92.4% |
| Debt collection | 30 days | 39 | 48 | 35 | 38 |
| Creditor turnover | 30 days | 28 | 41 | 62 | 44 |
| Rates per capita ($) | | 900 | 866 | 1 235 | 1 165 |
| Rates to operating revenue | | 51.3% | 54.0% | 62.1% | 59.8% |
| Rates per rateable property ($) | | 920 | 885 | 1 253 | 1 184 |
| Operating cost to rateable property ($) | | 1 767 | 1 700 | 1 992 | 1 973 |
| Employee costs expensed ($'000s) | | 13 352 | 11 742 | 12 563 | 12 105 |
| Employee costs capitalised ($'000s) | | 1 431 | 1 636 | 1 683 | 1 008 |
| **Total employee costs ($'000s)** | | **14 783** | **13 378** | **14 246** | **13 113** |
| Employee costs as a % of operating expenses | | 39% | 36% | 32% | 32% |
| Staff numbers (FTEs) | | 192 | 188 | 210 | 223 |
| Average staff costs ($'000s) | | 77 | 71 | 68 | 59 |
| Average leave balance per FTE ($'000s) | | 11 | 10 | 9 | 8 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Burnie City Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios were above benchmark in all years under review indicating an ability to meet short-term commitments. This was due mainly to cash investments held at year end and Council's low level of borrowings.

Interest coverage ratio reflected Council's level of finance costs associated with its borrowings. The improved ratio in 2009-10 was due to the transfer of loan debt to Cradle Mountain Water on 1 July 2009.

Asset investment ratio indicates Council invested strongly in new and existing assets over the period.

Self financing ratio increased in 2010-11 for reasons outlined in the Cash Flow Statement section of this Chapter.

Own source revenue ratio shows Council generated the majority of its operating revenue from its own sources and, in 2010-11, was reliant on grant funding to the extent of only 11% (2009-10, 9%).

Debt collection ratio was worse than benchmark in all years under review. This was due to the debtor balance including a large proportion related to car park fines, traffic offences and metered parking debtors. At 30 June 2011 these items totalled $1.248m of which only $0.170m was assessed as impaired. The nature of these debts is such that settlement may take an extended period of time. When these are excluded, the ratio was within benchmark.

Creditor turnover was worse than benchmark in all years except 2010-11 due to high amounts of capital creditors due at the end of those financial years. Council's policy to settle supplier invoices within a 30 day period remained unchanged.

Council's rate statistics were relatively consistent over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs increased over the four year period under review in line with enterprise bargaining increases and other salary increments. Employee costs as a percentage of operating costs increased in 2009-10 primarily due to the impact of the transfer of water and sewerage services to Cradle Mountain Water. The increase in 2010-11 was mainly due to the impact of a full year of operations of the Autism Centre, with additional wages of $0.509m.

Average staff costs increased over the period under review due to enterprise bargaining increases and the impact of the Autism Centre operating for a full year in 2010-11 and employing 10 FTEs.

## RESULTS OF SUBSIDIARY ENTITIES

### Burnie Airport Corporation Unit Trust

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Total Revenue | 1 277 | 1 160 | 1 331 |
| Total Expenses | 1 089 | 1 035 | 1 244 |
| **Net Surplus (Deficit)** | **188** | **125** | **87** |
| Total Assets | 9 246 | 14 059 | 10 601 |
| Total Liabilities | 2 267 | 2 385 | 2 413 |
| **Net Assets** | **6 979** | **11 674** | **8 188** |
| **Total Equity** | **6 979** | **11 674** | **8 188** |

### Comment

The purpose of the BAC is to provide sustainable infrastructure for a regular, reliable carrier to service the greater Burnie region.

BAC generated operating surpluses in all three years under review and was in a stable financial position at balance date. During 2010-11, BAC performed a review of the carrying amounts of its non-financial assets and determined there were indictors for impairment. As a result, impairment losses of $4.638m were recorded in the financial statements. These related to:

- Land, $1.473m
- Buildings, $1.051m
- Roads and runways, $2.114m.

Council's 51% interest at 30 June 2011 was at $0.813m.

### Tas Communications Unit Trust

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Total Revenue | 2 165 | 1 498 | 1 725 |
| Total Expenses | 1 899 | 1 589 | 1 865 |
| **Net Surplus** | **266** | **(91)** | **(140)** |
| Total Assets | 1 593 | 1 525 | 615 |
| Total Liabilities | 231 | 429 | 696 |
| **Net Assets** | **1 362** | **1 096** | **(81)** |
| **Total Equity** | **1 362** | **1 096** | **(81)** |

### Comment

TCU is an IT integrator for commercial and local government entities based in Burnie. It is also an internet service supplier, application service hosting and service desk supplier for these clients. With a fibre and wireless network between Smithton and Hobart, TCU is capable of servicing most of the major population centres in Tasmania.

TCU recorded a Net Surplus of $0.266m in 2010-11 compared to a Deficit of $0.091m in 2009-10, an increase of $0.357m. This was primarily due to:

- increased sales revenue, $0.661m,
- decreased employee costs, $0.060m, due to a reduction in staff numbers
- lower depreciation, $0.066m, due to a reassessment of useful lives, offset by
- increased materials and services expenses, $0.439m.

The majority of TCU's sales consisted of service level agreements with Burnie City Council, other regional councils, Cradle Mountain Water and local private companies. The majority of its revenue was derived from sources outside of Burnie City Council, although, Council is TCU's largest client.

Total Equity and Net Assets increased in line with the Net surplus of $0.266m. At 30 June 2011 Council's investment in TCU was $2.103m.

### Burnie Sports and Events Unit Trust

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Total Revenue | 2 648 | 2 453 | 1 338 |
| Total Expenses | 2 643 | 2 444 | 1 388 |
| **Net Surplus (Deficit)** | **5** | **9** | **(50)** |
| Total Assets | 571 | 627 | 490 |
| Total Liabilities | 395 | 456 | 327 |
| **Net Assets** | **176** | **171** | **163** |
| **Total Equity** | **176** | **171** | **163** |

### Comment

The purpose of BSE is to enhance the viability and sustainability of sporting activities and organisations by providing professional support services, promotion and sponsorship and to manage sporting facilities on behalf of Burnie City Council.

The majority of BSE's income was derived from a service agreement with Burnie City Council, for bar and catering sales, room hire and sponsorship. Expenditure included maintenance of the facilities, inventory purchases, payments to sporting clubs and sponsorship.

BSE experienced continual growth in operations over the last three years due to its increasing involvement in the community. At 30 June 2011 Council's investment in BSE totalled $0.320m.

Council is BSE's largest client.

# CENTRAL COAST COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2011 and an unqualified audit report was issued on 30 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

For the first time, at 30 June 2011, Council were required under section 17 of the *Audit Act 2008* to submit its financial statements to the Auditor-General within 45 days after the end of the financial year. Council did not provide signed financial statements within this timeframe. It will need to take steps to satisfy the 45 day requirement in future.

Other than late submission of Council's financial statements, there were no significant findings or developments during the year and the audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit after net financing revenue of $0.513m in 2010-11 (2009-10, Deficit $1.586m). While we acknowledge this result improved, it is our view that to assure long-term financial sustainability, Council should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of depreciation. The deficit of $0.513m represented 2.5% of operating revenues, including interest. This situation needs to be addressed by Council.

Council achieved a Net Surplus, after capital grants, grants in advance and contributions of $3.779m (2009-10, $3.122m) and a Comprehensive Surplus of $46.475m ($20.516m). The Comprehensive Surplus included the upward asset revaluations of $42.203m relating to land, roads and streets, carparks, and bridges and an increase in Council's interest in Cradle Mountain Water of $0.311m.

Consistent with the Comprehensive Surplus of $46.475m, Council's Net Assets increased to $394.166m, up from $347.691m the previous year. As at 30 June 2011 Council had Net Working Capital of $1.974m down from $2.370m in 2010 due mainly to higher Payables of $0.621m.

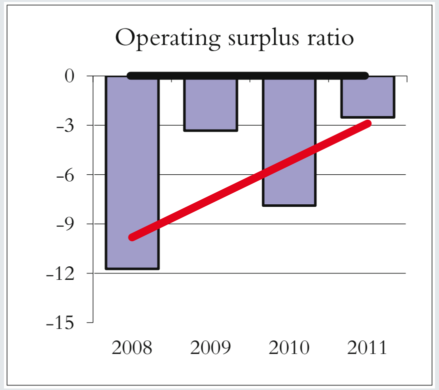
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

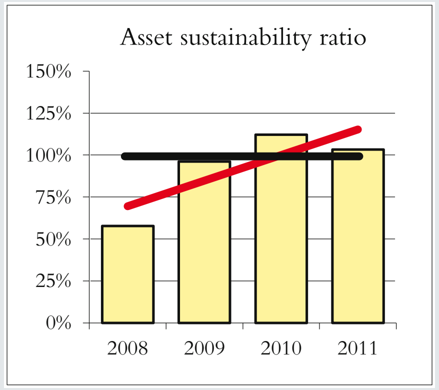
### Relevant financial sustainability ratios

The following four graphs and the discussion about the Asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



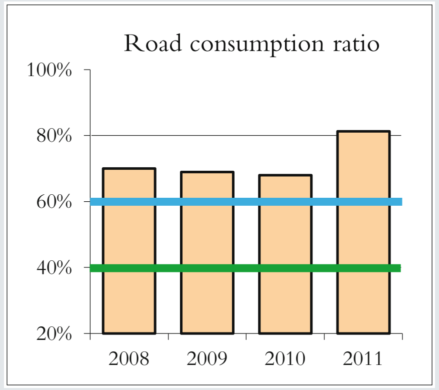

Council recorded operating deficits in each of the past four years with the trend line indicating deficits are reducing. Negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.




Asset sustainability ratio was below the 100% benchmark in two of the years under review. Over the four year period, Council's average ratio was 92%, which is below the benchmark, indicating, subject to levels of maintenance expenditure, Council did not maintain its investment in existing assets adequately.

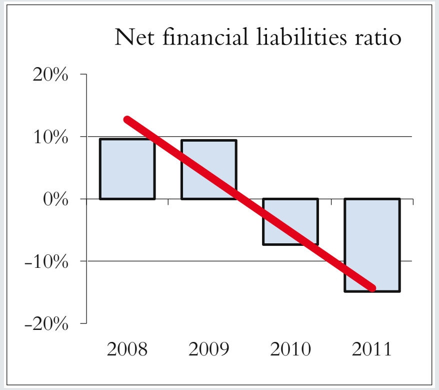
#### Asset renewal funding ratio

Council's long-term asset management plans indicate the Asset renewal funding ratio was 100% at 30 June 2011, based on planned asset replacement expenditure. The ratio is based on Council's current long-term asset management plans, which forecast expected and required renewal expenditure to 2028-29 for roads infrastructure, car parks, footpaths and recreational pathways, buildings and facilities and drainage assets.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2011 Council had used (consumed) approximately 19% of the service potential of its road infrastructure assets. This indicated a low financial sustainability risk in relation to road assets. The improvement in the ratio was primarily due to the revaluation on 1 July 2010. The revaluation, undertaken by Council engineers, reviewed useful lives and introduced residual values. This resulted in a lower depreciation expense and reduction in the accumulated depreciation balance. Overall, at that point in time, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded negative Net financial liabilities ratios in the past two years. The negative ratio at 30 June 2011 was due to total liabilities exceeding liquid assets by $3.024m, which represents 14.8% of operating revenue. The negative ratio was within our benchmark of negative 50% because it is only when the ratio reaches this level that liquidity concerns start to emerge. The ratio has been trending downwards over the four year period due to cash and financial assets decreasing by $2.313m and net loan debt increasing $2.678m. Council has completed a number of significant capital projects over the same period.

Council's total liabilities consisted of Payables, Borrowings, employee provisions, aged persons units provisions and Provision for rehabilitation.

### Governance

A review of governance arrangements indicated that Council does not have an audit committee.

Council has long-term asset management and financial management plans. The asset management plans cover road infrastructure, car parks, footpaths and recreational pathways, buildings and facilities and drainage assets over the period 2011-12 to 2028-29. These plans are detailed, regularly reviewed and cover elements required in relation to Council's key infrastructure assets. However, the plans have not been formally adopted by Council.

Council's long-term financial management plan covers a five year period. Council is currently developing a 10 year financial management plan, expected to be completed during 2011-12.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's recorded an operating deficit in each of the four years under review. These averaged less than negative 10% over the four-year placing Council in a moderate risk category.

Asset sustainability ratio indicates Council decreased its expenditure on existing assets in 2010-11 and averaged a ratio of 86%, which is below the 100% benchmark. This indicated Council may not have adequately maintained its investment in existing assets over the past four years. However, Council's Road consumption ratio indicated it is in the low risk category with the service potential of this asset only about 19% consumed. In addition, the Asset renewal funding ratio was at 100%. Taken together, asset management is in the low risk range.

From a governance perspective, Council has long-term asset management and financial plans but it does not have an audit committee. Council needs to address this governance aspect.

Council's Net financial liabilities ratio was negative in 2010-11 but within our 0 to -50% low risk range.

Based on these ratios and governance arrangements we concluded at 30 June 2011, Council was at moderate sustainability risk from an operating and governance perspective but low risk from an asset management and net financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

The net operating deficit of $0.513m is primarily due to revenue not yet received as reimbursement for flood damage in January 2011, along with the Council not receiving a priority dividend from Cradle Mountain Water. However, the Council through its long term financial planning has budgeted for a net operating surplus in 2011-12.

The functions of an Audit Committee are currently carried out by the Senior Management Team within the organisation of whom one is a CPA. While the Council understands the role of an Audit Committee, the knowledge and understanding of the Council's financial operations along with the internal audit function within this team should not be underestimated.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 11 474 | 11 566 | 10 914 |
| Fees and charges | 3 187 | 3 126 | 3 107 |
| Grants ** | 3 804 | 3 814 | 3 885 |
| Other revenue | 1 587 | 1 459 | 1 807 |
| **Total Revenue** | **20 052** | **19 965** | **19 713** |
| Employee costs | 8 334 | 8 490 | 8 327 |
| Depreciation | 6 142 | 5 045 | 6 022 |
| Other expenses | 7 267 | 7 183 | 7 263 |
| **Total Expenses** | **21 743** | **20 718** | **21 612** |
| **Net Operating (Deficit) before** | **(1 691)** | **(753)** | **(1 899)** |
| Finance costs | (99) | (125) | (82) |
| Interest revenue | 475 | 365 | 395 |
| **Net Operating (Deficit)** | **(1 315)** | **(513)** | **(1 586)** |
| Capital grants | 1 853 | 2 020 | 4 044 |
| Financial assistance grant received in advance ** | 0 | 971 | 945 |
| Offset Financial assistance grant in advance ** | 0 | (945) | (907) |
| Contributions of non-current assets | 0 | 2 246 | 626 |
| **Net Surplus** | **538** | **3 779** | **3 122** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 42 203 | 30 154 |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | (12 805) |
| Current year fair value adjustment Cradle Mountain Water | 0 | 311 | 0 |
| Share of associate revaluation increment | 0 | 182 | 45 |
| **Total comprehensive income items** | **0** | **42 696** | **17 394** |
| **Comprehensive Surplus** | **538** | **46 475** | **20 516** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenues of $0.753m, compared to a deficit of $1.899m in 2009-10, an improvement of $1.146m. The lower deficit was predominantly due to:

- increased Rates revenue of $0.652m, due to a higher general rate
- decreased Depreciation of $0.977m, following a full revaluation of roads and related infrastructure including a reassessment of residual values and useful lives, offset by
- lower Other revenue of $0.348m, due to reduced reimbursements, private works and returns from its associate.

After Capital grants of $2.020m and Contributions of non-current assets, $2.246m, Council generated a Net Surplus of $3.779m in 2010-11 compared with $3.122m in 2009-10.

Capital grants received by Council included:

- Roads to Recovery, $0.709m (2009-10, $0.640m),
- Safer travel speeds in shared urban spaces program, $0.200m,
- Blackspot projects, $0.142m ($0.766m),
- Wharf development, $0.760m,
- Showground development, $0m ($1.350m).

Other Comprehensive income totalled $42.696m in 2010-11 and comprised:

- fair value revaluation of Council's road, footpaths, car parks and bridge asset classes totalling $42.203m
- Council's higher investment in Cradle Mountain Water, $0.311m, being its 20.5% interest in the net assets of Cradle Mountain water at 30 June 2011
- higher asset revaluation reserve in Council's associate, Dulverton Regional Waste Management Authority, of $0.182m.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash | 5 416 | 3 456 |
| Receivables | 952 | 1 336 |
| Financial assets | 0 | 1 325 |
| Other | 378 | 218 |
| **Total Current Assets** | **6 746** | **6 335** |
| Payables | 2 084 | 1 463 |
| Borrowings | 126 | 129 |
| Provisions - employee benefits | 2 062 | 1 997 |
| Provisions - aged persons units | 136 | 127 |
| Other | 364 | 249 |
| **Total Current Liabilities** | **4 772** | **3 965** |
| **Net Working Capital** | **1 974** | **2 370** |
| Property, plant and equipment | 328 150 | 280 851 |
| Investments in associates | 1 743 | 1 431 |
| Investment in water corporation | 66 801 | 66 490 |
| Other | 118 | 172 |
| **Total Non-Current Assets** | **396 812** | **348 944** |
| Borrowings | 2 214 | 1 341 |
| Provisions - employee benefits | 111 | 132 |
| Provisions - aged persons units | 1 900 | 1 776 |
| Provisions - rehabilitation | 395 | 374 |
| **Total Non-Current Liabilities** | **4 620** | **3 623** |
| **Net Assets** | **394 166** | **347 691** |
| Reserves | 199 224 | 156 781 |
| Accumulated surpluses | 194 942 | 190 910 |
| **Total Equity** | **394 166** | **347 691** |

### Comment

In line with the Comprehensive Surplus, Total Equity increased by $46.475m during 2011. Net Assets increased by the same amount to $394.166m. Major line item movements included:

- increased Cash of $1.960m which is discussed further in the Cash Flow Statements section of this Chapter
- decreased Receivables of $0.384m, due to prior year including a debt of $0.522m for the Ulverstone/Turners Beach shared pathway
- lower financial assets of $1.325m due to Council redeeming a long term investment in 2010-11
- higher Payables of $0.621m due to large capital works projects in progress at 30 June 2011 including the replacement of bridges following the floods and temporary bailey bridging while works are completed
- increased Property, plant and equipment primarily due to:
  - revaluation increments of $42.203m relating to land, roads and streets, car parks, and bridges
  - additions, adjustments and contributions of $14.244m, offset by
  - disposals of $1.979m
  - deprecation expense of $5.045m
- increased Council investment in Cradle Mountain Water of $0.311m and Dulverton Regional Waste Management Authority of $0.182m
- higher total Borrowings of $0.870m due to a loan taken out during the year for the Ulverstone Wharf Development project.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 18 197 | 17 783 |
| Cash flows from government | 3 840 | 3 823 |
| Payments to suppliers and employees | (17 241) | (17 606) |
| Interest received | 365 | 395 |
| Finance costs | (104) | (63) |
| **Cash from operations** | **5 057** | **4 332** |
| Capital grants and contributions | 2 020 | 4 044 |
| Payments for property, plant and equipment | (8 559) | (13 986) |
| Proceeds from sale of property, plant and equipment | 1 246 | 831 |
| Proceeds from financial assets | 1 325 | 6 539 |
| **Cash (used in) investing activities** | **(3 968)** | **(2 572)** |
| Proceeds from borrowings | 1 000 | 700 |
| Repayment of borrowings | (129) | (104) |
| **Cash from financing activities** | **871** | **596** |
| **Net increase in cash** | **1 960** | **2 356** |
| Cash at the beginning of the year | 3 456 | 1 807 |
| Less cash transferred to Cradle Mountain Water | 0 | (707) |
| **Cash at end of the year** | **5 416** | **3 456** |

### Comment

Council's cash balance at 30 June 2011, $5.416m, comprised cash at bank and on hand. Its cash position improved by $1.960m during 2010-11, although $1.325m of the increase was due to an investment being redeemed during the year.

From a total cash and financial perspective, Cash from operations of $5.057m, Capital grants and contributions, $2.020m, and Proceeds from sale of property, plant and equipment, $1.246m, were slightly below Payments for Property, plant and equipment of $8.559m. The shortfall was more than covered by net borrowings of $0.871m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.725m to $5.057m which included:

- Council's operating deficit of $0.513m adjusted for depreciation of $5.045m, a non cash item, providing $4.532m in operating cash inflows
- the impact of a higher Payables balance, which increased by $0.621m, that did not result in a cash outflow in 2010-11.

Payments for Property, plant and equipment of $8.559m included:

- Ulverstone Wharf Development, $1.052m,
- Alexander Road safer travel speed in shared urban spaces program, $0.419m,
- Bridge works and replacements, $1.448m,
- Plant and equipment purchases, $1.025m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (513) | (1 586) | (901) | (2 785) |
| Operating surplus ratio * | >0 | (2.52) | (7.89) | (3.33) | (11.74) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 103% | 112% | 96% | 58% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 81.3% | 68.0% | 69.0% | 70.0% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (3 024) | (1 471) | 2 545 | 2 275 |
| Net financial liabilities ratio * *** | 0%-(50%) | (14.9%) | (7.3%) | 9.4% | 9.6% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 2.47 | 2.60 | 4.92 | 4.38 |
| Current ratio | 1:1 | 1.41 | 1.60 | 2.46 | 2.17 |
| Interest coverage | 3:1 | 47.63 | 67.76 | 115.09 | 238.50 |
| Asset investment ratio | >100% | 170% | 232% | 144% | 128% |
| Self financing ratio | | 24.9% | 21.5% | 24.9% | 20.2% |
| Own source revenue | | 81.2% | 80.7% | 86.6% | 86.2% |
| Debt collection | 30 days | 16 | 28 | 21 | 21 |
| Creditor turnover | 30 days | 41 | 21 | 24 | 26 |
| Rates per capita ($) | | 532 | 502 | 704 | 667 |
| Rates to operating revenue | | 56.9% | 54.3% | 56.1% | 59.7% |
| Rates per rateable property ($) | | 1 109 | 1 052 | 1 480 | 1 401 |
| Operating cost to rateable property ($) | | 1 998 | 2 091 | 2 727 | 2 620 |
| Employee costs expensed ($'000s) | | 8 490 | 8 327 | 9 343 | 8 366 |
| Employee costs capitalised ($'000s) | | 884 | 771 | 530 | 749 |
| **Total employee costs ($'000s)** | | **9 374** | **9 098** | **9 873** | **9 115** |
| Employee costs as a % of operating expenses | | 41% | 38% | 33% | 32% |
| Staff numbers (FTEs) | | 141 | 142 | 162 | 157 |
| Average staff costs ($'000s) | | 66 | 64 | 61 | 58 |
| Average leave balance per FTE ($'000s) | | 15 | 15 | 15 | 15 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*
**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operation efficiency matters.

Liquidity and Current ratios were above benchmark in all years under review indicating an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end.

Interest coverage ratios reflect Council's low level of finance costs associated with its borrowings. The ratio changed in 2009-10 in line with lower cash flows resulting from the transfer of water and sewerage activities to Cradle Mountain Water.

Asset investment ratios indicated Council invested strongly in new and existing assets for each of the years under review.

Self financing ratio remained relatively consistent over the period under review. Own source revenue was also constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2010-11 it was reliant on grant funding to the extent of 19% (2009-10, 19%).

Creditor turnover moved to worse than benchmark in 2010-11 due to a higher Payables balance at 30 June 2011, as detailed in the Statement of Financial Position section of this Chapter. Council's policy is to pay outstanding balance with 30 days, which it complies with.

Rates statistics were relatively consistent over the period under review. Council's rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs increased over the four year period under review. The movement in 2009-10 was mainly due to the impact of the transfer of water and sewerage services to Cradle Mountain Water.

Average staff costs and Average employee entitlements were fairly consistent for the four year period under review in line with annual enterprise agreement salary and wage pay rises.

# DERWENT VALLEY COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 23 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

On page 80 in the Report of the Auditor- General on Local Government Authorities including Business Units 2009-10 (Volume 4 – Part 2), tabled in Parliament in June 2011, we provided information that Council had been in consultation with the Australian and State governments in relation to funds provided for Willow Court. As reported in Volume 2, in December 2009 Council settled its commitments to the Federal government by repaying $0.250m, being unspent funds. The State government agreed to enter into negotiations with Council for a reallocation of $0.750m received to "priority projects" under a new grant deed. The Memorandum of Undertaking is to be with Council by the end of the first week in November 2011. Included with this will be a new Grant Deed for the $0.750m to be expended on "priority projects" primarily in Willow Court.

Volume 4 – Part 2 on page 80, we reported that Council was reviewing the role of Derwent Valley Economic Renewal Group Inc (Valley Vision). The role of this entity was reviewed and its functions are now performed by Council. The Annual General Meeting of Valley Vision will be held by the end of November 2011 where its continuing role will be discussed.

The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Our analysis shows in 2010-11 Council generated a Net Operating Surplus of $0.006m, before net interest, compared to a budgeted surplus of $1.635m. The budget did not include Depreciation. Assuming Depreciation was similar to the actual amount in 2010-11, $1.978m, a budgeted operating deficit of $0.343m would have resulted.

Council recorded a small Net Operating Surplus of $0.066m, an improvement of $0.816m on the Net Operating Deficit of $0.750m in 2009-10. The Net Operating Surplus in 2010-11 was achieved after operating deficits totalling $0.994m in the preceding three years. It is our view that, to ensure long-term financial sustainability, councils should, at a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of Depreciation. This situation needs to be monitored by Council.

Council achieved a Net Surplus of $0.476m (2009-10, $0.103m) and a Comprehensive Surplus of $4.729m ($0.722m Deficit). The Comprehensive Surplus included the net impacts of upward asset revaluations of $4.110m, as well as a write-up of $0.143m in Council's investment in Southern Water.

Consistent with the Comprehensive Surplus of $4.729m, Council's Net Assets increased to $89.620m, from $84.891m in 2009-10. As at 30 June 2011 Council had Net Working Capital of $0.928m, up from $0.560m, due mainly to increased Cash and cash equivalents and Financial assets of $0.532m and reduced Payables of $0.176m, both due to lower capital expenditure during 2010-11.

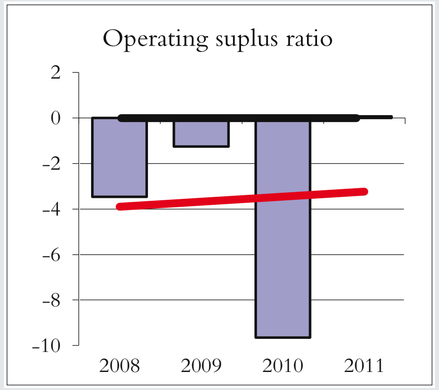
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

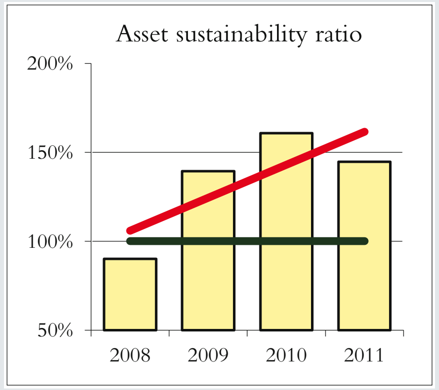
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because Council had no long-term asset management or financial management plans at the time of writing this Report.

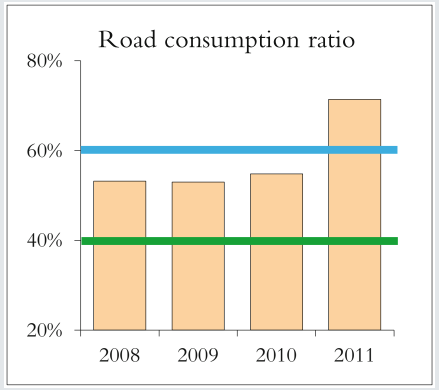
In general, the ratios indicate:



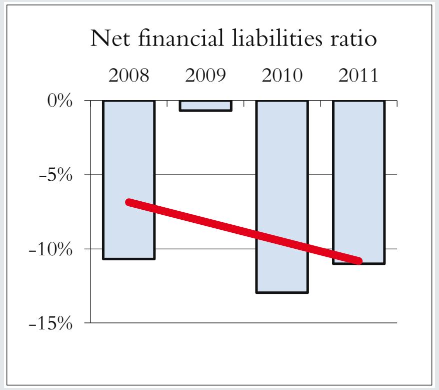

Council recorded a small operating surplus in 2010-11 compared with deficits in the prior three years. On average over the four year period, Council recorded a negative ratio of 3.58, which indicates sufficient revenue was not generated to fulfil its operating requirements, including Depreciation charges.




Asset sustainability ratio, although slightly down in the current year, remains above benchmark. Subject to levels of maintenance expenditure and in the absence of long-term asset management plans, Council was adequately investing in existing assets.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 29% of the service potential of its road assets which is a low risk rating. The improvement in the ratio was due to the revaluation of roads assets at 30 June 2011.




Council recorded a negative Net financial liabilities ratio over the past four years under review. However, the negative ratios are below our -50% benchmark, therefore indicating Council was in an acceptable liquidity position. This indicated Council was able to meet existing commitments and had a capacity to borrow.

Council's total liabilities consist of payables, interest bearing loans/borrowings and employee provisions.

### Governance

A review of Council's governance arrangements indicated it does not have:

- an audit committee
- a long-term asset management plan
- a long-term financial management plan.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating surplus for the current year with operating deficits in the three years prior and it budgeted for a deficit in 2010-11.

Asset sustainability ratio indicates Council, based on our 100% benchmark, invested adequately in existing assets over the past four years. At 30 June 2011 Council's Road consumption ratio was in the low risk range indicating its road assets had a relatively long remaining life before renewal or replacement is needed.

Council's Net financial liabilities ratio was negative but within the 0 to (50%) range indicating at 30 June 2011 it was in a position to meet short-term commitments and had capacity to increase borrowings should the need arise.

Council did not have an audit committee or long-term asset management or financial management plans. These aspects of its governance need to be addressed.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council was at a high risk from a governance perspective, moderate financial sustainability risk from an operating perspective but at low risk from a net financial liabilities and asset management perspective.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 5 028 | 5 057 | 4 802 |
| Fees and charges | 1 115 | 1 180 | 1 096 |
| Grants ** | 2 570 | 3 040 | 2 357 |
| Other revenue | 148 | 364 | 292 |
| **Total Revenue** | **8 861** | **9 641** | **8 547** |
| Employee costs | 3 159 | 3 009 | 2 920 |
| Depreciation | 0 | 1 978 | 2 050 |
| Other expenses | 4 067 | 4 648 | 4 417 |
| **Total Expenses** | **7 226** | **9 635** | **9 387** |
| **Net Operating Surplus (Deficit) before** | **1 635** | **6** | **(840)** |
| Finance costs | (133) | (107) | (73) |
| Interest revenue | 95 | 167 | 163 |
| **Net Operating Surplus (Deficit)** | **1 597** | **66** | **(750)** |
| Capital grants | 124 | 410 | 844 |
| Financial assistance grant received in advance ** | 0 | 444 | 403 |
| Offset Financial assistance grant in advance ** | 0 | (444) | (394) |
| **Net Surplus** | **1 721** | **476** | **103** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 4 110 | 3 479 |
| Fair value initial adjustment Southern Water | 0 | 0 | (4 304) |
| Current year fair value adjustment Southern Water | 0 | 143 | 0 |
| **Total comprehensive income items** | **0** | **4 253** | **(825)** |
| **Comprehensive Surplus (Deficit)** | **1 721** | **4 729** | **(722)** |

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
** *Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Surplus before net financing revenue of $0.006m, compared to a deficit of $0.840m, in the prior year.

Total Revenue increased by $1.094m, 12.8%, mainly due to higher Rates revenue of $0.255m (5.3%) and Grants revenue which increased by $0.683m as a result of greater grants for roads, bridges and footpaths, $0.437m, offset by lower grants for buildings and property grants, $0.256m. There was also an increase in the Financial Assistance Grants base component of $0.227m. The higher revenue was partially offset by a $0.248m, 2.6%, rise in Total Expenses, including:

- Employee costs, $0.089m, 3.1%, in line with pay rises
- Other expenses, $0.231m, 5.2%, with materials and contract costs up $0.200m.

After accounting for net finance revenues Council made a Net Operating Surplus of $0.066m in 2010-11 (2009-10, $0.750m, Deficit).

Council achieved a Net Surplus of $0.476m in 2010-11 after Capital grants of $0.410m, this was $1.245m less than the estimated surplus of $1.721m. The difference was mainly because Council did not budget for its Depreciation expense. Had Depreciation been included at an amount equal to the 2010-11 actual charge, $1.978m, the budgeted result would have been a Deficit of $0.381m.

Comprehensive Surplus was $4.729m in 2010-11, improving by $5.451m from the 2009-10 result. The improvement was mainly due to a write-up of the investment in Southern Water, $0.143m, compared to a $4.304m write-down in 2009-10. A higher fair value revaluation of $0.631m of non-current assets also contributed to the higher result.

Capital grants totalled $0.410m for 2010-11 and included:

- Maydena Main Street Makeover, $0.235m,
- High Street Makeover, $0.080m.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and cash equivalents | 415 | 184 |
| Financial assets | 2 305 | 2 004 |
| Receivables | 702 | 669 |
| Other | 63 | 148 |
| **Total Current Assets** | **3 485** | **3 005** |
| Payables | 650 | 826 |
| Borrowings | 115 | 89 |
| Provisions - employee benefits | 1 564 | 1 399 |
| Other | 228 | 131 |
| **Total Current Liabilities** | **2 557** | **2 445** |
| **Net Working Capital** | **928** | **560** |
| Property, plant and equipment | 65 747 | 61 126 |
| Investment in water corporation | 24 870 | 24 727 |
| Other | 20 | 18 |
| **Total Non-Current Assets** | **90 637** | **85 871** |
| Borrowings | 1 858 | 1 473 |
| Provisions - employee benefits | 87 | 67 |
| **Total Non-Current Liabilities** | **1 945** | **1 540** |
| **Net Assets** | **89 620** | **84 891** |
| Reserves | 49 848 | 45 649 |
| Accumulated surpluses | 39 772 | 39 242 |
| **Total Equity** | **89 620** | **84 891** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $4.729m.

Net Assets increased by the same amount to $89.620m. Reasons for major movements in line items included:

- higher Cash and cash equivalents of $0.231m which is discussed further in the Cash Flow Statement section of this Chapter
- Receivables increased, $0.033m, mainly due to once-off sundry debtors related to State Emergency Services (SES), $0.059m, higher rates receivables of $0.089m offset by lower other debtors of $0.110m
- Payables decreased by $0.176m, due to less capital works compared to 2010
- increased Property, plant and equipment of $4.621m, primarily due to additions of $3.017m, asset revaluation of $4.110m, offset by Depreciation $1.978m and disposals $0.528m
- higher Investment in Southern Water of $0.143m, mentioned previously.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 7 082 | 6 126 |
| Cash flows from government | 3 370 | 2 357 |
| Payments to suppliers and employees | (8 259) | (6 559) |
| Interest received | 167 | 60 |
| Finance costs | (101) | (83) |
| **Cash from operations** | **2 259** | **1 901** |
| Capital grants and contributions | 427 | 859 |
| Payments for property, plant and equipment | (3 018) | (4 294) |
| Proceeds from sale of property, plant and equipment | 453 | 150 |
| (Payments)/Proceeds for financial assets | (301) | 520 |
| **Cash (used in) investing activities** | **(2 439)** | **(2 765)** |
| Proceeds from borrowings | 500 | 500 |
| Repayment of borrowings | (89) | (65) |
| **Cash from financing activities** | **411** | **435** |
| **Net increase (decrease) in cash** | **231** | **(429)** |
| Cash at the beginning of the year | 184 | 613 |
| **Cash at end of the year** | **415** | **184** |

### Comment

Council's cash position improved from $0.184m, at 30 June 2010 to $0.415m, at 30 June 2011. This was due to:

- Council's Net Surplus of $0.476m adjusted for Depreciation of  $1.978m, a non-cash item, and increase in Employee provisions, $0.185m, provided $2.639m in operating cash inflows, offset by
- cash inflows from Capital grants provided by Government, $0.410m, the impact of cash applied to reduce the Payables balance by $0.176m during 2010-11.

The decrease of $1.276m, in payments for Property, plant and equipment reflected the lower level of capital expenditure. Capital expenditure included:

- road works, $1.738m, including Poulters Road, $0.287m, High Street, $0.150m, Glenora Road, $0.158m, and Golding Street, $0.102m,
- bridges, $0.193m, including Counts Creek, $0.172m,
- reserves and recreation, $0.144m,
- plant, $0.445m.

Council also held financial assets of $2.305m, which were not included within the definition of cash as they had maturities greater than three months from balance date.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 66 | (750) | (44) | (200) |
| Operating surplus ratio * | >0 | 0.06 | (9.64) | (1.26) | (3.47) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio * | 100% | 145% | 161% | 139% | 90% |
| Asset renewal funding ratio * ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road consumption ratio * | >60% | 71.4% | 54.8% | 53.0% | 53.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (1 080) | (1 128) | (74) | (1 144) |
| Net financial liabilities ratio * *** | 0-(50%) | (11.0%) | (13.0%) | (0.7%) | (10.7%) |
| **Operating efficiency** | | | | | |
| Liquidity ratio * | 2:1 | 1.12 | 0.82 | 12.73 | 2.02 |
| Current ratio | 1:1 | 1.36 | 1.23 | 2.20 | 1.23 |
| Interest coverage | 3:1 | 21.37 | 21.90 | 23.01 | 19.65 |
| Asset investment ratio | >100% | 153% | 209% | 139% | 115% |
| Self financing ratio * | | 23.0% | 21.8% | 24.9% | 24.3% |
| Own source revenue * | | 69.0% | 72.9% | 79.3% | 80.7% |
| Debt collection | 30 days | 41 | 35 | 22 | 38 |
| Creditor turnover | 30 days | 32 | 35 | 9 | 52 |
| Rates per capita ($) | | 504 | 478 | 698 | 670 |
| Rates to operating revenue | | 51.6% | 55.1% | 63.2% | 62.2% |
| Rates per rateable property ($) | | 1 021 | 967 | 1 018 | 1 430 |
| Operating cost to rateable property ($) | | 1 966 | 1 905 | 2 326 | 2 344 |
| Employee costs expensed ($'000s) | | 3 009 | 2 920 | 2 874 | 2 496 |
| Employee costs capitalised ($'000s) | | 43 | 43 | 123 | 102 |
| **Total employee costs ($'000s)** | | **3 052** | **2 963** | **2 997** | **2 598** |
| Employee costs as a % of operating expenses | | 31% | 31% | 26% | 23% |
| Staff numbers (FTEs) | | 46 | 47 | 46 | 45 |
| Average staff costs ($'000s) | | 66 | 63 | 65 | 58 |
| Average leave balance per FTE ($'000s) | | 36 | 31 | 33 | 29 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be Where the ratio is positive, as is the case with Derwent Valley Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Current ratio was above benchmark in all four years under review, indicating Council had the ability to meet short-term commitments.

Interest Coverage consistently remained above the benchmark which indicated Council was not overburdened by debt.

Asset investment ratio indicates Council invested strongly in new and existing assets for the four years under review.

Debt collection days were overdue for longer than benchmark in three of the years under review. The ratio for 2010-11 was impacted by increased Receivables at 30 June 2011.

Creditor turnover improved slightly in 2010-11 but still remained longer than benchmark. Council's policy is to pay outstanding creditors within a 30 day period.

Council rates per head of population and Rates per rateable property increased steadily in line with general rate increases and consumer price index.

Employee costs capitalised, $0.043m, remained constant, at a low level following the transfer of water and sewerage and consistent with Council sub-contracting capital works.

Employee costs as a percentage of operating costs remained constant in the last two years. The increase from 2009-10 followed Council no longer incurring costs related to water and sewerage.

Average staff costs generally increased in line with the consumer price index.

# DEVONPORT CITY COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 23 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments during the year. The audit was completed satisfactorily with no major issues outstanding.

During the year Council identified a misstatement in its financial statements for the year ended 30 June 2010. The variance related to the loss on disposal of property, plant and equipment being overstated by $1.280m and work in progress understated by the same amount. Due to the materiality of the amount Council amended the comparative information in its 2010-11 financial statements. The tables below have been amended to reflect the corrected balances.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.560m in 2010-11 (2010, Deficit $2.620m). The improved result was due primarily to higher Rates revenue and lower Employee costs, as detailed in the Comprehensive Income Statement section of this Chapter.

Council recorded a Net Surplus of $9.735m (2009-10, $1.137m), which included Capital grants of $7.350m and Contributions of non-monetary assets of $1.783m.

The Comprehensive Deficit of $13.705m included the net impacts of upward asset revaluations of $7.689m and a write-down of Council's interest in Cradle Mountain Water by $31.409m. This arose primarily due to Council's ownership interest in the water corporation being lowered in the Treasurer's final allocation from 33.3% to 23.5%.

Consistent with the Comprehensive deficit of $13.705m, Council's Net Assets decreased to $394.858m from $408.563m the previous year. As at 30 June 2011 Council had Net Working Capital of $5.542m down from $9.143m in the previous year.

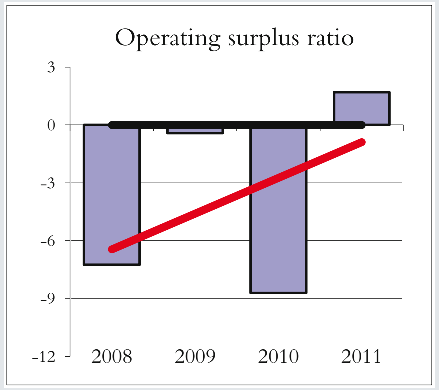
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

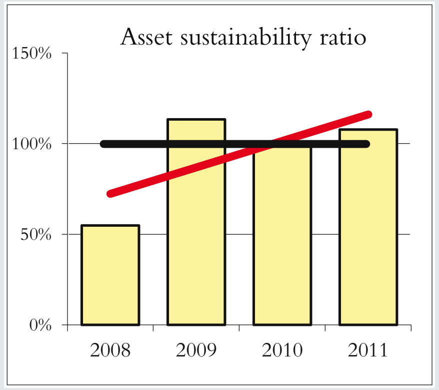
### Relevant financial sustainability ratios

The following four graphs, and the discussion about asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



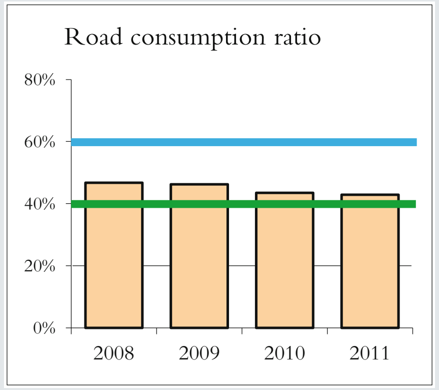

Council's operating surplus ratios reflect operating deficits recorded in three of the four years. The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. The positive ratio in 2011 indicated Council addressed its operating deficits and improved its operating position.




Asset sustainability ratio was below the 100% benchmark in 2008, but improved in the next three years. Over the four year period, Council's average ratio was 94%, slightly below the benchmark, indicating, subject to levels of maintenance expenditure and the existence of a long-term asset management plan, Council substantially maintained its investment in existing assets.

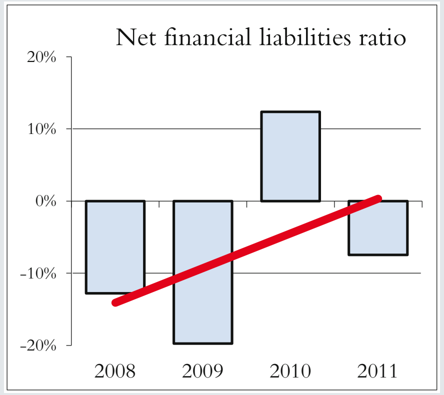
#### Asset renewal funding ratio

Council's long-term asset management plan indicated the Asset renewal funding ratio was 97% at 30 June 2011, based on future planned asset replacement expenditure. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2028-29 and covers transport, drainage, facilities and open place and recreation assets.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicated a high risk rating with data between the two lines representing a moderate risk rating. The graph indicated that at 30 June 2011 Council had used (consumed) approximately 57% of the service potential of its road assets.

This indicates a moderate financial sustainability risk. Council should ensure that they continue to monitor the condition of their assets and maintain up to date valuations that will give an accurate reflection of the service potential of their assets.




Council recorded a negative ratio at 30 June 2011, because total liabilities exceeded liquid assets by $2.467m which represented 7.5% of Council's operating revenue. This compared with the situation at 30 June 2010 when liquid assets exceeded total liabilities by $3.716m which resulted in a positive ratio of 12.4%. The negative ratio of 7.5% is well within our benchmark of negative 50% because it is only when the ratio reaches this level that liquidity concerns start to emerge.

Council's total liabilities consisted of Payables, employee provisions and Borrowings.

### Governance

A review of governance arrangements indicated Council had an audit committee, with the committee:

- comprising of three independent members and two Aldermen
- liaising with the external auditors
- taking an oversight role of Council's financial statements.

The functions of the committee does not include an internal audit role. An internal audit function would strengthen Council's governance structure.

In addition, Council had asset management and financial management plans. The asset management plan covers a period from 2010-11 to 2028-29, is detailed, regularly reviewed and covers all of the elements required in relation to Council's key infrastructure assets. The plan was formally adopted by Council.

The financial management plan covers a period 2010-11 to 2014-15 and has been recently reviewed. The plan has a greater focus on operating activities. The plan has not been formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating deficit in three of the four years under review. Following a review of operations and restructure in July 2010, Council achieved an operating surplus in 2010-11.

Council's asset sustainability ratios indicated, based on our 100% benchmark, that it marginally under-invested in existing assets over the period of the analysis, with an average ratio of 94%. Road consumption ratio is in the moderate risk range, with road assets being 57% consumed.

Council's liquidity was adequate to meet all its short term commitments, it had a manageable debt level and a capacity to borrow further should the need arise.

From a governance perspective, Council has an active audit committee, although it does not have an internal audit function. Council have both an asset management plan and a financial management plan.

Based on these ratios and governance arrangements we concluded that at 30 June 2011, Council was at moderate financial sustainability risk from an operating, asset management and governance perspective but was at low financial sustainability risk from a net financial liabilities perspective.



## COMPREHENSIVE INCOME STATEMENT

| | **2010-11** | **2010-11** | **2009-10** |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 22 209 | 22 233 | 20 666 |
| Fees and charges | 4 717 | 4 869 | 4 834 |
| Grants ** | 2 600 | 2 970 | 2 195 |
| Other revenue | 1 280 | 1 962 | 1 466 |
| **Total Revenue** | **30 806** | **32 034** | **29 161** |
| Employee costs | 11 388 | 11 702 | 12 935 |
| Depreciation | 7 560 | 7 174 | 6 867 |
| Other expenses | 11 289 | 13 264 | 12 540 |
| **Total Expenses** | **30 237** | **32 140** | **32 342** |
| **Net Operating Surplus (Deficit) before** | **569** | **(106)** | **(3 181)** |
| Finance costs | (374) | (374) | (353) |
| Interest revenue | 997 | 1 040 | 914 |
| **Net Operating Surplus (Deficit)** | **1 192** | **560** | **(2 620)** |
| Capital grants | 8 086 | 7 350 | 2 516 |
| Financial assistance grant received in advance ** | 0 | 477 | 435 |
| Offset Financial assistance grant in advance ** | 0 | (435) | (369) |
| Contributions of non-current assets | 0 | 1 783 | 1 175 |
| **Net Surplus** | **9 278** | **9 735** | **1 137** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 7 689 | (13 260) |
| Share of associate revaluation increment | 0 | 280 | (33) |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | (31 706) |
| Fair value adjustment arising from change in allocation order | 0 | (31 767) | 0 |
| Current year fair value adjustment Cradle Mountain Water | 0 | 358 | 0 |
| **Total Comprehensive Income Items** | **0** | **(23 440)** | **(44 999)** |
| **Comprehensive Surplus (Deficit)** | **9 278** | **(13 705)** | **(43 862)** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The offset figures allows the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Deficit before Finance costs and Interest revenue of $0.106m, (2009-10, Deficit $3.181m). The improved Deficit was predominately due to:

- decreased Employee costs, $1.233m, 9.5%, mainly due to lower average FTEs, which moved from 168 to 160, combined with redundancy costs included in 2009-10
- increased Rates revenue of $1.567m, 7.6%, due to a higher general rate
- higher Other revenue $0.496m, 33.8%, mainly due to distributions from Cradle Mountain Water of $1.154m (2009-10, $0.546m). The distributions from the water corporation included dividends, tax equivalent payments and loan guarantee fees

- higher grant revenue, $0.775m, 35.3%, which included increased community projects funding of $0.600m. Assistance for Council's Imaginarium Science Centre and the National Crime Prevention Program were part of this funding, offset by
- increased Other expenses, $0.724m, 5.8%, due to a partnership agreement with Pandemonium to include the Imaginarium Science Centre as part of its operations, and increased contractor costs of $0.262m.

After accounting for net interest revenue Council recorded an Operating Surplus of $0.560m (2009-10, Deficit of $2.620m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $0.872m per annum over the past four years.

After Capital grants and Contributions of non-current assets Council generated a Net Surplus of $9.735m in 2010-11 (2009-10, $1.137m).

Capital grants totalled $7.350m (2009-10, $2.516m) and included:

- funding from the State Government for the Formby Road upgrade, $4.000m,
- 'Julie Burgess' Project State Government funding of $0.600m ($1.000m)
- Mersey Bluff redevelopment State and Commonwealth Government funding, $1.600m ($0.500m).

Other Comprehensive Income resulted in a Deficit of $23.440m in 2010-11 and comprised:

- fair value revaluation of non-current assets of $7.689m which included roads and bridges, $3.101m, land and improvements, $1.585m, drainage, $1.493m and buildings, $1.383m,
- Council's share of Dulverton Regional Waste Management Authority's revaluation increment of $0.280m
- a decrease in the investment in Cradle Mountain Water due to two factors. Firstly, an unfavourable adjustment of $31.767m arising from Council's final ownership interest, initially based on an interim allocation order by the Treasurer, at 33.3%, applied to Cradle Mountain Water's net assets on this basis at 30 June 2010. This changed to 23.5% when the final allocation order was made. The $31.767m represented Council's decreased interest of 9.8% at 30 June 2010. Secondly, the $0.358m increase being Council's 23.5% interest in the higher net assets of Cradle Mountain Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 9 608 | 12 869 |
| Receivables | 1 755 | 1 723 |
| Other | 65 | 101 |
| **Total Current Assets** | **11 428** | **14 693** |
| Payables | 2 499 | 2 790 |
| Borrowings | 845 | 672 |
| Provisions - employee benefits | 2 107 | 1 887 |
| Other | 435 | 201 |
| **Total Current Liabilities** | **5 886** | **5 550** |
| **Net Working Capital** | **5 542** | **9 143** |
| Property, plant and equipment | 318 226 | 294 571 |
| Investments in associates | 2 056 | 1 722 |
| Investment in water corporation | 76 755 | 108 164 |
| Receivables | 223 | 289 |
| **Total Non-Current Assets** | **397 260** | **404 746** |
| Borrowings | 7 533 | 4 878 |
| Provisions - employee benefits | 411 | 448 |
| **Total Non-Current Liabilities** | **7 944** | **5 326** |
| **Net Assets** | **394 858** | **408 563** |
| Reserves | 220 835 | 214 476 |
| Accumulated surpluses | 174 023 | 194 087 |
| **Total Equity** | **394 858** | **408 563** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity decreased by $13.705m during 2010-11. Net Assets decreased by the same amount to $394.858m. Major line item movements included:

- Cash and financial assets decreased by $3.261m. Refer to the Cash Flow Statement section of this Chapter for further explanation
- Property, plant and equipment increased by $23.655m due primarily to:
  - asset revaluations of $7.689m, which included roads and bridges infrastructure, drainage infrastructure, land and land improvements and buildings assets
  - capital additions, $22.668m, and contributions of $1.783m which included Formby Road upgrade, Mersey Bluff redevelopment, Stewart Street upgrade and the 'Julie Burgess' restoration project, offset by
  - Depreciation expense of $7.174m
- Council's investment in Cradle Mountain Water reduced by $31.409m as discussed in the Comprehensive Income Statement section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 30 037 | 29 306 |
| Cash flows from government | 3 012 | 2 261 |
| Payments to suppliers and employees | (26 097) | (26 003) |
| Interest received | 930 | 597 |
| Finance costs | (374) | (353) |
| **Cash from operations** | **7 508** | **5 808** |
| Capital grants and contributions | 7 350 | 2 516 |
| Dividends received - Dulverton | 110 | 0 |
| Returns received - Cradle Mountain Water | 1 154 | 238 |
| Payments for property, plant and equipment | (22 733) | (8 406) |
| Proceeds from sale of property, plant and equipment | 522 | 200 |
| **Cash (used in) investing activities** | **(13 597)** | **(5 452)** |
| Proceeds from borrowings | 3 500 | 3 140 |
| Repayment of borrowings | (672) | (380) |
| **Cash from financing activities** | **2 828** | **2 760** |
| **Net (decrease) increase in cash** | **(3 261)** | **3 116** |
| Cash at the beginning of the year | 12 869 | 9 753 |
| **Cash at end of the year** | **9 608** | **12 869** |

### Comment

At 30 June 2011, Council's total cash balance of $9.608m comprised cash at bank and on hand, $0.162m, and short term deposits, $9.446m. Council reported that $2.953m (2009-10, $2.702m) of the investment balance was restricted (being held for specific purposes or recorded as prepaid deposits).

Council's cash position decreased by $3.261m in 2010-11. The decrease was due to Cash from operations, $7.508m, Capital grants and contributions, $7.350m, Returns received from Cradle Mountain Water, $1.154m, and net borrowings of $2.828m, being insufficient to meet Payments for property plant and equipment totalling $22.733m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $1.700m to $7.508m which included:

- Council's operating surplus of $0.560m adjusted for depreciation of $7.174m and the loss on disposal of non current assets $0.789m, both non cash items, providing $8.523m in operating cash inflows, offset by
- cash inflows from returns received from Cradle Mountain Water, $1.154m, being recorded as an investing activity for cash flow purposes.

Major capital expenditure projects during the period included the Mersey Bluff redevelopment, $7.506m, and Formby Road upgrade, $6.234m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 560 | (2 620) | (166) | (2 679) |
| Operating surplus ratio * | >0 | 1.69 | (8.71) | (0.42) | (7.24) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 108% | 101% | 113% | 55% |
| Asset renewal funding ratio* ** | 90%-100% | 97% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 42.9% | 43.5% | 46.2% | 46.8% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (2 467) | 3 716 | (7 750) | (4 722) |
| Net financial liabilities ratio * *** | 0-(50%) | (7.5%) | 12.4% | (19.7%) | (12.8%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.01 | 3.98 | 1.24 | 2.78 |
| Current ratio | 1:1 | 1.94 | 2.65 | 1.02 | 1.82 |
| Interest coverage | 3:1 | 19.07 | 15.45 | 10.57 | 7.89 |
| Asset investment ratio | >100% | 311% | 122% | 168% | 88% |
| Self financing ratio | | 22.7% | 19.3% | 26.8% | 16.4% |
| Own source revenue | | 91.0% | 92.7% | 93.4% | 93.2% |
| Debt collection | 30 days | 24 | 25 | 24 | 18 |
| Creditor turnover | 30 days | 19 | 37 | 24 | 19 |
| Rates per capita ($) | | 870 | 810 | 1 062 | 1 010 |
| Rates to operating revenue | | 67.2% | 68.7% | 68.1% | 68.1% |
| Rates per rateable property ($) | | 1 880 | 1 766 | 2 315 | 2 196 |
| Operating cost to rateable property ($) | | 2 749 | 2 794 | 3 412 | 3 458 |
| Employee costs expensed ($'000s) | | 11 702 | 12 935 | 12 464 | 12 915 |
| Employee costs capitalised ($'000s) | | 577 | 701 | 634 | 638 |
| **Total employee costs ($'000s)** | | **12 279** | **13 636** | **13 098** | **13 553** |
| Employee costs as a % of operating expenses | | 36% | 40% | 32% | 33% |
| Staff numbers (FTEs) | | 160 | 168 | 196 | 205 |
| Average staff costs ($'000s) | | 77 | 81 | 67 | 66 |
| Average leave balance per FTE ($'000s) | | 16 | 14 | 14 | 13 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Council's Liquidity and Current ratios were above benchmark in all four years under review, which indicated an ability to meet short term commitments.

Interest coverage ratios reflect Council's low level of finance costs associated with its borrowings.

Asset investment ratios shows Council's total capital expenditure was well above its depreciation expense for the last three years under review. In particular, the ratio for 2010-11 was substantially above benchmark, with Council undertaking major capital projects, as noted in the Cash Flow Statement section of this Chapter.

Council's positive Self financing ratios indicated Council generated operating cash flows which contributed towards its capital expenditure programs. Own source revenue percentages show Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on recurrent grant funding to the extent of only 9.0% (2009-10, 7.3%).

Creditor turnover was better than benchmark in three out of the four years under review, except for 2009-10. Creditor balances at 30 June 2010 included invoices for large capital projects. Council's policy is to pay outstanding creditors within a 30-day period.

Council's rate statistics were relatively consistent from 2009-10. Rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs were high in 2009-10, mainly due to redundancy payments of $0.474m made following the organisational restructure undertaken at the end of that year. The percentage reduced in 2010-11 along with reduced average FTEs for the year following the restructure.

Average staff costs were high in 2009-10, mainly due to pay rises under Council's Enterprise Agreement combined with the impact of redundancy payments during that year.

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011. Following the audit, the financial statements were re-signed on 22 September 2011 and an unqualified audit report was issued on the 23 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

The following findings arose from the audit:

- The absence of a purpose built asset management system and associated difficulties in performing regular reconciliations to financial records. Whilst the Council has made substantial progress in identifying all Council related assets to enable the development of long-term asset management plans, in it's approach Council made a strategic decision that it would collate and establish a full inventory of all of it's assets as the first step in the asset management process. Council then intends to either develop or purchase a computerized asset management system which will help alleviate reconciliation issues between the current excel based asset management register and the financial system.
- Revaluation decrements were not matched to revaluation reserves specifically by asset class, as required by accounting standards.

This year Council developed a long-term financial plan which included full cash backing for annual depreciation charges. The plan aims to introduce a new financial model and fiscal discipline to ensure Council is sustainable going forward. This financial plan prompted a detailed review of infrastructure asset registers, which identified assets that were not previously recognised. This resulted in an asset take-up adjustment of $10.392m in 2010-11.

Collaterised Debt Obligation (CDO) investments were realised during 2010-11 for a $0.146m gain on the impaired value.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.777m in 2010-11 (2009-10, $0.051m). It reported a Net Surplus of $12.139m ($0.928m), which primarily resulted from the asset take-up adjustment of $10.392m noted earlier in this Chapter and capital grants of $0.965m.

Council recorded a Comprehensive Surplus of $26.000m (2009-10, $2.064m), which included net impacts of upward asset revaluations, $13.639m, and a write-up of Council's interest in Southern Water of $0.222m.

Consistent with the Comprehensive surplus of $26.000m Council's Net Assets increased to $205.802m, up from $179.802m the previous period. As at 30 June 2011 Council had Net Working Capital of $9.476m, up from $6.837m in 2009-10.

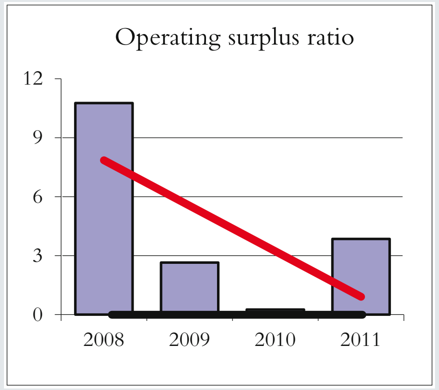
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

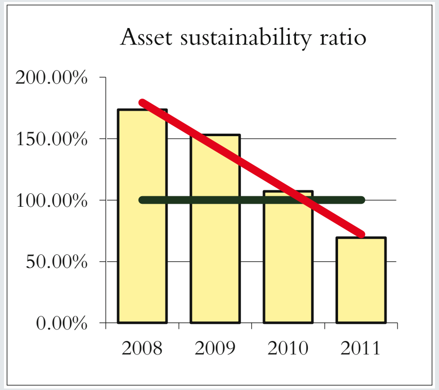
### Relevant financial sustainability ratios

The following four graphs and the discussion on the asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



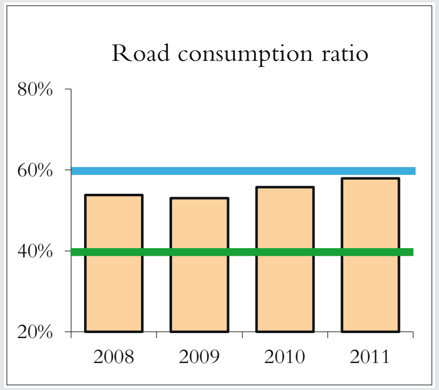

Council recorded an operating surplus in each of the past four years. The positive ratios indicated that Council generated sufficient revenue to fulfil its operating requirements, including its Depreciation charges.




Over the four year period, Council's average ratio was 126%, which is above the benchmark indicating that Council maintained its investment in existing assets. However, Council must monitor the downward trend.

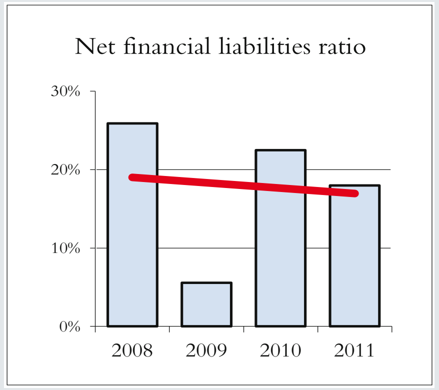
### Asset renewal funding ratio

Council's long-term financial management plan indicated the Asset renewal funding ratio was 100% at 30 June 2011, based on future planned asset replacement expenditure. Council's current long-term financial management plan forecasts planned and required renewal expenditure to 2021-22 and covers transport, drainage, facilities and open place and recreation assets.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, and data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 42% of the service potential of its road assets.

This indicates a moderate financial sustainability risk.




Council recorded positive Net financial liabilities ratios with liquid assets in excess of current and non-current liabilities over the four year period under review. These positive ratios indicate a strong liquidity position, with Council able to meet its commitments.

### Governance

A review of Council's governance arrangements indicated Council had a long-term financial management plan. The plan covers a period from 2010-11 to 2021-22, is detailed, regularly reviewed and covers all of the elements required in relation to Council's key infrastructure assets, as well as a focus on operating activities. The plan was formally adopted by Council.

It was also noted that Council does not have an audit committee or internal audit function. However, it has a Financial and Risk Management Committee which performs some functions of an audit committee.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded surpluses in all years under review indicating low financial sustainability risk.

Council's financial liabilities ratio was above benchmark and it had no debt. These factors indicate it is in a strong position to meet its short-term commitments and may have capacity to borrow should the need arise.

Asset management ratios indicate Council invested above the benchmark in existing assets over the four year period under review, and its road consumption ratio, while improving, remained in the moderate financial sustainability range. It is planned going forward as part of the financial management plan that Council will spend 100% of its required renewal expenditure until 2021-22.

Council does not have an audit committee but does have a Financial and Risk Management Committee performing some functions of an audit committee. It also has a long-term financial management plan which was formally adopted.

Based on these ratios and governance arrangements we concluded at 30 June 2011, Council was at moderate financial sustainability risk from a governance perspective, but low risk from operating, net financial liabilities and asset management perspective.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 | 2009-10 |
|---|---|---|
| | Actual* | Actual |
| | $'000s | $'000s |
| Rates | 8 337 | 7 698 |
| Fees and charges | 2 387 | 2 239 |
| Grants ** | 4 576 | 4 546 |
| Other revenue | 4 275 | 4 009 |
| **Total Revenue** | **19 575** | **18 492** |
| Employee costs | 8 735 | 7 544 |
| Depreciation | 4 078 | 4 040 |
| Other expenses | 6 566 | 7 342 |
| **Total Expenses** | **19 379** | **18 926** |
| **Net Operating Surplus (Deficit) before** | **196** | **(434)** |
| Interest revenue | 581 | 485 |
| **Net Operating Surplus** | **777** | **51** |
| Impairment of cash investments | 0 | (121) |
| Capital grants | 965 | 1 006 |
| Financial assistance grant received in advance ** | 734 | 729 |
| Offset Financial assistance grant in advance ** | (729) | (737) |
| Infrastructure asset take-up | 10 392 | 0 |
| **Net Surplus** | **12 139** | **928** |
| **Other Comprehensive Income** | | |
| Fair value revaluation of non-current assets | 13 639 | (836) |
| Fair value initial adjustment Southern Water | 0 | 1 972 |
| Currrent year fair value adjustment Southern Water | 222 | 0 |
| **Total comprehensive income items** | **13 861** | **1 136** |
| **Comprehensive Surplus** | **26 000** | **2 064** |

* *Budget figures were not available*
** *Grants received in advance have been shown separately after Net Operating Surplus.*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Surplus before Interest revenue of $0.196m compared to a Deficit of $0.434m in the prior period. The improved result was due to a combination of the following factors:

- increased Rates of $0.639m, due to a higher general rate
- decreased Other expenses, $0.776m, mainly due to lower expenditure on materials and contract works, offset by
- increased Employee costs by $1.191m, 16%, as a result of more full time equivalent employees, a 3.5% pay increase, increased superannuation costs of 1.5%, less capitalised wages.

Council recorded a Net Operating Surplus of $0.777m (2009-10, $0.051m). Interest revenue was a constant source of income and increased $0.096m, 20%, this year to $0.581m as a result of increased investments, highlighting its importance to Council's annual operating performance.

Council's Net Surplus was $12.139m in 2010-11. The $11.211m improvement compared to 2009-10 was mainly due to:

- Infrastructure take-up adjustments, $10.392m, which represented assets identified by Council and brought to account for the first time
- Capital grants of $0.965m which mainly comprised of the Roads to Recovery Program, $0.419m, and Black Spot Funding, $0.120m.

Council's Comprehensive Surplus for 2010-11 was $26.000m. This comprised of Net Surplus, $12.139m, Fair value revaluation of non-current assets, $13.639m, and write-up of Council's interest in Southern Water, $0.222m.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 6 392 | 7 187 |
| Investments | 5 000 | 1 707 |
| Receivables | 1 940 | 1 559 |
| Inventories | 28 | 207 |
| Other assets | 33 | 0 |
| **Total Current Assets** | **13 393** | **10 660** |
| Payables | 3 027 | 3 113 |
| Provisions - employee benefits | 890 | 710 |
| **Total Current Liabilities** | **3 917** | **3 823** |
| **Net Working Capital** | **9 476** | **6 837** |
| Property, plant and equipment | 158 428 | 134 065 |
| Investments | 0 | 1 094 |
| Investment in water corporation | 38 687 | 38 465 |
| **Total Non-Current Assets** | **197 115** | **173 624** |
| Payables | 0 | 16 |
| Provisions - employee benefits | 329 | 255 |
| Provisions - other | 460 | 388 |
| **Total Non-Current Liabilities** | **789** | **659** |
| **Net Assets** | **205 802** | **179 802** |
| Reserves | 103 536 | 89 640 |
| Accumulated surpluses | 102 266 | 90 162 |
| **Total Equity** | **205 802** | **179 802** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $26.000m during 2010-11.

Net Assets increased by the same amount to $205.802m. Reasons for major line item movements included:

- Cash and financial assets held decreased by $0.795m, the reason for which is explained later in the Cash Flow Statement section of this Chapter
- Current investments increased, $3.293m, due to excess cash being invested, and long-term investments matured and were re-invested as short-term
- Receivables increased by $0.381m as a result of higher accrued interest and GST receivable at 30 June 2011
- Inventories reduced by $0.179m primarily due to lower gravel stocks at 30 June 2011 as a result of the timing of road works
- Employee benefit provisions increased by $0.254m, as a result of higher annual and long service leave balances
- Property, plant and equipment increased by $24.363m, comprising additions $4.942m, asset take-up, $10.392m, revaluation increment, $13.639m, offset by disposals, $0.531m, and depreciation, $4.078m
- Investments decreased, $1.094m, as investments in Collateralised Debt Obligations were realised during the year, $0.094m, and long-term investments of $1.000m were reinvested as short-term.



## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 14 512 | 13 774 |
| Cash flows from government | 4 581 | 4 537 |
| Payments to suppliers and employees | (15 822) | (14 448) |
| Interest received | 581 | 485 |
| **Cash from operations** | **3 852** | **4 348** |
| Capital grants and contributions | 965 | 1 006 |
| Dividends received - Southern Water | 871 | 724 |
| Payments for property, plant and equipment | (4 617) | (5 835) |
| Payments for investments | (2 251) | (1 261) |
| Proceeds from sale of investments | 240 | 0 |
| Proceeds from sale of property, plant and equipment | 144 | 310 |
| **Cash (used in) investing activities** | **(4 648)** | **(5 056)** |
| **Net decrease in cash** | **(796)** | **(708)** |
| Cash at the beginning of the year | 7 188 | 7 896 |
| **Cash at end of the year** | **6 392** | **7 188** |

### Comment

At 30 June 2011, Council held cash and financial assets of $6.392m, which comprised cash at bank and on hand, $0.615m, cash held with management committee, $0.136m and deposits, $5.641m. The deposits were included within the definition of cash as they all had short-term maturities.

Council's cash position decreased by $0.796m during 2010-11. Cash from operations, $3.852m, Capital grants, $0.965m, Dividends received from Southern Water, $0.871m, and Proceeds from sale of property, plant and equipment, $0.144m, were used to fund Payments for property plant and equipment, $4.617m, and cash held in short-term investments, $2.251m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased $0.495m to $3.853m, which included:

- Council's Net Operating Surplus of $0.777m adjusted for Depreciation of $4.078m, a non-cash item, providing $4.855m in operating cash inflows, offset by
- cash inflows from the Southern Water dividend, $0.871m, being recorded as an investing activity for cash flow purposes.

Major capital expenditure projects during the period included the completion of the road upgrading program and other road works, $1.768m, buildings additions, $1.457m, and replacement of several bridges, $0.641m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 777 | 51 | 565 | 2 143 |
| Operating surplus ratio * | >0 | 3.85 | 0.27 | 2.65 | 10.76 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 69% | 107% | 153% | 174% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 57.9% | 55.8% | 53.1% | 53.8% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 4 706 | 4 482 | 8 884 | 3 392 |
| Net financial liabilities ratio* *** | 0%-(50%) | 18.0% | 22.5% | 5.6% | 25.9% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 2.75 | 2.81 | 4.20 | 7.98 |
| Current ratio | 1:1 | 3.42 | 2.79 | 3.10 | 4.47 |
| Interest coverage | 3:1 | N/A | N/A | 70.99 | 176.87 |
| Asset investment ratio | >100% | 113% | 144% | 236% | 233% |
| Self financing ratio | | 19.1% | 22.9% | 25.0% | 31.5% |
| Own source revenue | | 77.3% | 76.0% | 78.6% | 78.2% |
| Debt collection | 30 days | 16 | 12 | 26 | 13 |
| Creditor turnover | 30 days | 13 | 24 | 25 | 29 |
| Rates per capita ($) | | 542 | 518 | 724 | 676 |
| Rates to operating revenue | | 41.4% | 40.6% | 50.1% | 49.7% |
| Rates per rateable property ($) | | 830 | 779 | 1 104 | 497 |
| Operating cost to rateable property ($) | | 1 929 | 1 915 | 2 147 | 892 |
| Employee costs expensed ($'000s) | | 8 735 | 7 544 | 8 655 | 7 521 |
| Employee costs capitalised ($'000s) | | 488 | 654 | 685 | 784 |
| **Total employee costs ($'000s)** | | **9 223** | **8 198** | **9 340** | **8 305** |
| Employee costs as a % of operating expenses | | 45% | 40% | 42% | 42% |
| Staff numbers (FTEs) | | 130 | 118 | 143 | 143 |
| Average staff costs ($'000s) | | 74 | 63 | 65 | 58 |
| Average leave balance per FTE ($'000s) | | 10 | 7 | 9 | 7 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Huon Valley Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios were both above benchmark in each year and indicate Council can meet short-term commitments. This was due mainly to the large cash balances held at each year end and low levels of creditors and debt.

Asset investment ratio was above benchmark in all years under review and suggests Council adequately invested in new and existing assets.

Self financing ratio declined slightly over the four years under review, predominately due to the transfer of water and sewerage activities after 2008-09 that resulted in lower Rates. Own source revenue ratio was constant over the period, with Council generating approximately 77% of its operating revenue from its own sources, such as Rates and Fees and charges.

Debt collection was better than benchmark in all years, indicating Council was collecting debts in a timely manner. Creditor turnover was also better than benchmark in each year with Council paying its suppliers within 30 days.

Rates statistics were relatively consistent from 2009-10. The drop in 2009-10 was primarily due to the loss of rate income following the transfer of the water and sewerage activities. It is noted the percentage of Rates to operating revenue was lower when compared to other Councils due to Council receiving funding for various services it provides voluntarily.

Staff numbers reduced during 2010-11, however Average staff costs and Average leave balances per FTE increased for the reasons discussed in the Comprehensive Income Statement section of this Chapter.

# KINGBOROUGH COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011 and an unqualified audit report was issued on 23 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

During the year, Council modified the layout of their financial statements, so they were consistent with the models provided by our office.

A significant development during the year related to an asset revaluation that was undertaken. As a consequence the useful lives of most Council assets were extended, including roads, stormwater and bridges. This led to a significant reduction in depreciation expense during 2010-11 from $9.233m to $7.013m which favourably impacted a number of ratios as detailed in this Chapter.

During 2010-11, Council introduced a fixed rates charge for the Baretta landfill site rehabilitation which increased Rate revenue by approximately $0.900m.

The audit was completed satisfactorily with no major matters outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $1.721m in 2010-11 (2009-10, deficit, $5.079m). It is our view that, to ensure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of depreciation. The deficit of $1.721m represented 5.9% (19.3%) of operating revenues, a significant improvement on the prior year. Council needs to take action to further improve its operating result.

After Capital grants, $2.995m, and Contributions of non-current assets, $1.065m, Council generated a Net Surplus of $2.344m (2009-10, $5.409m). It achieved a Comprehensive Surplus of $60.967m ($6.559m) which included the net impacts of upward asset revaluations, $57.997m, and an increase in Council's interest in Southern Water, $0.646m.

Council's Net Assets increased to $609.800m, up from $548.833m mainly because of upward asset revaluations. At 30 June 2011 Council had Net Working Capital of $9.929m, down from $10.980m in 2009-10 due to a combination of increased capital works payable at year end as well as higher other accruals.

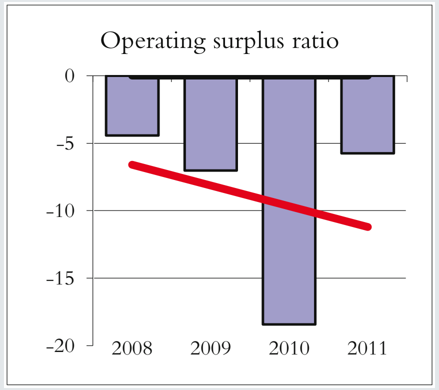
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

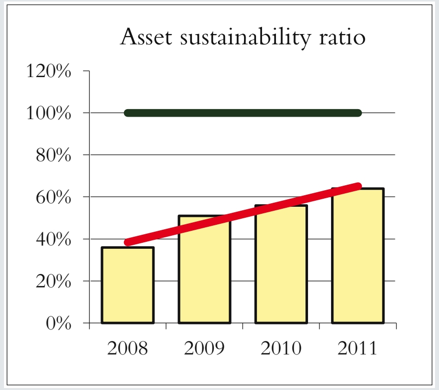
#### Relevant financial sustainability ratios

The following four graphs, and the discussion about asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



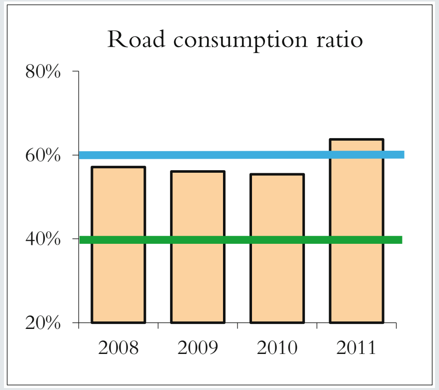

Council recorded operating deficits in each of the years under review, however the current year deficit was the lowest since 2008. The current year's result was improved by the reduced Depreciation charge and fixed rates charge for the Baretta tip rehabilitation, as noted in the Key Findings and Developments section above. The negative ratios indicate that Council did not generate sufficient revenue to fully offset its operating requirements, including its depreciation charges.



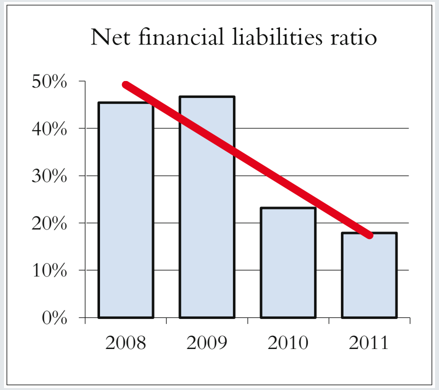

Asset sustainability ratio was below the 100% benchmark in all four years under review. The ratio improved each year, with the highest achieved in 2011, 64%. However, this result is significantly influenced by reduced Depreciation charges noted previously within this Chapter. In summary, based on an average ratio of 52% over the four year period compared to our benchmark, Council substantially under invested in existing assets.

#### Asset renewal funding ratio

Based upon Council's long-term asset management plan, the Asset renewal funding ratio was 100% at 30 June 2011, which was within bench mark. This ratio was determined by comparing the future planned asset replacement expenditure for the next five years, with the future asset replacement expenditure actually required. This result was achieved after eliminating a backlog from planned 2011-12 capital expenditure.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 36% of road assets. The ratio improved from the prior year as a result of the extended useful life arising from the asset revaluation noted previously in the Chapter. While the ratio represents low risk, Council should continue to monitor the condition of its assets and maintain up to date valuations that will provide an accurate reflection of their service potential.




Council recorded a positive Net financial liabilities ratio with liquid assets in excess of its current and non-current liabilities in each year under review. The ratio decreased significantly over the four year period due to Council funding increased capital works. Council's positive ratios indicate a strong liquidity position.

### Governance

A review of Council's governance arrangements indicated Council:

- does not have an audit committee
- has developed a long-term asset management plan and financial management plans.

Although Council did not have an audit committee, they did have in place a Governance and Finance Committee, which operates similarly to an audit committee in some respects. However, Council's committee did not have any independent members, it played no role in oversighting Council's annual financial statements and Council had no internal audit function. Existence of these aspects would enhance Council's governance arrangements.

Council's asset management and financial management plans, for periods twenty and ten years respectively, were both given low risk ratings as they were detailed, and, covered all key elements required. These documents are in draft and are expected to be adopted by Council in the immediate future.

## Conclusion as to financial sustainability

Taken together these ratios provide differing messages when considering Council's financial sustainability. From a financial operating perspective, Council's operating surplus was below the benchmark for each of the four years of the analysis, although there was an improved result in 2010-11.

Council's Net financial liabilities ratio was strong, due to its large balance of cash and investments on hand. Council clearly had capacity to service debt as well as borrow should the need arise.

Council's Asset sustainability ratio indicated, based on our 100% benchmark, that it has been significantly under-investing in existing assets over the period of the analysis. However, its Asset consumption ratio improved in the current year, due to an asset revaluation, which resulted in longer useful lives of road infrastructure assets.

The Asset renewal funding ratio was positive, showing Council plans to increase its capital expenditure in recognition of low investment in existing assets in recent years.

Council did not have an audit committee but its Governance & Finance Committee fulfilled similar roles and it had in place long-term asset management and financial management plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council had moderate financial sustainability risk from an operating, asset management and governance perspective but low financial sustainability risk from a net financial liabilities perspective.



### Management comments on this assessment of its financial sustainability

Kingborough Council strongly believes it is financially sustainable. The Operating surplus ratio for 2010-11 indicates Council's operating revenue needed to be 5.75% higher to achieve the Operating surplus ratio benchmark and receive a 'low' financial sustainability risk assessment from an operating perspective. This result does not present any short-term financial or operating implications, as the shortfall represented unfunded depreciation expense on long lived infrastructure assets. Council's financial sustainability from an operating and asset management perspective over the long-term is being addressed through Council's long term financial planning processes. Council's draft Long-Term Financial Plan and Long Term Asset Management Plan indicate that Council is likely to fully fund infrastructure renewal requirements into the future, whilst maintaining services and rate increases at historic levels.

Council will continue to review the benefits and also the associated costs of implementing an audit committee with independent members and an internal audit function.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 | 2010-11 | 2009-10 |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 18 260 | 18 312 | 16 450 |
| Fees and charges | 2 916 | 2 982 | 2 906 |
| Grants ** | 3 276 | 3 386 | 2 917 |
| Other revenue | 5 589 | 4 164 | 4 035 |
| **Total Revenue** | **30 041** | **28 844** | **26 308** |
| Employee costs | 10 031 | 9 850 | 9 849 |
| Depreciation | 8 900 | 7 013 | 9 233 |
| Other expenses | 14 858 | 14 775 | 13 550 |
| **Total Expenses** | **33 789** | **31 638** | **32 632** |
| **Net Operating Deficit before** | **(3 748)** | **(2 794)** | **(6 324)** |
| Finance costs | (19) | (19) | (19) |
| Interest revenue | 500 | 1 092 | 1 264 |
| **Net Operating Deficit** | **(3 267)** | **(1 721)** | **(5 079)** |
| Capital grants | 0 | 2 995 | 3 196 |
| Financial assistance grant received in advance ** | 0 | 476 | 452 |
| Offset Financial assistance grant in advance ** | 0 | (452) | (438) |
| Contributions non-current assets | 8 140 | 1 065 | 7 278 |
| Share of investment in associate | 0 | (19) | 0 |
| **Net Surplus** | **4 873** | **2 344** | **5 409** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 57 977 | 14 389 |
| Fair value initial adjustment in Southern Water | 0 | 0 | (13 239) |
| Current year fair value adjustment in Southern Water | 0 | 646 | 0 |
| **Total comprehensive income items** | **0** | **58 623** | **1 150** |
| **Comprehensive Surplus** | **4 873** | **60 967** | **6 559** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit, before net financing revenues, of $2.794m compared to a deficit of $6.324m in the prior year, an improvement of $3.530m. The main reason for the improved result, when compared to both budget and prior year, was lower depreciation charges which were $2.220m less than 2009-10 and $1.887m less than budget. This arose because Council undertook a revaluation during the year, the consequence of which included longer useful lives of most of Council's assets, in particular sealed roads by 20 years, stormwater pipes by 40 years and concrete and steel bridges by 40 years.

The lower deficit, compared to 2009-10, was also predominantly due to:

- higher Rates income, $1.862m, following the 4% rise in rates and the introduction of a fixed charge, which raised approximately, an additional $0.900m, to assist in funding the rehabilitation of the old Baretta landfill site
- offset to an extent by higher Other expenses of $1.225m, 9.04%, which included increased expenditure on materials and services, $0.615m, and sundry expenses by $0.337m. The increased Other expenses included contract maintenance works undertaken at the Council chambers and costs associated with the sports centre, which doubled in size compared to the prior year. The increase in Other expenses was budgeted.

After accounting for Interest revenue and Finance costs, the Net Operating Deficit reduced to $1.721m. Net Interest revenue was a consistent source of revenue for Council averaging $1.159m per annum over the past two years.

After Capital grants, $2.995m, and Contributions of non-current assets, $1.065m, Council generated a Net Surplus of $2.344m in 2010-11 (2009-10, $5.409m).

Comprehensive Surplus for 2010-11 was $60.967m, the main contributor being a fair value revaluation increment on non-current assets, $57.977m.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 15 440 | 15 210 |
| Receivables | 1 418 | 1 771 |
| Other | 18 | 17 |
| **Total Current Assets** | **16 876** | **16 998** |
| Payables | 2 435 | 2 065 |
| Borrowings | 0 | 150 |
| Provisions - employee benefits | 1 361 | 1 321 |
| Provision rehabilitation tip | 885 | 885 |
| Other | 2 266 | 1 597 |
| **Total Current Liabilities** | **6 947** | **6 018** |
| **Net Working Capital** | **9 929** | **10 980** |
| Property, plant and equipment | 491 761 | 430 355 |
| Investments in associates | 255 | 274 |
| Intangible and other assets | 37 | 60 |
| Investment in Southern Water | 112 376 | 111 731 |
| **Total Non-Current Assets** | **604 429** | **542 420** |
| Provisions - employee benefits | 442 | 452 |
| Provision rehabilitation tip | 4 116 | 4 115 |
| **Total Non-Current Liabilities** | **4 558** | **4 567** |
| **Net Assets** | **609 800** | **548 833** |
| Reserves | 369 167 | 315 348 |
| Accumulated surpluses | 240 633 | 233 485 |
| **Total Equity** | **609 800** | **548 833** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $60.967m to $600.800m at 30 June 2011. Net Assets increased by the same amount, with the main line item movement being a $61.407m increase in Property, plant and equipment due to revaluations, $57.977m, and additions, $12.633m, offset by depreciation, $7.013m, and disposals, $2.215m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 24 407 | 23 821 |
| Cash flows from government | 3 410 | 5 711 |
| Payments to suppliers and employees | (23 475) | (27 371) |
| Interest received | 1 092 | 1 264 |
| Finance costs | (19) | (19) |
| **Cash from operations** | **5 415** | **3 406** |
| Capital grants and contributions | 2 995 | 3 196 |
| Dividends from Southern Water | 1 157 | 1 071 |
| Payments for property, plant and equipment | (11 571) | (16 211) |
| Proceeds from sale of property, plant and equipment | 2 371 | 581 |
| Investment in Copping Waste Joint Authority | 0 | (274) |
| **Cash (used in) investing activities** | **(5 048)** | **(11 637)** |
| Loans provided to outside bodies | 13 | (170) |
| Repayment of borrowings | (150) | 0 |
| **Cash (used in) financing activities** | **(137)** | **(170)** |
| **Net (decrease) increase in cash** | **230** | **(8 401)** |
| Cash at the beginning of the year | 15 210 | 26 077 |
| Less cash transferred to Southern Water | 0 | (2 466) |
| **Cash at end of the year** | **15 440** | **15 210** |

### Comment

Council's Cash at 30 June 2011, $15.440m, comprised cash at bank and on hand, $2.121m, and managed investments, $13.319m. The managed investments included holdings in term deposits and cash management accounts; these were included within the definition of cash as they all had short-term maturities or were available at call. Managed investments were monitored monthly and reviewed in detail annually by an independent investment adviser.

At 30 June 2011, Council reported that $9.784m (2009-10, $12.549m) of the funds held in investments were restricted, this comprised of $8.690m in reserve funds, allocated for specific future purposes, and $1.094m in trust funds and deposits.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, cash from operations increased by $2.009m to $5.415m which included:

- Council's operating deficit of $1.721m adjusted for depreciation of $7.013m, a non-cash item, providing $5.292m in operating cash flows
- the impact of higher Payables and Other liability balances, which increased by $1.039m, that did not result in a cash outflow in 2010-11, offset by
- cash inflows from dividends received from Southern Water $1.157m being recorded as an investing activity for cash flow purposes.

Net cash used in investing activities decreased by $6.589m, from $11.637m recorded in 2009-10. Payments for Property, plant and equipment decreased by $4.640m, mainly due to significant levels of capital expenditure in the prior year for the Twin Ovals complex. Proceeds from the sale of property, infrastructure, plant and equipment increased $1.790m in 2010-11, due to the sale of two major parcels of land, both to the State Government.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (1 721) | (5 079) | (2 566) | (1 548) |
| Operating surplus ratio * | > 0 | (5.75) | (18.42) | (7.02) | (4.42) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 64% | 56% | 51% | 36% |
| Asset renewal funding ratio* | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | > 60% | 63.7% | 55.4% | 56.1% | 57.1% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 5 353 | 6 396 | 17 089 | 15 925 |
| Net financial liabilities ratio*** | 0%-(50%) | 17.9% | 23.2% | 46.7% | 45.5% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.02 | 4.45 | 5.26 | 5.59 |
| Current ratio | 1:1 | 2.43 | 2.82 | 4.23 | 4.10 |
| Interest coverage | 3:1 | 284.00 | 178.26 | 295.85 | 174.14 |
| Asset investment ratio | >100% | 159% | 166% | 86% | 52% |
| Self financing ratio | | 18.1% | 12.4% | 26.8% | 22.0% |
| Own source revenue | | 88.7% | 89.4% | 91.8% | 91.4% |
| Debt collection | 30 days | 24 | 33 | 19 | 15 |
| Creditor turnover | 30 days | 34 | 25 | 50 | 30 |
| Rates per capita ($) | | 536 | 492 | 777 | 753 |
| Rates to operating revenue | | 61.2% | 59.7% | 69.7% | 69.1% |
| Rates per rateable property ($) | | 1 138 | 1 022 | 1 610 | 1 565 |
| Operating cost to rateable property ($) | | 1 967 | 2 029 | 2 472 | 2 365 |
| Employee costs expensed ($'000s) | | 9 850 | 9 849 | 10 430 | 9 823 |
| Employee costs capitalised ($'000s) | | 200 | 223 | 538 | 334 |
| **Total employee costs ($'000s)** | | **10 050** | **10 072** | **10 968** | **10 157** |
| Employee costs as a % of operating expenses | | 31% | 30% | 27% | 27% |
| Staff numbers (FTEs) | | 169 | 162 | 190 | 181 |
| Average staff costs ($'000s) | | 59 | 62 | 58 | 56 |
| Average leave balance per FTE ($'000s) | | 11 | 11 | 9 | 9 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where this ratio is positive, as is the case with Kingborough Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios were above benchmark in all four years under review, and interest coverage ratio continued to be high reflecting Council's low level of Borrowings. At 30 June 2011, Council was debt free having made its final repayment on its Borrowings during the year.

Asset investment ratio continued to be well above benchmark in 2010-11, due principally to reduced depreciation charges. For years this ratio was below benchmark was mainly due to lower levels of capital expenditure.

Self-financing ratio improved to 18.1% in 2010-11, as the focus of Council was to use additional Rate revenue for capital projects while maintaining operating expenses at existing levels.

Creditor turnover increased marginally to 34 days in 2010-11, above benchmark due to a number of larger capital project payables outstanding at the end of the financial year.

Rates statistics increased in the current year, due principally to a 4% increase in rates and the introduction of a fixed charge to assist in funding the rehabilitation of the old Baretta landfill site. However, Operating cost to rateable property ratio decreased, due mainly to reduced Depreciation explained previously in this Chapter.

# MEANDER VALLEY COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011 and an unqualified audit report was issued on 23 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major issues outstanding.

There were no key findings during the year.

A significant development during the year was the completion of infrastructure works related to the Westbury Industrial Development at Birralee Road. Council entered into an arrangement with three landowners to construct infrastructure for an industrial subdivision. The costs of the work was payable by the landowners. Council received external contributions of $0.732m towards the development, being grant funding of $0.650m from the Department of Infrastructure, Energy and Resources and $0.082m from private industry.

Council paid all costs associated with the infrastructure works, which totalled $2.528m. Council reduced the assessed contributions receivable from land owners by the external contributions received. The amount receivable from the landowners as at 30 June 2011 was $1.798m, which is recorded as a non-current asset.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $1.094m in 2010-11 (2009-10, $1.404m). The positive result was primarily due to the receipt of interest revenue totalling $1.091m ($0.867m). Without this revenue, Council would have an Operating surplus of $0.093m.

Council achieved a Net Surplus, after capital grants and contributions of non-current assets, $2.101m ($3.334m), and a Comprehensive Surplus of $9.600m ($0.747m). The Comprehensive Surplus included asset revaluation increments of $6.928m and a fair value adjustment to Council's interest in Ben Lomond Water of $0.571m.

Consistent with its Comprehensive Surplus of $9.600m, Council's Net Assets increased to $272.989m. As at 30 June 2011 Council had Net Working Capital of $16.111m, up from $14.967m in 2010, due mainly to an increase in Cash and Financial assets of $1.504m offset by an increase in Payables of $0.379m.

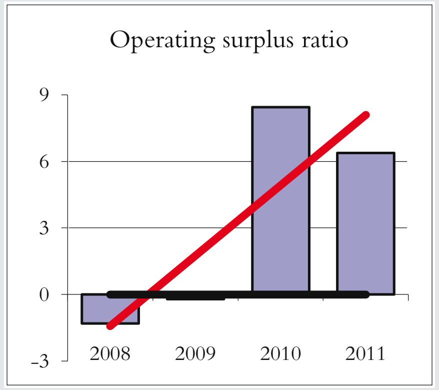
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

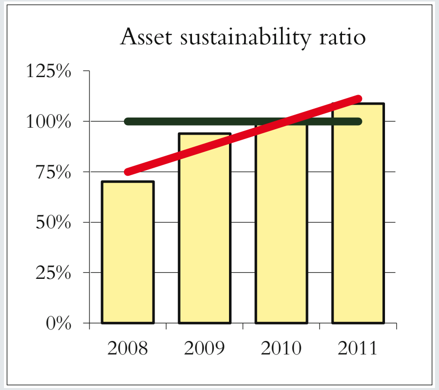
### Relevant financial sustainability ratios

The following four graphs and the discussion about asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



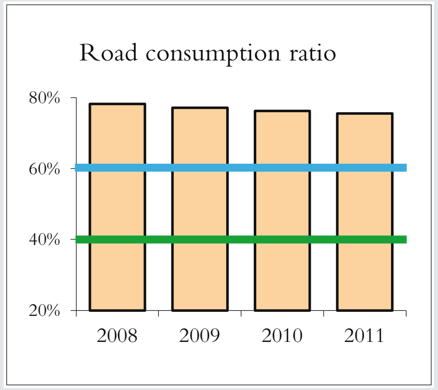

A positive Operating surplus ratio indicates Council recorded operating surpluses in each of the past two years indicating that Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges. On average, over the four years, the ratio was positive.



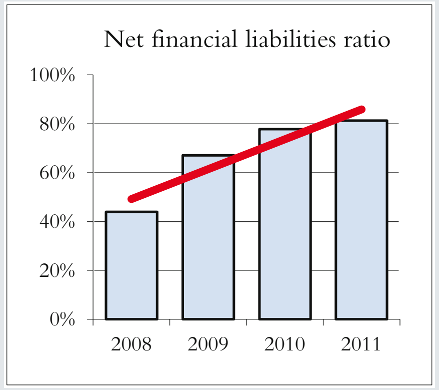

Asset sustainability ratio was below the 100% benchmark in the first two years under review, but improved in 2010 and 2011. Over the four year period, the ratio averaged 93% indicating, subject to levels of maintenance expenditure, Council may have been under investing in existing assets although not significantly.

### Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 100% at 30 June 2011, based on planned asset replacement expenditure equalling future asset replacement expenditure actually required. This indicated that Council plans to fully fund its capital works requirements. The ratio was based on Council's ten-year asset management and financial management plans, which cover the period 2012 to 2021.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 24% of its road assets indicating that, at that point in time, its road assets had sufficient capacity to continue to provide services to its ratepayers and is considered at low financial sustainability risk.




Council recorded a positive net financial liabilities position with liquid assets well in excess of current and non-current liabilities in each year under review. Council's positive ratios indicates a strong liquidity position, with Council able to meet all current commitments and has the a capacity to borrow should the need arise.

Council's total liabilities consist of payables, employee provisions and a tip rehabilitation provision. It had no Borrowings in the period under review.

### Governance

A review of Council's governance arrangements indicated Council:

- did not have an audit committee nor internal financial audit arrangements
- have implemented a ten-year asset management plan, which is reviewed by Council and updated annually as part of the budget process
- have a ten-year financial management plan, prepared on a cash basis. The plan is reviewed in full by Council and updated annually as part of the budget process.

## Conclusion as to financial sustainability

From a financial operating perspective, Council improved its operating result and recorded an operating surplus in the past two years and with, on average over the four year period, a positive operating position.

Asset sustainability ratio indicated Council increased its expenditure on existing assets over the period and averaged a ratio of 93%, which was slightly below the 100% benchmark. Council's Road consumption ratios were better than benchmark over the four year period, indicating its road assets had sufficient capacity to continue to provide services to its ratepayers.

Council's Net financial liabilities ratio was positive indicating its liquidity was strong.

Council have long term asset management and financial management plans, which are regularly reviewed. However, Council did not have an audit committee, nor does it operate an internal audit function.

Based on these ratios and governance arrangements we have concluded that at 30 June 2011, Council was at moderate risk from a governance perspective, but low financial sustainability risk from an operating, net financial liabilities and asset management perspective.

### Management comments on this assessment of its financial sustainability

Meander Valley Council is confident that the practices adopted through the Asset Management Plans, Long-Term Financial Plan and Annual Budget process establish a financially sustainable direction for our Council's operations.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11<br>Estimate*<br>$'000s | 2010-11<br>Actual<br>$'000s | 2009-10<br>Actual<br>$'000s |
|---|---|---|---|
| Rates | 9 076 | 9 191 | 8 779 |
| Fees and charges | 1 200 | 1 215 | 1 258 |
| Grants ** | 3 414 | 4 577 | 4 587 |
| Other revenue | 833 | 1 059 | 1 118 |
| **Total Revenue** | **14 523** | **16 042** | **15 742** |
| Employee costs | 4 896 | 5 002 | 4 808 |
| Depreciation | 4 550 | 4 662 | 4 313 |
| Other expenses | 6 574 | 6 285 | 6 084 |
| **Total Expenses** | **16 019** | **15 949** | **15 205** |
| **Net Operating Surplus (Deficit) before** | **(1 496)** | **93** | **537** |
| Unwinding of Tip Provision | (100) | (90) | 0 |
| Interest revenue | 880 | 1 091 | 867 |
| **Net Operating Surplus (Deficit)** | **(716)** | **1 094** | **1 404** |
| Capital grants | 0 | 685 | 842 |
| Financial assistance grant received in advance ** | 0 | 991 | 945 |
| Offset Financial assistance grant in advance ** | 0 | (945) | (876) |
| Reassessment of tip rehabilitation provision | 0 | 0 | 870 |
| Contributions non-current assets | 730 | 1 006 | 149 |
| Construction Contract Income | 0 | 1 798 | 0 |
| Construction Contract Expenditure | 0 | (2 528) | 0 |
| **Net Surplus** | **14** | **2 101** | **3 334** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 6 928 | 4 791 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | (7 378) |
| Current year fair value adjustment Ben Lomond Water | 0 | 571 | 0 |
| **Total comprehensive income items** | **0** | **7 499** | **(2 587)** |
| **Comprehensive Surplus** | **14** | **9 600** | **747** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

## Comment

In 2010–11, Council recorded a Net Operating Surplus before net financing revenues of $0.093m (2009-10, $0.537m), a decline of $0.444m. The reduction was due to a combination of the following factors:

- increased Employee costs, $0.194m, primarily due an EBA increase of 3.2% applied from July 2010
- additional Depreciation expense of $0.349m, due to a revaluation of stormwater and building assets during 2010-11
- higher Other expenses of $0.201m, due to a $0.275m loss on the sale of Council's assets

- increased Rates revenue of $0.412m, primarily attributable to an increase in the general rate charged.

While Council achieved a Net Operating Surplus before net financing revenues of $0.093m, after accounting for Interest revenue, it achieved a Net Operating Surplus of $1.094m (2009-10, $1.404m). This highlights the importance of interest revenue to Council, with interest revenue averaging $1.041m per annum over the past four years.

After accounting for capital grants, reassessment of the tip rehabilitation provision, contributions of non-current assets, grants in advance and contract income and expenditure, Council recorded a Net Surplus of $2.101m in 2010-11, $1.233m less than 2009-10. The decrease was attributable to:

- a reassessment of Council's tip provision, which was written down by $0.870m in 2009-10 based on revised engineering projections. Council is obligated to restore landfill sites at Cluan and Deloraine
- a net increase of $0.730m in expenditure incurred by Council as a result of the Westbury Industrial Development, situated at Birralee Road, Westbury, where Council has entered into an arrangement with three landowners to construct necessary infrastructure works for an industrial subdivision and to then pass on those costs to the landowners. Council received capital grant funding of $0.500m to assist with this project and expects the development will be cost neutral
- increased Contributions non-current assets, $0.857m, which included subdivision assets taken over by Council, of which $0.545m related to the Westbury Industrial Development.

Excluding non-operating items, Council budgeted for a Deficit of $0.716m, which was $1.810m lower than the actual surplus of $1.094m. The improved result was mainly due to higher than budgeted Grant revenue and additional Interest revenue.

Other Comprehensive Income of $7.499m, comprised:

- fair value revaluation of Council's buildings and stormwater assets, with increments of $6.928m,
- fair value adjustment of Council's investment in Ben Lomond Water, $0.571m.



## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash | 8 349 | 5 595 |
| Receivables | 626 | 529 |
| Inventories | 90 | 102 |
| Financial assets | 9 050 | 10 300 |
| Other | 222 | 202 |
| **Total Current Assets** | **18 337** | **16 728** |
| Payables | 853 | 474 |
| Provisions - employee benefits | 957 | 955 |
| Other | 416 | 332 |
| **Total Current Liabilities** | **2 226** | **1 761** |
| **Net Working Capital** | **16 111** | **14 967** |
| Receivables | 1 798 | 0 |
| Property, plant and equipment | 204 701 | 198 476 |
| Financial assets | 2 | 2 |
| Investment in Ben Lomond Water | 52 258 | 51 687 |
| **Total Non-Current Assets** | **258 759** | **250 165** |
| Provisions - rehabilitation | 1 631 | 1 540 |
| Provisions - employee benefits | 250 | 203 |
| **Total Non-Current Liabilities** | **1 881** | **1 743** |
| **Net Assets** | **272 989** | **263 389** |
| Reserves | 113 111 | 105 612 |
| Accumulated surpluses | 159 878 | 157 777 |
| **Total Equity** | **272 989** | **263 389** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $9.600m at 30 June 2011. Net assets increased by the same amount to $272.989m. Major line item movements included:

- a net increase in Cash and Financial assets of $1.504m which is discussed further in the Cash Flow Statement section of this Chapter
- higher payables of $0.379m
- increased non-current Receivables of $1.798m due to the Westbury Industrial Development, as noted in the Comprehensive Income Statement section of the Chapter. Subject to the contract terms, it is anticipated the debt will be settled in 2013-14.
- higher Property, plant and equipment of $6.225m primarily due to:
    - revaluation increments of $6.928m
    - additions of $4.222m, offset by
    - depreciation expense of $4.662m.
- fair value adjustment of Council's investment in Ben Lomond Water of $0.571m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 11 685 | 12 042 |
| Cash flows from government | 4 623 | 4 656 |
| Payments to suppliers and employees | (11 419) | (12 368) |
| Interest received | 1 071 | 783 |
| **Cash from operations** | **5 960** | **5 113** |
| Capital grants and contributions | 685 | 842 |
| (Payments)/Proceeds for financial assets | 1 250 | (4 100) |
| Dividends received - Ben Lomond Water | 615 | 509 |
| Payments for property, plant and equipment | (5 878) | (7 157) |
| Proceeds from sale of property, plant and equipment | 122 | 132 |
| **Cash (used in) investing activities** | **(3 206)** | **(9 774)** |
| **Net (decrease) increase in cash** | **2 754** | **(4 661)** |
| Cash at the beginning of the year | 5 595 | 10 640 |
| Less cash transferred to Ben Lomond Water | 0 | (384) |
| **Cash at end of the year** | **8 349** | **5 595** |

### Comment

Council's cash balance at 30 June 2011, $8.349m, comprised cash at bank, on hand and short term deposits. Council also held financial assets of $9.050m, which were not included within the definition of cash as they had maturities greater than three months from balance date.

Council's cash position increased $2.754m in 2010-11. Cash from operations of $5.960m, Capital grants and contributions of $0.685m and Dividends received from Ben Lomond Water $0.615m were well in excess of Payments for property plant and equipment of $5.878m. In addition, Council transferred $1.250m from its financial assets into cash.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.847m to $5.960m which included:

- Council's operating surplus of $1.094m adjusted for depreciation of $4.662m, a non cash item, providing $5.756m in operating cash inflows
- the impact of a higher Payables balance, which increased by $0.379m, that did not result in a cash outflow in 2010-11
- cash inflows from dividends received from Ben Lomond Water $0.615m being recorded as an investing activity for cash flow purposes.

The Payments for property, plant and equipment of $5.878m mainly included capital work on road and street assets and recreation grounds and sports facilities included:

- road gravelling, $0.483m,
- road resealing, $0.530m,
- Westbury Road, Prospect vale, $0.212m,
- Hadspen Memorial Centre, $0.286m,
- Westbury Landfill earthworks, $0.162m.



## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 1 094 | 1 404 | (39) | (235) |
| Operating surplus ratio * | > 0 | 6.39 | 8.45 | (0.21) | (1.31) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 109% | 99% | 94% | 70% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 75.5% | 76.3% | 77.1% | 78.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 13 918 | 12 920 | 12 727 | 7 916 |
| Net financial liabilities ratio * *** | 0-(50%) | 81.2% | 77.8% | 67.1% | 44.0% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 14.20 | 20.38 | 12.86 | 12.64 |
| Current ratio | 1:1 | 8.24 | 9.50 | 7.91 | 7.53 |
| Interest coverage | 3:1 | - | - | - | - |
| Asset investment ratio | >100% | 126% | 166% | 112% | 91% |
| Self financing ratio | | 34.8% | 30.8% | 40.3% | 32.7% |
| Own source revenue | | 73.3% | 72.4% | 77.6% | 80.5% |
| Debt collection | 30 days | 22 | 19 | 20 | 21 |
| Creditor turnover | 30 days | 26 | 13 | 27 | 27 |
| Rates per capita ($) | | 467 | 449 | 568 | 552 |
| Rates to operating revenue | | 53.6% | 52.9% | 57.9% | 58.7% |
| Rates per rateable property ($) | | 970 | 927 | 1 141 | 1 139 |
| Operating cost to rateable property ($) | | 1 693 | 1 605 | 1 975 | 1 966 |
| Employee costs expensed ($'000s) | | 5 002 | 4 808 | 4 668 | 4 630 |
| Employee costs capitalised ($'000s) | | 332 | 354 | 269 | 200 |
| **Total employee costs ($'000s)** | | **5 334** | **5 162** | **4 937** | **4 830** |
| Employee costs as a % of operating expenses | | 31% | 32% | 25% | 25% |
| Staff numbers (FTEs) | | 77 | 75 | 74 | 73 |
| Average staff costs ($'000s) | | 69 | 69 | 67 | 66 |
| Average leave balance per FTE ($'000s) | | 16 | 15 | 14 | 14 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Meander Valley Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity have been discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity ratios show Council had sufficient liquid assets (cash, receivables and financial assets) to meet its short term liabilities as they fall due. The very strong result in 2009-10 was mainly due to a lower Payables at 30 June 2010.

Current ratios reflect a strong financial position. The increase in 2009-10 was also mainly due to low Payables at 30 June 2010.

Asset investment ratios indicate Council invested strongly in new and existing assets for the four years under review.

Self financing ratios remained strong over the four year period under review, as Council generated strong operating cash flows compared to its Total Revenue. Council generated sufficient cash to contribute to its future infrastructure requirements.

Own source revenue shows that Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on grant funding to the extent of 27 per cent.

Council's rate statistics all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs remained unchanged during 2010-11. The increase in 2009-10 was primarily due to the impact of transferring water and sewerage activities to Ben Lomond Water and the general decrease in operating expenditure.

Average staff costs increased over the period under review in line with Council's EBA increases.

# NORTHERN MIDLANDS COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 22 August 2011 and an unqualified audit report was issued on 30 September 2011.

### Key findings and developments

For the first time, at 30 June 2011, Council was required under section 17 of the *Audit Act 2008* to submit its financial statements to the Auditor-General within 45 days after the end of the financial year. Council did not provide signed financial statements within this timeframe.

While only one week late, Council needs to satisfy this reporting requirement.

During 2009-10, an issue concerning remedial and capital works totalling $3.192m expended at the Longford wastewater treatment plant was noted. As reported in previous year's Council raised a receivable for this amount which was written off.

During 2010-11 Council received an ex-gratia payment of $0.210m towards operational costs for disposal of trade waste for the period March 2009 to June 2009. This amount was accepted as full and final payment of the outstanding maintenance and operating costs (excluding emergency improvement works) for the period, and responsibility to recover capital expenditure for emergency trade waste expenses was passed to Ben Lomond Water.

Other than the delay in receiving signed financial statements, the audit was completed satisfactorily with no other items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $0.755m before Interest revenue in 2010-11 (2009-10, $1.649m). While this result was an improvement on the prior year, it is our view that, to assure long-term financial sustainability, Council should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of depreciation. The deficit of $0.755m represented 5.4% (12.4%) of operating revenues including interest.

Council achieved a Net Surplus, after capital grants, grants in advance and contributions of non-current assets of $1.176m (2009-10, $1.395m) and a Comprehensive Surplus of $7.662m ($27.418m). The Comprehensive Surplus included the net impacts of asset revaluations, $6.007m, and a fair value adjustment to Council's interest in Ben Lomond Water of $0.479m.

Consistent with the Comprehensive surplus of $7.662m, Council's Net Assets increased to $255.508m, up from $247.846m the previous year. As at 30 June 2011 Council had Net Working Capital of $0.715m, down from $1.692m in 2010 due mainly to decreased Cash and financial assets of $0.893m. Council's overall Net asset position improved mainly because its Property, plants and equipment increased by $6.904m.

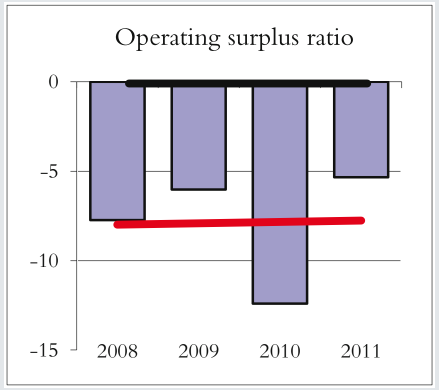
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

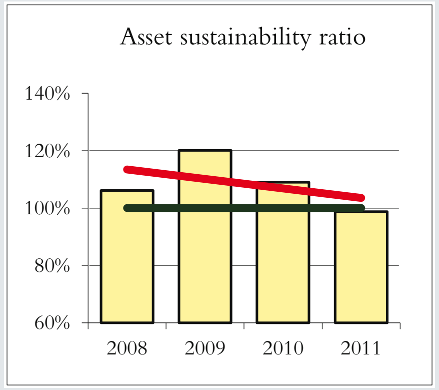
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because Council did not have long-term financial management plans.

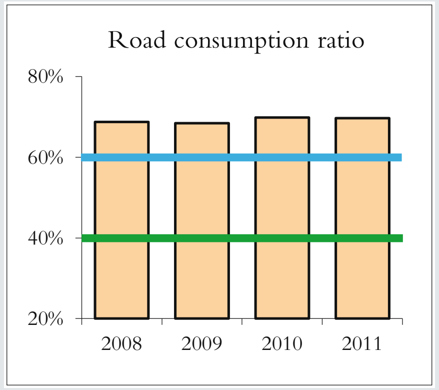
In general, the ratios indicate:



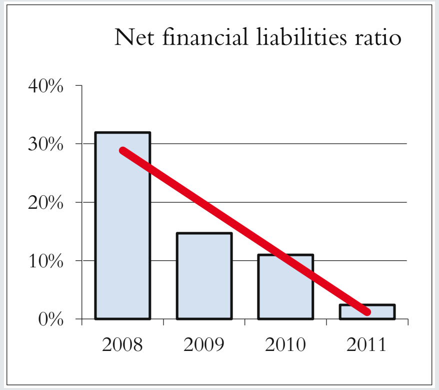

Council's Operating surplus ratio reflects operating deficits recorded in each of the past four years. The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.




Asset sustainability ratios were above the 100% benchmark in the initial three years under review, but declined in 2010-11 to be slightly below benchmark. Over the four year period, Council's average ratio was 109%, indicating it maintained its investment in existing assets at levels in excess of its annual Depreciation charges.




The ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicated a low risk rating, data below the green line indicated a high risk rating, data between the two lines represented a medium risk rating. The ratio at 30 June 2011 indicated Council had used (consumed) approximately 30% of the service potential of its road infrastructure assets. This was a small improvement on the average ratio over the period of 69%. This result is considered a low financial sustainability risk and Council's road assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities in each year under review. This indicates a strong liquidity position, with Council able to meet existing commitments. Although the ratio is trending downwards, the ratio is still above our benchmark of between 0% and (50%). However, the downward trend needs constant monitoring.

Council's total liabilities consisted of payables and employee provisions. It had no Borrowings in the period under review.

### Governance

A review of Council's governance arrangements indicated that Council did not have:

- an audit committee
- a long-term financial management plan.

However, Council did have a long-term Transport Asset Management Plan and a Building Asset Management Plan. Plans related to stormwater and other minor assets are currently being completed.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded deficits in each of the past four years.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 109% over the period, which was above our 100% benchmark. Council's Road asset consumption ratios remained relatively unchanged over the four year period, and exceeded our 60% benchmark indicating its road assets had sufficient capacity to continue to provide services to its ratepayers.

Council's Net financial liabilities ratios are positive indicating its liquidity is strong and it had a capacity to borrow should the need arise.

Council did not have an audit committee or long-term financial management plan. These aspects of governance need to be addressed. However, Council had a Transport Asset and Building Asset Management Plan.

Based on these ratios and governance arrangements we have concluded that at 30 June 2011, Council was at high sustainability risk from governance perspective, moderate risk from an operating perspective but low risk from an asset management and net financial liabilities perspective.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 7 158 | 7 109 | 6 567 |
| Fees and charges | 1 572 | 1 653 | 1 460 |
| Grants ** | 3 893 | 3 950 | 4 097 |
| Other revenue | 260 | 803 | 678 |
| **Total Revenue** | **12 883** | **13 515** | **12 802** |
| Employee costs | 4 203 | 4 429 | 3 958 |
| Depreciation | 4 582 | 4 410 | 4 405 |
| Other expenses | 5 121 | 6 037 | 6 586 |
| **Total Expenses** | **13 906** | **14 876** | **14 949** |
| **Net Operating (Deficit) before** | **(1 023)** | **(1 361)** | **(2 147)** |
| Interest revenue | 594 | 606 | 498 |
| **Net Operating (Deficit)** | **(429)** | **(755)** | **(1 649)** |
| Capital grants | 966 | 975 | 1 263 |
| Financial assistance grant received in advance ** | 0 | 919 | 895 |
| Offset Financial assistance grant in advance ** | 0 | (895) | (851) |
| Contributions of non-current assets | 0 | 932 | 1 737 |
| **Net Surplus** | **537** | **1 176** | **1 395** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 6 007 | 28 466 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | (2 443) |
| Current year fair value adjustment Ben Lomond Water | 0 | 479 | 0 |
| **Total comprehensive income items** | **0** | **6 486** | **26 023** |
| **Comprehensive Surplus** | **537** | **7 662** | **27 418** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010–11 Council recorded a Net Operating Deficit of $1.361m before Interest revenue compared to a deficit of $2.147m in the prior year. The improved result was predominately due to:

- increased Rates revenue of $0.542m, due to a higher general rate and garbage fee combined with an AAV increase
- higher Fees and charges revenue of $0.193m, primarily due to building and planning levy revenue from stage one of the Western Junction Industrial Development
- increased Other revenue of $0.125m, due to dividend and tax equivalent revenue received for Council's investment in Ben Lomond Water
- decreased Other expenses of $0.549m. The balance in 2009-10 included a write-off of road and stormwater assets of $0.981m. This was partially offset by increased contractor payments in 2010-11 of $0.137m due to the January and March 2011 floods, combined with higher consultancy fees of $0.124m,

Offset by:

- higher Employee costs of $0.471m, primarily due to an EBA increase of 3.4% from July 2010 and lower employee costs during 2010 as Council operated without a General Manager for four months.

Excluding non-operating items, Council budgeted for a Deficit of $0.429m, which was $0.326m less than the actual operating deficit of $0.755m. The reduced operating result was mainly due to higher than budgeted Employee costs and Other expenses.

After accounting for Interest revenue, Council recorded a Net Operating Deficit of $0.755m (2009-10, Deficit $1.649m). This highlights the importance of interest revenue to Council, with interest revenue averaging $0.492m per annum over the past four years.

After accounting for Capital grants and contributions of non-current assets, Council recorded a Net Surplus of $1.176m for 2010-11, which decreased by $0.238m from the $1.395m surplus in 2009-10.

Other Comprehensive Income totalled $6.486m, comprising:

- fair value revaluation increment of Council's road, stormwater and drainage and bridge assets, $6.007m.
- an increase in Council's investment in Ben Lomond Water of $0.479m, being its 8.9% interest in the increase in the net assets of this water corporation.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 1 998 | 2 892 |
| Receivables | 555 | 532 |
| Inventories | 25 | 21 |
| **Total Current Assets** | **2 578** | **3 445** |
| Payables | 829 | 863 |
| Provisions - employee benefits | 1 034 | 890 |
| **Total Current Liabilities** | **1 863** | **1 753** |
| **Net Working Capital** | **715** | **1 692** |
| Property, plant and equipment | 204 509 | 197 605 |
| Financial assets | 6 756 | 5 360 |
| Investment in Ben Lomond Water | 43 877 | 43 398 |
| **Total Non-Current Assets** | **255 142** | **246 363** |
| Provisions - employee benefits | 349 | 209 |
| **Total Non-Current Liabilities** | **349** | **209** |
| **Net Assets** | **255 508** | **247 846** |
| Reserves | 121 517 | 115 031 |
| Accumulated surpluses | 133 991 | 132 815 |
| **Total Equity** | **255 508** | **247 846** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $7.662m at 30 June 2011. Net assets increased by the same amount to $255.508m. Major line item movements included:

- decreased Cash and financial assets of $0.894m which is discussed further in the Cash Flow Statement section of this Chapter
- increased Property, plant and equipment of $6.904m primarily due to:
  - revaluation increments of $6.007m
  - additions of $5.831m, which mainly related to road infrastructure, offset by
  - net disposals of $0.708m
  - depreciation expense of $4.410m
- increased non-current Financial assets of $1.396m with Council transferring cash balances into long term deposits.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 10 205 | 9 911 |
| Cash flows from government | 4 010 | 4 179 |
| Payments to suppliers and employees | (10 523) | (10 387) |
| Interest received | 589 | 390 |
| **Cash from operations** | **4 281** | **4 093** |
| Capital grants and contributions | 975 | 1 263 |
| Payments for property, plant and equipment | (5 083) | (5 673) |
| Purchase of financial assets - investments | (1 396) | (5 360) |
| Investment revenue Ben Lomond Water | 178 | 1 |
| Proceeds from sale of property, plant and equipment | 151 | 151 |
| **Cash (used in) investing activities** | **(5 175)** | **(9 618)** |
| **Net decrease in cash** | **(894)** | **(5 525)** |
| Cash at the beginning of the year | 2 892 | 8 417 |
| **Cash at end of the year** | **1 998** | **2 892** |

### Comment

Council's cash balance at 30 June 2011, $1.998m, comprised cash at bank, cash on hand and short-term deposits. Its cash position reduced by $0.894m during 2010-11, which included $1.396m paid into a longer term deposit.

During 2010-11, Council was able to fund Payments for property, plant and equipment of $5.083m from cash from operations $4.281m, Capital grant and contributions $0.975m and Proceeds from sale of property, plant and equipment of $0.151m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.188m to $4.281m which included:

- Council's operating deficit of $0.755m adjusted for Depreciation of $4.410m and the loss on disposal of non current assets, $0.557m, both non cash items, providing, $4.212m, in operating cash inflows
- the impact of a higher Provisions – employee benefits' balance, which increased by $0.284m, that did not result in a cash outflow in 2010-11, offset by
- cash inflows from dividends received from Ben Lomond Water of $0.178m being recorded as an investing activity for cash flow purposes.

Payments for property, plant and equipment of $5.083m mainly comprised:

- reseal and sheeting of roads, $0.747m,
- Liffey Road reconstruction, $0.356m,
- Pateena Road reconstruction, $0.256m,
- Cressy Recreation and Pool Amenities building, $0.295m,
- Smith Street stormwater and drainage upgrade, $0.212m,
- fleet purchases, $0.457m,
- purchase of 4 720, 240 Litre Recycling Wheelie Bins, $0.230m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (755) | (1 649) | (945) | (1 128) |
| Operating surplus ratio * | > 0 | (5.35) | (12.40) | (6.02) | (7.74) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 99% | 109% | 120% | 106% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 69.7% | 69.9% | 68.4% | 68.7% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 341 | 1 462 | 2 305 | 4 656 |
| Net financial liabilities ratio * *** | 0%-(50%) | 2.4% | 11.0% | 14.7% | 31.9% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.08 | 3.97 | 1.38 | 6.59 |
| Current ratio | 1:1 | 1.38 | 1.97 | 1.24 | 3.47 |
| Interest coverage | 3:1 | - | - | - | - |
| Asset investment ratio | >100% | 115% | 129% | 144% | 108% |
| Self financing ratio | | 30.3% | 30.8% | 28.1% | 38.4% |
| Own source revenue | | 72.0% | 69.2% | 75.5% | 76.9% |
| Debt collection | 30 days | 17 | 19 | 27 | 29 |
| Creditor turnover | 30 days | 13 | 13 | 21 | 17 |
| Rates per capita ($) | | 562 | 521 | 681 | 633 |
| Rates to operating revenue | | 50.3% | 49.4% | 54.3% | 54.2% |
| Rates per rateable property ($) | | 1 098 | 1 030 | 1 366 | 1 286 |
| Operating cost to rateable property ($) | | 2 297 | 2 345 | 2 664 | 2 556 |
| Employee costs expensed ($'000s) | | 4 429 | 3 958 | 4 549 | 4 394 |
| Employee costs capitalised ($'000s) | | 233 | 257 | 345 | 297 |
| **Total employee costs ($'000s)** | | **4 662** | **4 215** | **4 894** | **4 691** |
| Employee costs as a % of operating expenses | | 30% | 26% | 27% | 28% |
| Staff numbers (FTEs) | | 64 | 65 | 75 | 74 |
| Average staff costs ($'000s) | | 73 | 65 | 65 | 63 |
| Average leave balance per FTE ($'000s) | | 22 | 17 | 14 | 14 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Northern Midlands Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Council's Liquidity and Current ratios were generally above benchmark in all years, indicating an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end.

Liquidity ratio was below benchmark in 2008-09 due to new borrowings of $7.500m, to fund water and sewerage capital projects. The ratio improved in subsequent periods following debt being transferred to Ben Lomond Water.

Asset investment ratios indicated Council invested sufficiently in new and existing assets for each of the four years under review.

Self financing ratios indicated Council was generating good operating cash flows which contributed towards its capital expenditure programs.

Own source revenue was constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2010-11 it was reliant on grant funding to the extent of 28% (2009-10, 31%).

Council's rate statistics were relatively consistent over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs and Average staff costs were relatively stable over the period, with increased costs during 2010-11 attributable to Council EBA.

Average leave balances increased in 2010-11 due to Council EBA increases, the accumulation of annual entitlements and the impact of changing probabilities in the calculation of long service balances.

# SORELL COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received after the due date on 25 August 2011, which was 10 days late. An unqualified audit opinion was issued on 26 September 2011.

Other than the financial statements being submitted late, the audit was completed satisfactorily with no other matters outstanding.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.488m in 2010-11 (2009-10, $0.669m), which was above the budgeted result of $0.358m. On a before net interest basis, Council recorded a Deficit in the current year, highlighting the impact of interest revenues on Council's operating performance. Interest earned in 2010-11 was $0.779m and averaged $0.750m over the past two years.

Council generated a Net Surplus of $1.537m (2009-10, $2.856m) and a Comprehensive Surplus of $5.580m (2009-10, $3.509m). The Comprehensive surplus was mainly influenced by the net impacts of upward asset revaluations of $4.113m.

Consistent with the Comprehensive surplus of $5.580m, Council's Net Assets increased to $203.725m, up from $198.145m in 2009-10. As at 30 June 2011 Council had Net Working Capital of $7.243m, up from $6.915m in 2010, due to increased holdings in cash, offset somewhat by an increase in year end Payables.

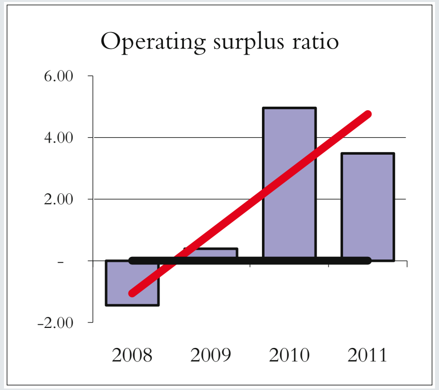
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

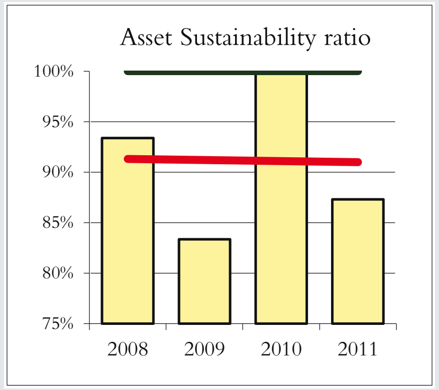
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the reasons set out in the governance section below, our analysis does not include an assessment of the asset renewal funding ratio.

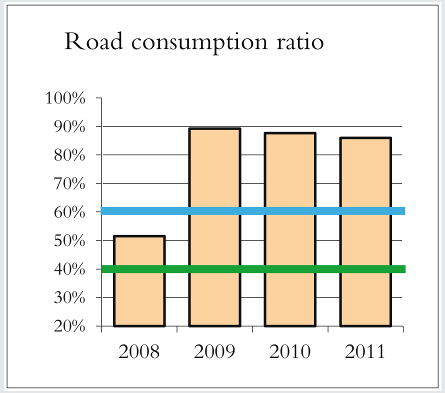
In general, the ratios indicate:




Council recorded operating surpluses in the past three years under review, with an operating surplus ratio of 3.5% in 2010-11. This indicated that Council is currently generating sufficient revenue to fulfil its operating requirements, including its depreciation charges.

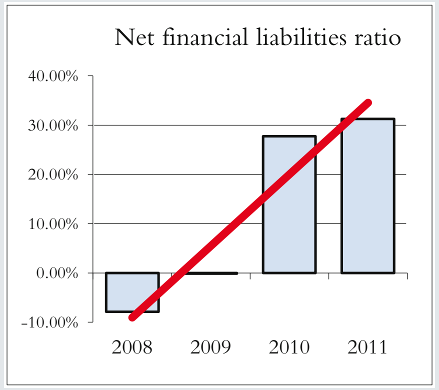



Asset sustainability ratio was below the 100% benchmark in three of the four years under review. Council averaged 91% over the four year period, marginally below our benchmark. This indicated, subject to levels of maintenance expenditure and in the absence of long term asset management plans, Council was under investing in existing assets although not significantly.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011, Council had used (consumed) 14% of its road assets and hence is considered as low risk. The significant improvement in 2009 was due to a combination of a revaluation increment, increase in useful lives and the inclusion of residual values which led to higher values of road assets and a reassessment of remaining road lives.




Council recorded a positive net financial liabilities position, with liquid assets in excess of its current and non-current liabilities, in each of the most recent two years under review. Council's positive ratios indicate a strong liquidity position, with Council having the ability to meet its commitments.

### Governance

A review of Council's governance arrangements indicated that it does not have an audit committee or a long-term asset management plan. It does, however, have a long-term financial management plan but which is not up to date.

Although Council does not have an audit committee, it does have a Risk and Ethics Committee, which undertakes some of the tasks that are typically completed by an audit committee. However, this Committee does not have any independent members, does not have a formal charter and does not review Council's annual financial statements prior to signature by the General Manager.

Council's long-term financial management plan is accrual based and covers an appropriate time frame. The plan was first developed in 2007 and is reviewed by Council and updated annually.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's operating surplus was above the benchmark in three of the four years of our analysis, and Council's net financial liabilities ratio is strong, due to its large balance of cash and investments on hand. Council clearly has the capacity to service debt and would appear to have a capacity to borrow should the need arise.

Councils Asset sustainability ratio indicates, based on our 100% benchmark, that it under-invested in existing assets over the period of the analysis although not significantly. Council's road consumption ratio is strong, indicating that road assets still have a significant amount of life left before renewal or replacement will need to be considered.

Council did not have an audit committee or a long-term asset management plan. A long-term financial management plan is in place, but it needs reviewing and updating.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council was at low financial sustainability risk from an operational, net financial liabilities and asset management perspective and at a high financial sustainability risk from a governance perspective.

### Management comments on this assessment of its financial sustainability

Council has a ten-year financial funding plan for all existing and new assets to 2020, which provides backing for long-term debt and investment strategies. Councillors are briefed annually in a detailed manner within the budget estimates sessions on the long-term financial management plan. This is key in striving to have our Councillors focus on long-term resource allocation and sustainability. Council's engineering staff are in the process of developing asset management plans. Asset management plans for transport network and stormwater drainage assets are due to be completed by June 2013.



## COMPREHENSIVE INCOME STATEMENT

| | **2010-11** | **2010-11** | **2009-10** |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 9 176 | 9 177 | 8 673 |
| Fees and charges | 1 103 | 1 101 | 1 038 |
| Grants ** | 2 123 | 2 305 | 2 055 |
| Other revenue | 543 | 636 | 1 005 |
| **Total Revenue** | **12 945** | **13 219** | **12 771** |
| Employee costs | 5 013 | 4 844 | 4 635 |
| Depreciation | 3 754 | 3 784 | 3 618 |
| Other expenses | 4 214 | 4 659 | 4 315 |
| **Total Expenses** | **12 981** | **13 287** | **12 568** |
| **Net Operating (Deficit) before** | **(36)** | **(68)** | **203** |
| Finance costs | (225) | (223) | (254) |
| Interest revenue | 619 | 779 | 720 |
| **Net Operating Surplus (Deficit)** | **358** | **488** | **669** |
| Fair value adjustments for investment property | 0 | (219) | 37 |
| Capital grants | 313 | 452 | 676 |
| Financial assistance grant received in advance** | 0 | 509 | 459 |
| Offset Financial assistance grant in advance ** | 0 | (459) | (410) |
| Contributions non-current assets | 230 | 766 | 1 425 |
| **Net Surplus** | **901** | **1 537** | **2 856** |
| **Other Comprehensive Income** | | | |
| Impairment of cash investments | 30 | (56) | (37) |
| Fair value revaluation of non-current assets | 0 | 4 113 | 3 243 |
| Fair value initial adjustment in Southern Water | 0 | 0 | (2 553) |
| Fair value adjustment arising from changes in allocation order | 0 | (183) | 0 |
| Current year fair value adjustment in Southern Water | 0 | 169 | 0 |
| **Comprehensive Surplus** | **931** | **5 580** | **3 509** |

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*

*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenues of $0.068m, down from a surplus of $0.203m in 2009-10, a decrease of $0.271m, which was predominantly due to:

- impairment of the decommissioned Carlton Tip of $0.186m, which was included as part of Other expenses
- increased loss on disposal of property, infrastructure, plant and equipment of $0.125m, which was also included as part of Other expenses.

After accounting for net interest revenues, Council made an Operating Surplus of $0.488m (2009-10, $0.669m) highlighting the importance of interest revenue to Council's annual operating performance. Net Interest revenue was a consistent source of revenue for Council averaging $0.511m per annum over the past two years.

After accounting for Capital grants, Contributions of non-current assets and grants in advance, Council recorded a Net Surplus of $1.537m in 2010-11 compared with $2.856m in 2009-10. In the current year, Contributions of non-current assets amounted to $0.766m, compared to $1.425m in the prior year.

Comprehensive Surplus was $5.580m in 2010-11, increasing by $2.071m from the previous year. The increase was primarily due to the significant asset revaluation in the current year of $4.113m.

Council's Estimates indicated a Net Surplus of $0.901m for 2010-11. The actual result was an improvement over budget of $0.636m mainly due to:

- additional contributed property, plant and equipment, $0.536m
- higher Capital grants of $0.139m.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 9 418 | 8 592 |
| Receivables | 907 | 981 |
| Other | 83 | 24 |
| **Total Current Assets** | **10 408** | **9 597** |
| Payables | 1 768 | 1 274 |
| Borrowings | 420 | 397 |
| Provisions - employee benefits | 770 | 850 |
| Trust funds and deposits | 207 | 161 |
| **Total Current Liabilities** | **3 165** | **2 682** |
| **Net Working Capital** | **7 243** | **6 915** |
| Property, plant and equipment | 168 365 | 163 399 |
| Investments in associates | 136 | 150 |
| Investment in Southern Water | 29 476 | 29 490 |
| Investment properties | 1 047 | 1 190 |
| Other | 244 | 149 |
| **Total Non-Current Assets** | **199 268** | **194 378** |
| Borrowings | 2 662 | 3 082 |
| Provisions - employee benefits | 124 | 66 |
| **Total Non-Current Liabilities** | **2 786** | **3 148** |
| **Net Assets** | **203 725** | **198 145** |
| Reserves | 144 570 | 139 968 |
| Accumulated surpluses | 59 155 | 58 177 |
| **Total Equity** | **203 725** | **198 145** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $5.580m.

Reasons for major movements in individual asset and liability line items included:

- higher Cash and financial assets of $0.826m which is discussed further in the Cash Flow Statement section of this Chapter
- increased Payables of $0.494m, due largely to some significant capital accruals and a number of capital grants received in advance in 2011
- higher Property, plant and equipment of $4.966m, primarily due to the revaluation of assets mentioned previously
- decreased total Borrowings of $0.397m, in line with loan repayment schedules. It is noted that net repayment of Borrowings reported in the Cash Flow Statement is $0.338m. The difference arises because the Cash Flow Statement includes proceeds from trust funds and the Midway Point Improvement Act (MPIA) Scheme.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 11 274 | 10 803 |
| Cash flows from government | 2 650 | 2 121 |
| Payments to suppliers and employees | (10 525) | (8 925) |
| Interest received | 770 | 716 |
| Finance costs | (224) | (248) |
| **Cash from operations** | **3 945** | **4 467** |
| Capital grants and contributions | 708 | 471 |
| Dividends | 506 | 440 |
| Receipt of Headworks payments | 234 | 0 |
| Payments for property, plant and equipment | (4 452) | (4 648) |
| Proceeds from sale of property, plant and equipment | 223 | 181 |
| **Cash (used in) investing activities** | **(2 781)** | **(3 556)** |
| Proceeds from borrowings | 58 | 49 |
| Repayment of borrowings | (396) | (373) |
| **Cash (used in) financing activities** | **(338)** | **(324)** |
| Net increase in cash | 826 | 587 |
| Cash at the beginning of the year | 8 592 | 8 484 |
| Less Cash transferred to Southern Water | 0 | (479) |
| **Cash at end of the year** | **9 418** | **8 592** |

## Comment

Council's cash position improved by $0.826m to $9.418m as at 30 June 2011. This balance comprised cash and cash equivalents of $6.266m, and short-term investments, $3.152m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.522m to $3.945m which included:

- Council's operating surplus of $0.488m adjusted for Depreciation of $3.784m, a non-cash item, providing $4.272m in operating cash flows, offset by
- cash inflows from dividends received from Southern Water $0.506m being recorded as an investing activity for cash flow purposes.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 488 | 669 | 57 | (201) |
| Operating surplus ratio * | >0 | 3.49 | 4.96 | 0.39 | (1.44) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 87% | 101% | 83% | 93% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 86.0% | 87.6% | 89.2% | 51.6% |
| ***Liquidity*** | | | | | |
| Net Financial Liabilities ($'000s) | | 4 374 | 3 743 | (20) | (1 097) |
| Net financial liabilities ratio * *** | 0%-(50%) | 31.2% | 27.7% | (0.14%) | (7.87%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 4.31 | 5.32 | 5.71 | 3.75 |
| Current ratio | 1:1 | 3.29 | 3.58 | 2.91 | 2.85 |
| Interest coverage | 3:1 | 16.61 | 17.01 | 6.59 | 20.17 |
| Asset investment ratio | >100% | 118% | 128% | 122% | 108% |
| Self financing ratio | | 28.2% | 33.1% | 25.6% | 34.5% |
| Own source revenue | | 83.5% | 84.8% | 86.6% | 84.0% |
| Debt collection | 30 days | 22 | 31 | 33 | 20 |
| Creditor turnover | 30 days | 41 | 45 | 7 | 52 |
| Rates per capita ($) | | 684 | 661 | 773 | 730 |
| Rates to operating revenue | | 65.6% | 64.3% | 67.3% | 65.2% |
| Rates per rateable property ($) | | 1 096 | 1 040 | 1 202 | 1 100 |
| Operating cost to rateable property ($) | | 1 561 | 1 538 | 1 779 | 1 712 |
| Employee costs expensed ($'000s) | | 4 844 | 4 635 | 5 010 | 4 542 |
| Employee costs capitalised ($'000s) | | 418 | 435 | 435 | 482 |
| **Total employee costs ($'000s)** | | **5 262** | **5 070** | **5 445** | **5 024** |
| Employee costs as a % of operating expenses | | 36% | 36% | 34% | 32% |
| Staff numbers (FTEs) | | 79 | 78 | 84 | 85 |
| Average staff costs ($'000s) | | 67 | 65 | 65 | 59 |
| Average leave balance per FTE ($'000s) | | 11 | 12 | 12 | 10 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratios.*
*** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Sorell Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will focus on Operational efficiency measures.

Current and Liquidity ratios remained strong over the period under review, indicating an ability to meet short-term liabilities as they fall due. Interest coverage figure continues to be high, due to the low levels of borrowings.

Asset investment ratio was above benchmark in each of the four years, indicating that Council was investing strongly on new and existing assets that exceed the annual depreciation charge.

Creditor turnover improved to 41 days in 2010-11 but was still higher than the benchmark of 30 days. The figure was higher than the benchmark as it included headworks charges, which were collected on behalf of Southern Water and forwarded to them during July 2011. The ratio was unusually low in 2008-09, given Council's decision to pay the majority of outstanding creditors at year end with the change in an accounting system occurring at that time.

The rates statistics were comparatively consistent over the last two years of review, generally in line with CPI adjustments. The change in 2009-10 was mainly be due to the transfer of water and sewerage activities and Council not rating for these services.

Total employee costs declined to $5.070m in 2009-10 with the departure of 10 employees to Southern Water. However, Average staff costs and Average leave balances per employee were consistent over recent years. The higher Average staff costs in 2008-09 were due to the increase in award salaries.

# WARATAH-WYNYARD COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Initial signed financial statements were received on 12 August 2011, with amended statements received on 6 September 2011. An unqualified audit report was issued on 13 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

During the audit, it was found that Council had not complied with section 333A(1) of the *Local Government Act 1993* (the Act), which requires Council to invite tenders for any contract it intends to enter into for the supply or provision of goods or services valued at or above the prescribed amount ($100 000). Audit found that a contract valued over $100 000 was awarded, based on a select tender process, rather than public tender. It was recommended that Council ensure that contracts are awarded in accordance with the provisions of the Act and Council's Code for Tenders and Contracts in future. Management advised that Council is intending to update its procurement and tendering policies in the new financial year. As part of this process, all staff will be briefed on their responsibilities under the policies (which will reflect the Act).

## FINANCIAL RESULTS

Council generated a Net Operating Surplus before Capital grants and asset adjustments of $0.032m in 2010-11 (2009-10, deficit $1.386m). The Net Operating Surplus in 2010-11 was achieved after operating deficits totalling $3.246m in the preceding three years. It is our view that, to ensure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis, before capital grants and infrastructure adjustments but inclusive of depreciation. It is pleasing that Council is addressing this issue.

Council generated a Net Surplus of $6.642m (2009-10, $0.070m) and a Comprehensive Surplus of $37.195m (Deficit of $7.170m). The Net Surplus included Recognition of assets, $6.024m, and the Comprehensive Surplus included Fair value revaluation of non-current assets, $18.351m, and a total fair value adjustment to Council's interest in Cradle Mountain Water, $12.202m.

Consistent with the Comprehensive Surplus of $37.195m, Council's Net Assets increased to $160.698m, from $123.503m the previous year.

As at 30 June 2011 Council had Net Working Capital of $5.394m, up from $4.604m in 2010, and was in a strong position to meet its commitments.

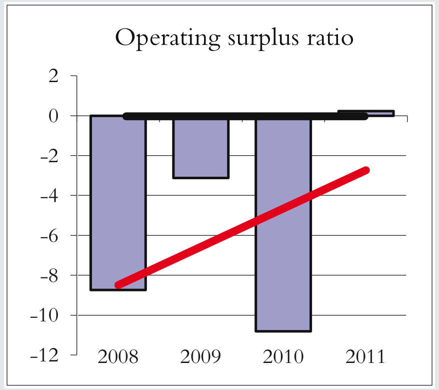
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

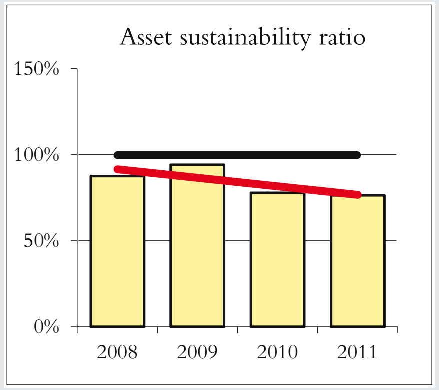
#### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were unable to compute an asset renewal funding ratio, as Council did not have a long-term financial management plan.

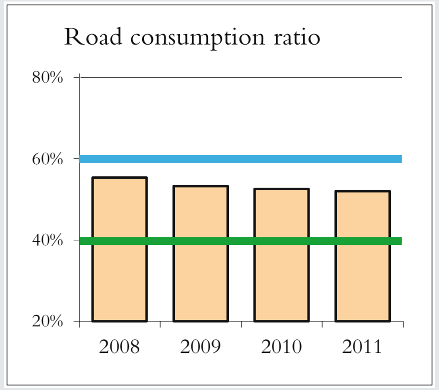
In general, the ratios indicate:




Council recorded an operating surplus in 2010-11 compared with deficits in the prior three years. On average over the four year period, Council recorded a negative ratio of 5.6, which indicated insufficient revenue was generated to fulfil operating requirements, including its depreciation charges.

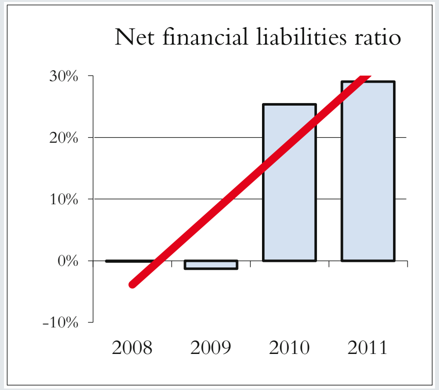



Asset sustainability ratio was below benchmark in all years under review and averaged 84% over the four year period. The ratio indicated, subject to levels of maintenance expenditure and the existence of long-term asset management plans, Council was under investing in existing assets.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011 Council had used (consumed) approximately 48% of the service potential of its road assets. This was above the green benchmark line, indicating a moderate financial sustainability risk, and showed Council had sufficient capacity to continue to provide services to its ratepayers.




Council recorded a positive Net financial liabilities ratio at 30 June 2011, with liquid assets well in excess of current and non-current liabilities. Council's positive ratio indicated a strong liquidity position, with Council able to meet its current commitments.

Council's total liabilities consisted of payables, employee provisions, rehabilitation provision and borrowings.

### Governance

A review of Council's governance arrangements indicated it did not have an audit committee or internal audit function.

Council had a long-term asset management plan and is in the process of completing a financial management plan. The long-term asset management plan was given a low risk rating as it was detailed, regularly reviewed, covered all key elements required and formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, it is pleasing to note that Council generated an operating surplus in 2010-11 compared with operating deficits in the three prior years. Over the four years the average Operating surplus ratio was negative 5.6 and Council budgeted for a deficit in 2010-11.

Council's asset sustainability ratio indicated, based on our 100% benchmark, that it under-invested in existing assets over the period of the analysis, with an average ratio of 84%. The asset consumption ratio indicated Council's road asset consumption was in the moderate risk range.

Council's Net financial liabilities ratio showed it was in a strong liquidity position and was in a sound position to meet its short-term commitments and may have a capacity to borrow should the need arise.

From a governance perspective, Council did not have an audit committee although it had a long-term asset management plan and is working on a long-term financial management plan.

Based on these ratios and governance arrangements we have concluded that at 30 June 2011, Council was at high risk from a governance perspective, moderate financial sustainability risk from an operating and asset management perspective and low sustainability risk from net financial liabilities perspective.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 7 693 | 7 754 | 7 314 |
| Fees and charges | 2 280 | 2 248 | 1 856 |
| Grants ** | 2 837 | 3 100 | 2 823 |
| Other revenue | 149 | 515 | 471 |
| **Total Revenue** | **12 959** | **13 617** | **12 464** |
| Employee costs | 4 795 | 4 784 | 4 642 |
| Depreciation | 2 861 | 2 892 | 2 865 |
| Other expenses | 5 913 | 6 373 | 6 669 |
| **Total Expenses** | **13 569** | **14 049** | **14 176** |
| **Net Operating (Deficit) before** | **(610)** | **(432)** | **(1 712)** |
| Finance costs | (18) | (17) | (28) |
| Interest revenue | 257 | 481 | 354 |
| **Net Operating Surplus (Deficit)** | **(371)** | **32** | **(1 386)** |
| Capital grants | 1 515 | 525 | 1 367 |
| Financial assistance grant received in advance ** | 0 | 763 | 702 |
| Offset Financial assistance grant in advance ** | 0 | (702) | (678) |
| Recognition of assets | 0 | 6 024 | 65 |
| Contributions non-current assets | 130 | 0 | 0 |
| **Net Surplus** | **1 274** | **6 642** | **70** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 18 351 | 0 |
| Fair value initial adjustment to Cradle Mountain Water | 0 | 0 | (7 100) |
| Fair value adjustment arising from change in allocation order | 0 | 12 018 | 0 |
| Current year fair value adjustment to Cradle Mountain Water | 0 | 184 | 0 |
| **Total Comprehensive Income Items** | **0** | **30 553** | **(7 100)** |
| **Comprehensive Surplus (Deficit)** | **(1 274)** | **37 195** | **(7 170)** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit before net finance revenues of $0.432m, compared to a deficit of $1.712m in 2009-10, an improvement of $1.280m. This was predominantly due to higher Total revenue of $1.153m which comprised of:

- Rates revenue, $0.440m, 6.0%,
- Fees and charges, $0.392m, 21.1%,
- Grants revenue, $0.277m, 9.8%.

Higher Fees and Charges revenue was predominantly due to an increase in revenue from resource sharing arrangements of $0.362m with Circular Head Council.

After accounting for Interest revenue and Finance costs, Council achieved a Net Operating Surplus of $0.032m (2009-10, Deficit of $1.386m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $0.468m per annum over the past four years.

Council recorded a Net Surplus of $6.642m in 2010-11 (2009-10, $0.070m), an increase of $6.572m. This improvement was primarily due to the recognition of assets of $6.024m, compared with $0.065m in 2009-10. The increase in 2010-11 was due to Council revaluing its land, buildings and road infrastructure which resulted in Council identifying assets not previously recognised.

Other Comprehensive Income totalled $30.553m and comprised:

- fair value revaluation increment of Council's land, buildings and road infrastructure assets of $18.351m
- increased investment in Cradle Mountain Water due to two factors. Firstly, a favourable adjustment of $12.018m due to Council's final ownership interest, applied to Cradle Mountain Water's net assets at 30 June 2010, varying from that initially approved by the Treasurer, 8.4%, to 12.1%. The $12.018m represented the 3.7% increase at 30 June 2010. Secondly, a favourable adjustment of $0.184m being Council's 12.1% interest in the higher net assets of Cradle Mountain Water at 30 June 2011.

Council's generated a Net Operating Surplus of $0.032m but had budgeted for a deficit of $0.371m. The difference between actual results and budget included:

- increased actual Other revenue, $0.366m, due mainly to the reimbursement of flood damage costs of $0.201m
- higher actual Grant income, $0.263m,
- increased actual Interest revenue, $0.224m,
- higher actual Other expenses, $0.460m, due mainly to a $0.440m increase in an actual loss on disposal of assets ($0.220m loss) compared with budget ($0.220m surplus). Council does not budget for the write-off of infrastructure assets replaced each year.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 6 375 | 5 823 |
| Receivables | 539 | 353 |
| Other | 747 | 725 |
| **Total Current Assets** | **7 661** | **6 901** |
| Payables | 719 | 818 |
| Borrowings | 131 | 206 |
| Provisions - employee benefits | 1 090 | 1 019 |
| Other | 327 | 254 |
| **Total Current Liabilities** | **2 267** | **2 297** |
| **Net Working Capital** | **5 394** | **4 604** |
| Property, plant and equipment | 116 349 | 92 203 |
| Investment in Cradle Mountain Water | 39 487 | 27 285 |
| Other | 21 | 39 |
| **Total Non-Current Assets** | **155 857** | **119 527** |
| Borrowings | 64 | 195 |
| Provisions - employee benefits | 266 | 231 |
| Provisions - gravel pit rehabilitation | 223 | 202 |
| **Total Non-Current Liabilities** | **553** | **628** |
| **Net Assets** | **160 698** | **123 503** |
| Accumulated surpluses | 122 253 | 103 990 |
| Reserves | 38 445 | 19 513 |
| **Total Equity** | **160 698** | **123 503** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $37.195m during 2010-11. Net Assets increased by the same amount to $160.698m. Major line item movements included:

- higher cash and financial assets, $0.552m, which is explained further in the Cash Flow Statement section of this Chapter
- increased Property, plant and equipment of $24.146m due to:
  - net asset revaluation adjustments of $18.298m comprising increments to road assets, $14.628m, bridges, $4.069m, land, $1.799m, offset by a decrement to buildings, $(2.197)m,
  - capital additions, $3.287m,
  - recognition of assets, $6.024m, offset by
  - disposals, $0.571m,
  - depreciation, $2.892m
- Council's higher investment in Cradle Mountain Water of $12.202m, represented the fair value adjustment noted previously.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 11 075 | 10 715 |
| Cash flows from government | 3 150 | 2 847 |
| Payments to suppliers and employees | (11 536) | (11 742) |
| Interest received | 471 | 354 |
| Finance costs | (17) | (28) |
| **Cash from operations** | **3 143** | **2 146** |
| Capital grants and contributions | 525 | 1 367 |
| Dividends | 26 | 15 |
| Payments for property, plant and equipment | (3 287) | (3 568) |
| Proceeds from sale of property, plant and equipment | 351 | 524 |
| **Cash (used in) investing activities** | **(2 385)** | **(1 662)** |
| Repayment of borrowings | (206) | (247) |
| **Cash (used in) financing activities** | **(206)** | **(247)** |
| **Net increase in cash** | **552** | **237** |
| Cash at the beginning of the year | 5 823 | 5 586 |
| **Cash at end of the year** | **6 375** | **5 823** |

### Comment

Council's total cash balance at 30 June 2011, $6.375m, comprised cash at bank, cash on hand and short-term deposits. At 30 June 2011, Council reported that $0.139m (2009-10, $0.533m) of its cash balance was restricted in the form of unexpended grant funding. In addition, $0.306m ($0.254m) was restricted as it related to trust funds and deposits.

Council's cash position improved by $0.552m to $6.375m, with Cash from operations of $3.143m, Capital grants, $0.525m, and Proceeds from the sale of property, plant and equipment, $0.351m, being more than sufficient to fund Payments for property, plant and equipment, $3.287m, and Repayment of Borrowings, $0.206m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.997m to $3.143m which included Council's operating surplus of $0.032m adjusted for depreciation of $2.892m, a non cash item, providing $2.924m in operating cash inflows.

The payments for Property, plant and equipment included:

- road reseals and reconstructions, $1.663m,
- plant and equipment purchases, $0.517m,
- building additions, $0.296m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus/(deficit) ($'000s) | | 32 | (1 386) | (523) | (1 337) |
| Operating surplus ratio * | > 0 | 0.23 | (10.81) | (3.12) | (8.74) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 76% | 78% | 94% | 88% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | > 60% | 52.0% | 52.5% | 53.2% | 55.4% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 4 094 | 3 251 | (220) | (22) |
| Net financial liabilities ratio * *** | 0-(50%) | 29.0% | 25.4% | (1.3%) | (0.1%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 5.98 | 4.84 | 2.86 | 2.44 |
| Current ratio | 1:1 | 3.38 | 3.00 | 2.30 | 2.30 |
| Interest coverage | 3:1 | 183.88 | 75.64 | 23.42 | 19.13 |
| Asset investment ratio | >100% | 114% | 122% | 172% | 113% |
| Self financing ratio | | 22.3% | 16.7% | 28.3% | 20.1% |
| Own source revenue | | 78.0% | 78.0% | 82.2% | 83.5% |
| Debt collection | 30 days | 20 | 14 | 12 | 12 |
| Creditor turnover | 30 days | 25 | 27 | 23 | 39 |
| Rates per capita ($) | | 550 | 518 | 713 | 690 |
| Rates to operating revenue | | 55.0% | 57.1% | 59.7% | 62.7% |
| Rates per rateable property ($) | | 1 047 | 980 | 1 354 | 1 303 |
| Operating cost to rateable property ($) | | 1 899 | 1 902 | 2 340 | 2 260 |
| Employee costs expensed ($'000s) | | 4 784 | 4 642 | 4 293 | 3 974 |
| Employee costs capitalised ($'000s) | | 362 | 451 | 525 | 400 |
| **Total employee costs ($'000s)** | | **5 146** | **5 093** | **4 818** | **4 374** |
| Employee costs as a % of operating expenses | | 34% | 33% | 25% | 24% |
| Staff numbers (FTEs) | | 83 | 88 | 90 | 82 |
| Average staff costs ($'000s) | | 62 | 58 | 54 | 53 |
| Average leave balance per FTE ($'000s) | | 16 | 14 | 11 | 10 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Waratah-Wynyard Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios were well above benchmark in all years under review indicating that Council was able to meet all short-term liabilities when they fell due.

Asset investment ratio shows Council's total capital expenditure was well above its depreciation expense in all years under review. This ratio should be read in conjunction with the Asset sustainability ratio shown in graphical format in the Financial Results section of this Chapter.

Interest coverage ratio reflected Council's low level of finance costs associated with its borrowings.

Council's positive Self financing ratio indicated it was generating operating cash flows which were contributing towards its capital expenditure programs. The reduction in the 2009-10 ratio mainly related to the loss of water and sewerage rating income. Own source revenue percentage showed that Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on recurrent grant funding to the extent of 22.0% (2009-10, 22.0%).

Creditor turnover was within benchmark in three out of four years, however was worse than benchmark in 2007-08 due to large capital creditors at year-end.

Rates statistics were comparatively consistent over the first two years of review. The reduction in 2009-10 was mainly due to the transfer of the water and sewerage activities and Council no longer rating for these services.

Employee costs as a percentage of operating costs increased in 2009-10 due to the impact of the transfer of water and sewerage services to Cradle Mountain Water and the subsequent loss of water and sewerage expenditure, including bulk water purchases.

Average staff costs increased over the period due to Council's enterprise bargaining arrangements which also contributed to higher leave provision balances.

Decreased staff numbers at 30 June 2011 was due to vacant positions. The vacancies in works and services, community services and childcare were subsequently filled.

# WEST TAMAR COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 10 August 2011 and an unqualified audit report was issued on 31 August 2011.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings during the year. The audit was completed satisfactorily with no major matters outstanding.

Developments during the year included the opening of the Windsor Park multi-purpose community, leisure and wellbeing centre. Building started during November 2009 and the Centre commenced operations in January 2011.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $2.050m in 2010-11 (2009-10, $2.230m). The improved result was due primarily to increased rates revenue, offset by lower grants and other revenue and increased employee costs as detailed in the Comprehensive Income Statement section of this Chapter.

Council recorded a Net Surplus of $5.660m (2009-10, $6.606m), which included Capital grants of $0.861m and Contributions of non-monetary assets of $2.755m.

The Comprehensive Surplus of $9.048m included the net impacts of asset revaluations, $1.740m, and an increase in Council's interest in Ben Lomond Water of $1.648m.

Consistent with the Comprehensive surplus, Council's Net Assets increased to $242.094m, up from $233.046m the previous year. As at 30 June 2011 Council had Net Working Capital of $5.304m, down from $12.643m in 2010, due mainly to decreased Cash and financial assets of $7.945m. A significant amount of cash was used during 2010-11 to complete the Windsor Park multi-purpose community, leisure and wellbeing centre.

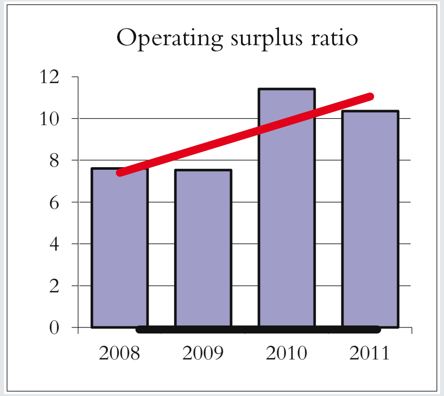
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

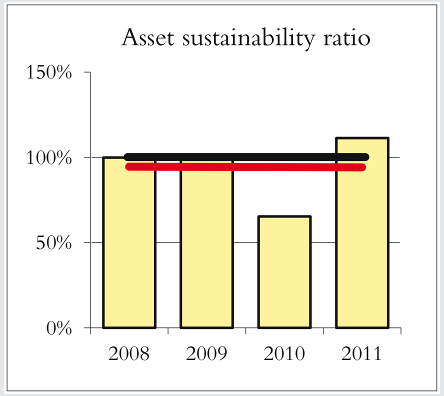
### Relevant financial sustainability ratios

The following four graphs, and the discussion about the asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



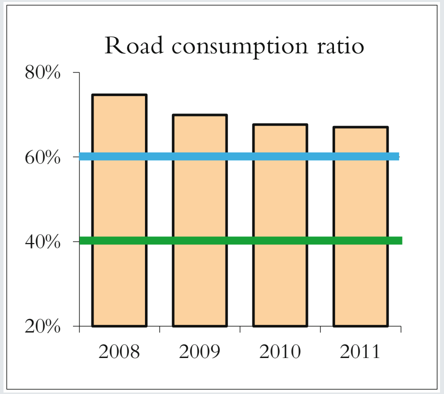

The positive Operating surplus ratios reflected Council's operating surpluses for the past four years. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges for those years.



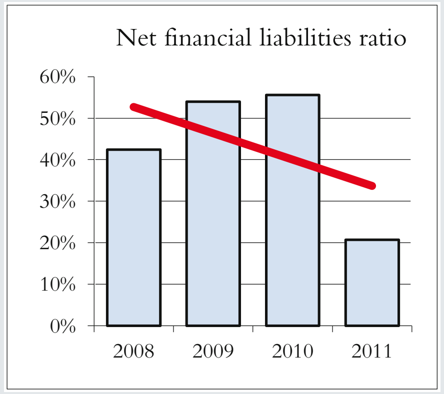

The Asset sustainability ratio was below the 100% benchmark in 2010 when significant resources were being used on the development of the Windsor Park multi-purpose community, leisure and wellbeing centre, with less investment in existing assets. Over the four year period, Councils average ratio was 94%, slightly below the benchmark, indicating, subject to levels of maintenance expenditure and the existence of a long-term asset management plan, Council substantially maintained its investment in existing assets.

### Asset renewal funding ratio

Council's long-term Asset management plan indicated the asset renewal funding ratio was 71% at 30 June 2011, based on future planned asset replacement expenditure. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2029-30 and covers transport infrastructure and building and property assets.




The ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicated a low risk rating, data below the green line indicated a high risk rating with data between the two lines representing a moderate risk rating. The graph indicated that at 30 June 2011 Council had used (consumed) approximately 33% of the service potential of its road assets. This was above the blue benchmark line which indicated Council had sufficient capacity to continue to provide services to its ratepayers.




Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of current and non-current liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet all future commitments. The reduction in 2011 reflected lower cash balances held following the completion of significant capital works primarily the Windsor Park multi-purpose community, leisure and wellbeing centre.

Council's total liabilities consisted of payables, employee provisions and borrowings.

### Governance

A review of Council's governance arrangements indicated that Council did not have an audit committee or internal audit function. However, Council did have a Finance and Economic Development Unit, which operated similarly to an audit committee in some respects. Council's committee included the Mayor, Deputy Mayor and one other Councillor as well as staff and has a role in oversighting Council's annual financial statements. Existence of an active internal audit function would enhance Council's governance arrangements.

Council did have a long-term asset management plan and a long-term financial management plan. These plans were both given low risk ratings as they were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's continuing operating surpluses indicated it generated sufficient revenue to meet operating requirements.

Council's Asset sustainability ratios indicated, based on our 100% benchmark, that it marginally under-invested in existing assets over the period of the analysis, with an average ratio of 94%. The Asset consumption ratio indicated Council's road asset consumption is in the low risk range.

Council's liquidity is adequate to meet all its short term commitments, it had a manageable debt level and a capacity to borrow should the need arise.

From a governance perspective, Council did not have an audit committee although it had both a long-term asset management plan and a long-term financial management plan.

Based on these ratios and governance arrangements we have concluded that at 30 June 2011, Council was at moderate risk from a governance perspective but low financial sustainability risk from an operating, asset management and net financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

Council operated for many years with a number of units, their memberships comprising elected members and officers, one of these is the Finance & Economic Development Unit. This unit normally meets every month and its membership comprises three elected members including the Mayor and Deputy Mayor. The officers are the General Manager, Corporate Services Manager and Senior Accountant.

The unit is involved in the significant activities comprising Council's finances. Its primary functions are to review:

- the monthly financial accounts and statements before they are circulated to the elected members;
- any agenda item that has a potential significant impact on Council's finances before it is included in the council agenda; and
- any policy changes that have a potential financial impact.

The unit's minutes are circulated to the elected members each month with the Council agenda. It is considered that although the unit is not titled "audit committee", it certainly conducts a major financial and governance function.

Council asserts that a "low risk from a governance perspective" statement is a more accurate assessment based on the major financial and governance functions performed by the Finance & Economic Development Unit as described above.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 12 396 | 12 538 | 11 680 |
| Fees and charges | 2 054 | 1 990 | 2 050 |
| Grants ** | 1 939 | 2 605 | 2 775 |
| Other revenue | 1 546 | 2 059 | 2 249 |
| **Total Revenue** | **17 935** | **19 192** | **18 754** |
| Employee costs | 6 295 | 6 276 | 5 967 |
| Depreciation | 4 740 | 4 610 | 4 539 |
| Other expenses | 7 075 | 6 806 | 6 713 |
| **Total Expenses** | **18 110** | **17 692** | **17 219** |
| **Net Operating Surplus (Deficit) before** | **(175)** | **1 500** | **1 535** |
| Finance costs | (65) | (65) | (84) |
| Interest revenue | 415 | 615 | 779 |
| **Net Operating Surplus** | **175** | **2 050** | **2 230** |
| Capital grants | 351 | 861 | 2 261 |
| Financial assistance grant received in advance ** | 0 | 656 | 662 |
| Offset Financial assistance grant in advance ** | 0 | (662) | (681) |
| Contributions of non-current assets | 0 | 2 755 | 2 134 |
| **Net Surplus** | **526** | **5 660** | **6 606** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets - Council | 0 | 1 740 | 11 109 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | (17 871) |
| Fair value adjustment arising from change in allocation order | 0 | 975 | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 673 | 0 |
| **Total Comprehensive Income Items** | **0** | **3 388** | **(6 762)** |
| **Comprehensive Surplus (Deficit)** | **526** | **9 048** | **(156)** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was no subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010–11 Council recorded a Net Operating Surplus before net financing revenues of $1.500m consistent with the 2009-10 surplus of $1.535m. Movements between the two years included:

- increased Rates revenue of $0.858m, due to a higher general rate
- lower Grants revenue of $0.170m, one-off funding was received during 2009-10 for pot holing maintenance, $0.150m, and water and sewerage milestone funding, $0.039m,
- decreased Other revenue of $0.190m, mainly due to lower returns from Ben Lomond Water of $0.153m
- higher Employee costs of $0.309m, primarily due an EBA increase of 3.5% from July 2010.

After accounting for net interest revenues Council recorded a Net Operating Surplus of $2.050m (2009-10, $2.230m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $0.828m per annum over the past four years.

The Net Operating Surplus of $2.050m was much stronger than the budgeted Surplus of $0.175m. The major variances from budget were:

- Grants were $0.666m greater than budget
- returns from Ben Lomond Water were $0.418m greater than budget
- Total expenses were $0.418m less than budget
- Interest revenue was $0.200m greater than budget.

After accounting for Capital grants and Contributions of non-current assets, Council recorded a Net Surplus of $5.660m for 2010-11 (2009-10, $6.606m).

Capital grants totalled $0.861m for 2010-11, a decrease of $1.400m from 2009-10. These grants included:

- Australian Government Roads to Recovery Fund, $0.350m (2009-10, $0.351m),
- Regional and Local Community Infrastructure Program, $0.125m ($1.711m),
- Beauty Point/Beaconsfield trail, $0.060m ($0.200m),
- 3D Ore Body Mine Display, $0.135m,
- roadworks West Tamar Highway, $0.180m.

Other Comprehensive Income of $3.388m included:

- fair value revaluation increment of Council's land and stormwater assets, $1.740m
- increased investment in Ben Lomond Water due to two factors. Firstly, a favourable adjustment of $0.975m due to Council's final ownership interest, applied to Ben Lomond Water's net assets at 30 June 2010, varying from that initially approved by the Treasurer, 12.3%, to 12.5%. The $0.975m represented the 0.2% increase at 30 June 2010. Secondly, a favourable adjustment of $0.673m being Council's 12.5% interest in the increase in net assets of Ben Lomond Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 7 044 | 14 989 |
| Receivables | 593 | 642 |
| Inventories | 221 | 207 |
| Other | 170 | 528 |
| **Total Current Assets** | **8 028** | **16 366** |
| Payables | 933 | 2 027 |
| Borrowings | 261 | 287 |
| Provisions - employee benefits | 1 460 | 1 362 |
| Other | 70 | 47 |
| **Total Current Liabilities** | **2 724** | **3 723** |
| **Net Working Capital** | **5 304** | **12 643** |
| Property, plant and equipment | 175 827 | 161 474 |
| Investment in Ben Lomond Water | 61 625 | 59 977 |
| Other | 149 | 2 |
| **Total Non-Current Assets** | **237 601** | **221 453** |
| Borrowings | 641 | 827 |
| Provisions - employee benefits | 159 | 209 |
| Other | 11 | 14 |
| **Total Non-Current Liabilities** | **811** | **1 050** |
| **Net Assets** | **242 094** | **233 046** |
| Reserves | 89 218 | 89 180 |
| Accumulated surpluses | 152 876 | 143 866 |
| **Total Equity** | **242 094** | **233 046** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $9.048m. Net assets increased in 2011 by the same amount to $242.094m. Major line item movements included:

- lower Cash and financial assets of $7.495m which is discussed further in the Cash Flow Statement section of this Chapter
- decreased Other current assets of $0.358m, mainly due to lower GST refunds receivable, $0.193m, and lower accrued interest, $0.094m,
- lower Payables of $1.094m, due to a large capital contract payment included in 2010 for the Windsor Park multi-purpose community, leisure and wellbeing centre
- increased Property, plant and equipment of $14.353m primarily due to:
  - revaluation increments of $1.740m
  - additions of $17.598m, offset by
  - depreciation expense of $4.610m
- higher investment in Ben Lomond Water of $1.648m, as discussed in the Comprehensive Income Statement section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 16 901 | 15 705 |
| Cash flows from government | 2 638 | 2 769 |
| Payments to suppliers and employees | (15 987) | (13 174) |
| Interest received | 709 | 660 |
| Finance costs | (66) | (85) |
| **Cash from operations** | **4 195** | **5 875** |
| Capital grants and contributions | 861 | 2 261 |
| Dividends received - Esk Water | 0 | 184 |
| Dividends received - Ben Lomond Water | 1 765 | 1 918 |
| Payments for property, plant and equipment | (14 842) | (10 450) |
| Proceeds from sale of property, plant and equipment | 447 | 177 |
| Loans repaid by debtors | 6 | 8 |
| Loan receivable advances | (165) | 0 |
| **Cash (used in) investing activities** | **(11 928)** | **(5 902)** |
| Proceeds from borrowings | 100 | 0 |
| Repayment of borrowings | (312) | (311) |
| **Cash (used in) financing activities** | **(212)** | **(311)** |
| **Net decrease in cash** | **(7 945)** | **(338)** |
| Cash at the beginning of the year | 14 989 | 15 327 |
| **Cash at end of the year** | **7 044** | **14 989** |

### Comment

Council's cash balance at 30 June 2011, $7.044m drecreased by, comprised cash at bank, cash of $7.945m from 2009-10 on hand and short-term deposits. The decrease was due to Payments for property plant and equipment totalling $14.842m being considerably greater than Cash from operations, $4.195m, Capital grants and contributions $0.861m, Returns received from Ben Lomond Water, $1.765m, and the Proceeds from the sale of property, plant and equipment, $0.447m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $1.680m to $4.195m which included:

- Council's operating surplus of $2.050m adjusted for depreciation of $4.610m, a non cash item, providing $6.660m in operating cash inflows
- cash inflows from dividends received from Ben Lomond Water $1.765m being recorded as an investing activity for cash flow purposes
- the impact of cash applied to reduce Payables by $1.094m during 2010-11.

The major capital expenditure project during the period was the Windsor Park multi-purpose community, leisure and wellbeing centre, $9.226m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 2 050 | 2 230 | 1 680 | 1 556 |
| Operating surplus ratio * | >0 | 10.35 | 11.42 | 7.53 | 7.60 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 111% | 65% | 101% | 100% |
| Asset renewal funding ratio* ** | 90%-100% | 71% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 67.0% | 67.6% | 69.9% | 74.7% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 4 102 | 10 858 | 12 043 | 8 679 |
| Net financial liabilities ratio * *** | 0%-(50%) | 20.7% | 55.6% | 54.0% | 42.4% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.04 | 6.65 | 11.00 | 10.61 |
| Current ratio | 1:1 | 2.95 | 4.40 | 5.75 | 4.68 |
| Interest coverage | 3:1 | 62.56 | 68.12 | 70.96 | 46.05 |
| Asset investment ratio | >100% | 322% | 216% | 130% | 116% |
| Self financing ratio | | 21.2% | 30.1% | 34.2% | 29.4% |
| Own source revenue | | 86.8% | 85.8% | 87.1% | 87.6% |
| Debt collection | 30 days | 15 | 17 | 19 | 16 |
| Creditor turnover | 30 days | 11 | 38 | 19 | 17 |
| Rates per capita ($) | | 558 | 526 | 646 | 600 |
| Rates to operating revenue | | 63.3% | 59.8% | 63.6% | 64.0% |
| Rates per rateable property ($) | | 1 159 | 1 082 | 1 333 | 1 251 |
| Operating cost to rateable property ($) | | 1 641 | 1 603 | 1 938 | 1 807 |
| Employee costs expensed ($'000s) | | 6 276 | 5 967 | 6 301 | 5 581 |
| Employee costs capitalised ($'000s) | | 240 | 175 | 183 | 193 |
| **Total employee costs ($'000s)** | | **6 516** | **6 142** | **6 484** | **5 774** |
| Employee costs as a % of operating expenses | | 35% | 34% | 31% | 30% |
| Staff numbers (FTEs) | | 92 | 89 | 97 | 97 |
| Average staff costs ($'000s) | | 71 | 69 | 67 | 60 |
| Average leave balance per FTE ($'000s) | | 18 | 18 | 16 | 15 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
*** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with West Tamar Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Council's Liquidity and Current ratios were well above benchmark in all four years under review which indicated an ability to meet short term commitments. This was due mainly to the large cash investments held at each year end and low levels of unpaid creditors.

Interest coverage ratios reflected Council's low level of finance costs associated with its Borrowings.

Asset investment ratios indicated Council's total capital expenditure was well above its Depreciation expense for all years under review. In particular, the ratios for 2010-11 and 2009-10 were substantially above benchmark, with Council undertaking major capital projects, as noted in the Cash Flow Statement section of this Chapter.

Council's positive Self financing ratios indicated it generated operating cash flows which contributed towards its capital expenditure programs. Own source revenue percentages showed Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on recurrent grant funding to the extent of only 13.2% (2009-10, 14.2%).

Creditor turnover was better than benchmark in all years under review, except for 2009-10 due to the inclusion of a significant June payable for construction work at the Windsor Park multi-purpose community, leisure and wellbeing centre. Council's policy is to pay outstanding creditors within a 30-day period.

Council's rate statistics were relatively consistent over the period under review. Its rate statistics and ratios all decreased in 2009-10 mainly due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs increased to 34% in 2009-10 primarily as a result of decreased operating expenses following the transfer of water and sewerage activities. The ratio remained consistent during 2010-11.

Average staff costs and Average leave balances increased over the review period, mainly due to pay rises under Council's Enterprise Agreement.

# SMALL COUNCILS

# CENTRAL HIGHLANDS COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011, and an unqualified audit report was issued on 30 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments during the year. The audit was completed satisfactorily with no major items outstanding.

In 2007-08 an engineering firm was engaged by Council to undertake a revaluation of its road, bridge and hydraulic assets which included unsealed roads. The revaluation identified these assets should be written off over 15-20 years with no residual value. During 2010-11 Council, in consultation with the same firm, changed the residual value for unsealed roads to 50%. This caused a reduction in depreciation from $4.700m in 2009-10 to $2.916m in the current year. Residual values and useful lives will be further reviewed when roads are formally revalued in 2011-12.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $1.582m in 2010-11 (2009-10, $3.668m). The improved result was primarily due to reduced depreciation resulting in the change in residual values mentioned earlier.

Council recorded a Net Deficit of $1.441m (2009-10, $2.978m), which included Capital grants of $0.121m.

The Comprehensive Deficit of $1.010m included the net impact of upward asset revaluations, $0.378m, and a write-up of Council's interest in Southern Water, $0.053m.

Consistent with the Comprehensive Deficit of $1.010m, Council's Net Assets decreased to $121.530m from $122.540m the previous year. As at 30 June 2011 Council had Net Working Capital of $6.745m, up from $6.296m in the previous year.

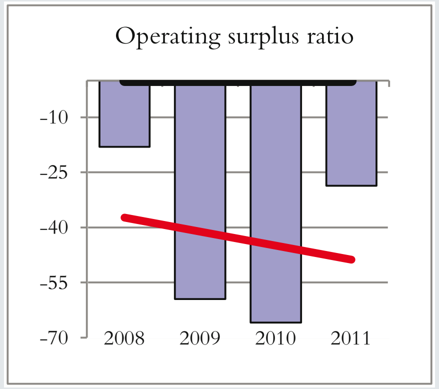
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

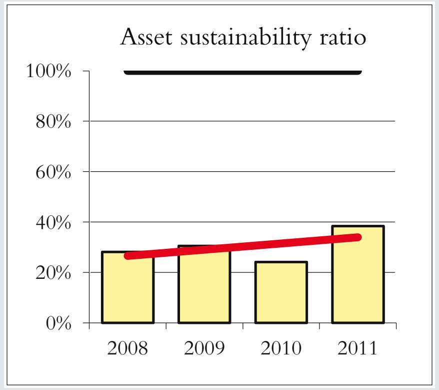
#### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because Council has no long-term asset management or financial management plans.

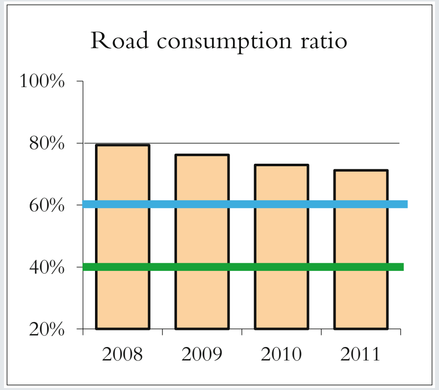
In general, the ratios indicate




Council's operating surplus ratios reflect operating deficits in all four years under review. Negative ratios indicate that Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. This is a situation that will need to be remedied by Council. However, we note that Council budgeted for a deficit of $3.531m.

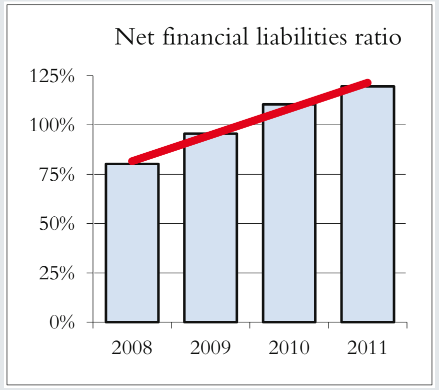



Asset sustainability ratio was below benchmark in all four years under review with the improvement this year due to the change in determining the depreciation charge. Subject to levels of maintenance expenditure, the existence of long-term asset management plan, which we have already noted are not prepared, and based on our 100% benchmark, Council was significantly under investing in existing assets.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011 Council had used (consumed) approximately 29% of the service potential of its road infrastructure assets. This has been consistent over the four year period and indicates a low financial sustainability risk. Roads represent Council's most significant asset. When read together the asset consumption and sustainability ratios indicate differing conclusions. This may be because the relatively low level of road asset consumption has led to a lower need for investment in those assets over the past four years. However, in the absence of long-term asset management and financial plans, a conclusion on this cannot be definitive.




Council recorded a positive Net financial liabilities position with liquid assets well in excess of current and non-current liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet its commitments.

### Governance

A review of Council's governance arrangements indicated that it has an audit committee which reviews the annual financial statements but only after these have already been signed. However, as previously noted, Council does not have long-term asset management or financial management plans.

Based on our assessment, Council's governance could be strengthened if its audit committee included both internal and external members, met regularly, was supported by an internal audit function, had some oversight regarding Council's financial sustainability and if it had a role in recommending to the General Manager signature of financial statements. Such a review of the financial statements could, for example, cover accounting policies used, methods used to account for significant or unusual transactions, significant estimates and judgements.

## Conclusion as to financial sustainability

Council incurred operating deficits at levels higher than negative 10% in each of the past four years indicating high financial sustainability risk.

However, its Net financial liabilities ratio was strong, due to its large cash and investment balances and no borrowings. Council has the capacity to service debt and could borrow should the need arise.

Council's asset sustainability ratio indicates, based on our 100% benchmark, that it significantly under-invested in existing assets over the period of the analysis, with an average ratio of 30%. However, its road asset consumption ratio, while declining over the review period, remained in the low risk range.

Council has an audit committee in place but no long-term asset management or financial management plans. On the basis of these factors we concluded Council's governance was in the moderate risk range.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council was at high financial sustainability risk from operating and governance perspectives, moderate risk from an asset management perspective and low risk from a financial liabilities perspective.

Management comments on this assessment of its financial sustainability

Central Highlands Council has a ratepayer base of 3,674 properties, and its area covers approximately 8,010 square kilometres, with major crown land parcels being unrateable but access around them a responsibility of Council on behalf of its ratepayers.

Its net assets are $121,529,368 (73% of which are roads) which depreciate at the rate of approximately 3% per year on average.

For Council to budget to break even, fully fund the depreciation, and maintain an acceptable level of service to its assets, it would need to increase the rates by 100% This is not achievable in the short term, but must be considered in a longer term financial and strategic plan.

The alternative is to receive compensatory assistance from the Government via larger grant funding which would help offset the burden on ratepayers, as there is very little alternative revenue received by Council.

The Audit Committee is aware of the need to meet on a more frequent basis than has occurred in the past and is committed to achieving this.

It will also commence the formulation its plans this year.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 | 2010-11 | 2009-10 |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 2 642 | 2 680 | 2 531 |
| Fees and charges | 269 | 394 | 450 |
| Grants ** | 2 204 | 1 901 | 1 864 |
| Other revenue | 482 | 223 | 471 |
| **Total Revenue** | **5 597** | **5 198** | **5 316** |
| Employee costs | 1 457 | 1 583 | 1 536 |
| Depreciation | 4 822 | 2 916 | 4 700 |
| Other expenses | 3 049 | 2 600 | 2 994 |
| **Total Expenses** | **9 328** | **7 099** | **9 230** |
| **Net Operating Deficit before** | **(3 731)** | **(1 901)** | **(3 914)** |
| Interest revenue | 200 | 319 | 246 |
| **Net Operating Deficit** | **(3 531)** | **(1 582)** | **(3 668)** |
| Capital grants | 0 | 121 | 410 |
| Asset received for no consideration | 0 | 0 | 250 |
| Financial assistance grant received in advance ** | 0 | 467 | 447 |
| Offset Financial assistance grant in advance ** | 0 | (447) | (417) |
| **Net Deficit** | **(3 531)** | **(1 441)** | **(2 978)** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 378 | 5 215 |
| Fair value initial adjustment Southern Water | 0 | 0 | (116) |
| Current year fair value adjustment Southern Water | 0 | 53 | 0 |
| **Total comprehensive income items** | **0** | **431** | **5 099** |
| **Total Comprehensive Surplus (Deficit)** | **(3 531)** | **(1 010)** | **2 121** |

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
** *Grants received in advance have been shown separately after Net Operating Deficit.*
*The offset figures enable the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Deficit before Interest revenue of $1.901m, compared to a deficit of $3.914m in 2009-10. This improvement was primarily due to the reduction in depreciation on unsealed roads of $1.750m, without which would have meant a Deficit of $3.651m, similar to its estimated deficit of $3.531m. Movements in revenue and expenses included:

- increased Rates revenue, $0.149m (6%), due to higher general and garbage rates and fire levies
- lower Other revenue, $0.248m, mainly reflecting a reduction in private works, $0.205m, due to decreased work undertaken on shacks sites, and general reduction in demand for these services
- lower Depreciation, $1.784m, due to the change in estimates discussed previously
- decreased Other expenses, $0.394m, due to less maintenance works on road infrastructure and reduced supplies of material associated with private works.

After accounting for Interest revenue, $0.319m, Council's Net Operating Deficit decreased to $1.582m (2009-10, $3.668m). This highlights the importance of Interest revenue as a source of income for Council which averaged $0.315m per annum over the last four years.

After Capital grants, $0.121m, Council reported a Net Deficit of $1.441m. Capital grants represented funding for the Roads to Recovery program.

Other Comprehensive Income resulted in a deficit of $1.010m in 2010-11 (2009-10, Surplus, $2.121m) comprising upward asset revaluations, $0.378m, and a write-up of Council's interest in Southern Water, $0.053m.

## STATEMENT OF FINANCIAL POSITION

| | **2011** | **2010** |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 6 882 | 6 522 |
| Receivables | 453 | 402 |
| Inventories | 17 | 13 |
| Other | 102 | 103 |
| **Total Current Assets** | **7 454** | **7 040** |
| Payables | 195 | 242 |
| Provisions - employee benefits | 514 | 502 |
| **Total Current Liabilities** | **709** | **744** |
| **Net Working Capital** | **6 745** | **6 296** |
| Property, plant and equipment | 105 611 | 107 116 |
| Investment in Southern Water | 9 211 | 9 158 |
| Receivables | 0 | 8 |
| **Total Non-Current Assets** | **114 822** | **116 282** |
| Provisions - employee benefits | 37 | 38 |
| **Total Non-Current Liabilities** | **37** | **38** |
| **Net Assets** | **121 530** | **122 540** |
| Reserves | 93 601 | 93 074 |
| Accumulated surpluses | 27 929 | 29 466 |
| **Total Equity** | **121 530** | **122 540** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity decreased during 2010-11 by $1.010m.

Net Assets decreased by the same amount to $121.530m. Reasons for the line item movements included:

- improved cash position of $0.360m. Refer to the Cash Flow Statement section of this Chapter for further explanation
- higher investment in Southern Water, $0.053m
- decreased Property, plant and equipment, $1.505m, attributable to upward revaluation movements, $0.378m, and additions, $1.106m, offset by depreciation charges, $2.916m and asset disposals, $0.106m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 3329 | 4 477 |
| Cash flows from government | 1 923 | 1 484 |
| Payments to suppliers and employees | (4 630) | (4 701) |
| Interest received | 623 | 222 |
| **Cash from operations** | **1 245** | **1 482** |
| Capital grants and contributions | 121 | 410 |
| Payments for property, plant and equipment | (1 125) | (1 625) |
| Proceeds from sale of property, plant and equipment | 118 | 140 |
| **Cash used in investing activities** | **(886)** | **(1 075)** |
| **Net increase in cash** | **359** | **407** |
| Cash at the beginning of the year | 6 523 | 6 116 |
| **Cash at end of the year** | **6 882** | **6 523** |

### Comment

At 30 June 2011, Council held Cash and financial assets of $6.882m, mainly comprised of cash at bank and on hand, $1.405m, and short-term and at call deposits, $5.447m.

Council's cash position improved $0.359m during 2010-11. Cash from operations, $1.245m, Capital grants, $0.121m, and Proceeds from sale of property, plant and equipment, $0.118m, were more than sufficient to fund Payments for property, plant and equipment, $1.125m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased $0.237m to $1.245m ,which included Council's operating deficit of $1.582m adjusted for depreciation, $2.916m, a non-cash item, providing $1.334m in operating cash inflows.

Major capital expenditure projects during the period included the completion of the road upgrading program and other road works, $0.098m, land and buildings, $0.317m, and a grader, $0.351m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Net Operating deficit ($'000s) | | (1 582) | (3 668) | (3 507) | (1 039) |
| Operating surplus ratio * | > 0 | (28.68) | (65.95) | (59.51) | (18.03) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 38% | 24% | 31% | 28% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 71.2% | 72.9% | 76.2% | 79.4% |
| ***Liability Management*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 6 589 | 6 142 | 5 632 | 4 621 |
| Net financial liabilities ratio * *** | 0-(50%) | 119.4% | 110.4% | 95.6% | 80.2% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 37.62 | 28.61 | 33.59 | 19.47 |
| Current ratio | 1:1 | 10.51 | 9.46 | 8.33 | 6.84 |
| Asset investment ratio | >100% | 39% | 35% | 49% | 110% |
| Self financing ratio | | 22.6% | 26.6% | 38.3% | 34.3% |
| Own source revenue | | 65.5% | 66.5% | 67.3% | 66.7% |
| Debt collection | 30 days | 52 | 45 | 32 | 39 |
| Creditor turnover | 30 days | 25 | 22 | 16 | 22 |
| Rates per capita ($) | | 1,156 | 1 092 | 1 217 | 1 147 |
| Rates to operating revenue | | 48.6% | 45.5% | 47.8% | 46.6% |
| Rates per rateable property ($) | | 729 | 694 | 779 | 714 |
| Operating cost to rateable property ($) | | 1 932 | 2 532 | 2 599 | 1 809 |
| Employee costs expensed ($'000s) | | 1 583 | 1 536 | 1 684 | 1 787 |
| Employee costs capitalised ($'000s) | | 0 | 7 | 218 | 70 |
| **Total employee costs ($'000s)** | | **1 583** | **1 543** | **1 902** | **1 857** |
| Employee costs as a % of operating expenses | | 22% | 17% | 18% | 26% |
| Staff numbers (FTEs) | | 28 | 27 | 32 | 33 |
| Average staff costs ($'000s) | | 57 | 57 | 59 | 56 |
| Average leave balance per FTE ($'000s) | | 20 | 20 | 20 | 17 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Central Highlands Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will focus on Operational efficiency measures.

Liquidity and Current ratios were above benchmark in all four years under review indicating an ability to meet short term commitments.

Council's positive Self financing ratio indicates it was generating operating cash flows which were contributing towards its capital expenditure programs. The reduction in the 2009-10 ratio mainly related to the loss of water and sewerage rating income. Own source revenue percentage shows Council generated most of its operating revenue from its own sources and in 2010-11 was reliant on recurrent grant funding to the extent of 34.5% (2009-10, 33.5%).

Debt collection was worse than the 30 days benchmark in each of the years under review. The increase in 2010-11 to 52 days mainly resulted from higher rates outstanding.

Rate per head of population and Rates per rateable property decreased in 2009-10 as a result of water and sewerage rates no longer being raised. The percentage of Rates to Operating revenue increased slightly from 2009-10 in line with rate increases. Operating cost to rateable property showed a significant decrease in 2010-11 due primarily to the change in depreciation estimates discussed previously.

Total employee cost showed a large decrease in 2009-10 due to the transfer of employees to Southern Water, but rose marginally after 2009-10 consistent with pay increases. Employee costs as a percentage of operating costs rose sharply in 2010-11 due to the change in depreciation estimates. If this had not happened, the ratio would have been similar to prior years.

# CIRCULAR HEAD COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011 and an unqualified audit report was issued on 27 September 2011.

The audit was completed satisfactorily with no major items outstanding.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments.

## FINANCIAL RESULTS

Our analysis shows that Council generated a Net Operating Deficit before net interest earned of $0.439m in 2010-11 (2009-10, $0.408m). After accounting for net interest earned, Council generated a Net Operating surplus of $0.118m ($0.103m). This highlights the importance to Council of interest earned on its cash and investment balances which averaged $0.567m over the past two years.

Council reported a Net Surplus of $0.916m ($2.382m) and a Comprehensive surplus of $28.660m ($0.417m). The Comprehensive surplus included asset revaluation increments, $27.705m, and net fair value adjustments to Council's interest in Cradle Mountain Water, $0.039m.

Consistent with its Comprehensive surplus of $28.660m, Council's Net Assets increased to $143.193m, from $114.533m in the previous year. As at 30 June 2011 Council had Net Working Capital of $7.900m, up from $6.538m due mainly to higher cash holdings.

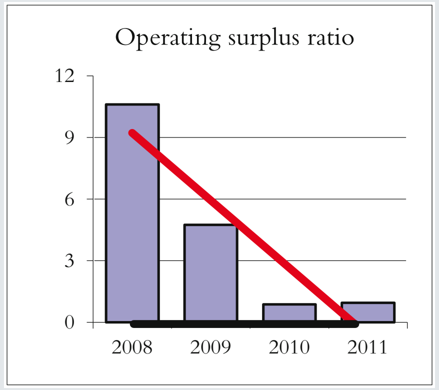
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

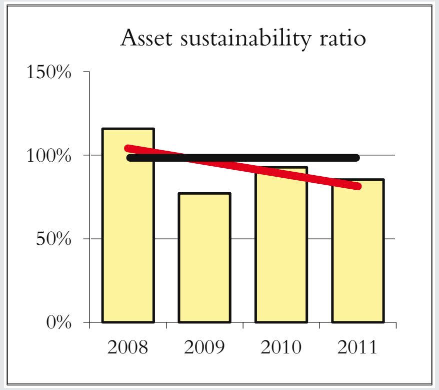
#### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because Council did not have long-term asset management or financial management plans.

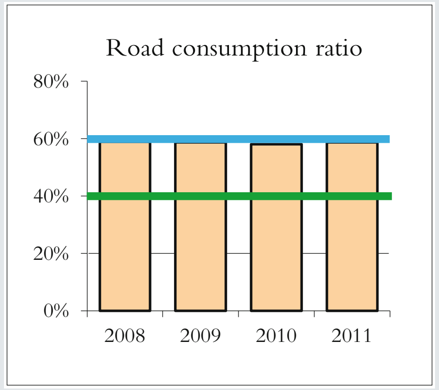
In general, the ratios indicate:




The positive operating surplus ratios reflected Council's operating surpluses for the past four years. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges. The significant decline in 2010 was most likely due to the transfer of Council water and sewerage activities.

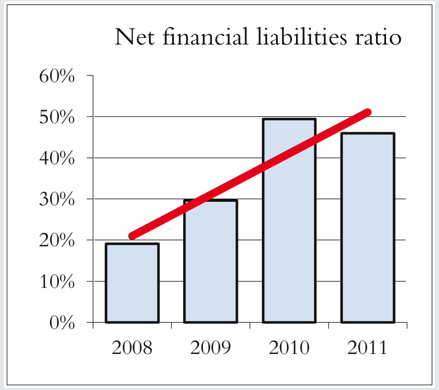



The asset sustainability ratio, also referred to as the asset renewal ratio, was below benchmark in the past three years under review, dropping to 85% in 2010-11. This indicates, subject to levels of maintenance expenditure, the existence of a long-term asset management plan, and based on our 100% benchmark, Council was under investing in existing assets.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011 Council had used (consumed) approximately 41% of the service potential of its road assets. Based on our benchmark, this indicates medium financial sustainability risk.




Council recorded positive net financial liabilities positions with liquid assets well in excess of current and non-current liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet its commitments and having some capacity to borrow.

### Governance

A review of Council's governance arrangements indicated Council does not have:

- an audit committee
- a complete long-term asset management plan
- a long-term financial management plan.

## Conclusion as to financial sustainability

From a financial operating perspective, Council maintained positive operating results in each of the past four years.

Asset sustainability ratio indicates Council, based on our 100% benchmark, under invested in existing assets over the past three years and on average over the past four years. While its road asset consumption ratios indicated that there was sufficient capacity to continue to provide services to its ratepayers, the 59% is in our medium risk range.

Council's Net financial liabilities ratio was positive indicating strong liquidity.

Council does not have an audit committee, a complete long-term asset management plan or a finalised financial management plan. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we concluded that at 30 June 2011, Council was at high financial sustainability risk from a governance perspective, moderate risk from an asset management perspective and low risk from an operating and net financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

Council has adopted the Transport Infrastructure, Plant & Equipment, Buildings, Stormwater and Parks & Reserves asset management plans, with the Solid Waste plan currently being developed.

Council has a target of 31 December 2011 of having all its suite of asset management plans adopted.

Alongside this process Council has started to prepare its long term financial plan, with anticipated adoption at the end of March 2012.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 6 110 | 6 219 | 5 933 |
| Fees and charges | 1 663 | 1 752 | 1 904 |
| Grants ** | 2 510 | 2 679 | 2 904 |
| Other revenue | 1 523 | 1 099 | 497 |
| **Total Revenue** | **11 806** | **11 749** | **11 238** |
| Employee costs | 4 310 | 3 958 | 3 417 |
| Depreciation | 2 519 | 2 579 | 2 419 |
| Other expenses | 5 985 | 5 651 | 5 810 |
| **Total Expenses** | **12 814** | **12 188** | **11 646** |
| **Net Operating Deficit before** | **(1 008)** | **(439)** | **(408)** |
| Finance costs | (97) | (33) | (34) |
| Interest revenue | 400 | 590 | 545 |
| **Net Operating Surplus (Deficit)** | **(705)** | **118** | **103** |
| Capital grants | 2 037 | 347 | 2 015 |
| Financial assistance grant received in advance ** | 0 | 633 | 631 |
| Offset Financial assistance grant in advance ** | 0 | (631) | (650) |
| Unrealised gain on investment | 0 | 0 | 134 |
| Reversal of impairment on investments | 0 | 271 | 0 |
| Recognition of assets | 0 | 178 | 149 |
| **Net Surplus** | **1 332** | **916** | **2 382** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 27 705 | 0 |
| Fair value initial adjustment in Cradle Mountain Water | 0 | 0 | (1 965) |
| Fair value adjustment arising from change in allocation order | 0 | (65) | 0 |
| Current year fair value adjustment Cradle Mountain Water | 0 | 104 | 0 |
| **Total comprehensive income items** | **0** | **27 744** | **(1 965)** |
| **Comprehensive Surplus** | **1 332** | **28 660** | **417** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing costs of $0.439m, compared to a deficit of $0.408m in the prior year, worse by $0.031m. The poorer result was mainly due to:

- lower Fees and charges, $0.152m, as prior year included some one-off subdivision revenues for Massey Street subdivisions
- lower Grants, $0.225m, as prior year included significant infrastructure and energy grants for underground powerlines at Stanley and local road repairs
- Employee costs increased $0.541m, arising from additional co-sourcing costs with Waratah-Wynyard, an increase in staff numbers of four and an EBA increase of 4% applied from July 2010, which was expected due to the introduction of the new staff enterprise agreement signed in 2009
- higher depreciation expense, $0.160m, due to the impact of plant and equipment additions and the effect of revaluation increments for buildings and transport infrastructure, offset partly by
- increased rates revenue of $0.286m, consistent with rate increases approved by Council in June 2010
- higher Other revenues of $0.602m due to increased returns from Cradle Mountain Water, contributions and resource sharing income
- Other expenses decreased by $0.159m, as Council made a concerted effort to reduce expenditure in a number of areas. Categories of expenditure where savings were made included insurance, legal and other general expenditure.

Council's Net Operating Surplus, $0.118m, represented an improvement of $0.823m compared to the budgeted deficit of $0.705m. This mainly resulted from better than budgeted results for Employee costs, $0.352m, Other expenses, $0.334m, and net interest revenue, $0.254m, partly offset by lower Other revenue of $0.424m.

After accounting for net interest revenues, Council achieved a Net Operating Surplus of $0.118m (2009-10, $0.103m). Interest revenue remained a significant source of income for Council averaging $0.663m per annum over the past four years.

After capital grants, $0.347m, reversal of impairment on investments, $0.271m, and assets not previously recognised, $0.178m, Council achieved a Net Surplus of $0.916m in 2010-11. The reversal of the impairment related to an improved independent market valuation of Council's remaining Collateralised Debt Obligation (CDO) asset.

Other Comprehensive income totalled $27.744m in 2010-11, comprising:

- fair value revaluation of non-current assets of $27.705m which represented the revaluation of transport infrastructure and land and buildings
- higher Council investment in Cradle Mountain Water due to two factors. Firstly, an unfavourable adjustment of $0.065m arising from a minor adjustment to Council's ownership interest of Cradle Mountain Water's net assets at 30 June 2010. Secondly, a favourable increase of $0.104m being Council's 0.68% interest in net assets of Cradle Mountain Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash | 8 951 | 6 924 |
| Financial assets | 281 | 510 |
| Receivables | 633 | 563 |
| Inventories | 182 | 133 |
| Other | 67 | 84 |
| **Total Current Assets** | **10 114** | **8 214** |
| Payables | 1 200 | 990 |
| Borrowings | 361 | 100 |
| Provisions - employee benefits | 653 | 586 |
| **Total Current Liabilities** | **2 214** | **1 676** |
| **Net Working Capital** | **7 900** | **6 538** |
| Property, plant and equipment | 115 078 | 86 314 |
| Investment in Cradle Mountain Water | 22 191 | 22 153 |
| Other | 0 | 23 |
| **Total Non-Current Assets** | **137 269** | **108 490** |
| Borrowings | 1 834 | 395 |
| Provisions - employee benefits | 142 | 100 |
| **Total Non-Current Liabilities** | **1 976** | **495** |
| **Net Assets** | **143 193** | **114 533** |
| Reserves | 53 980 | 26 086 |
| Accumulated surpluses | 89 213 | 88 447 |
| **Total Equity** | **143 193** | **114 533** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $28.660m at 30 June 2011.

Net Assets increased to $143.193m. Reasons for significant line item movements included:

- increased Cash of $2.027m, explained later in the Cash Flow Statement section of this Chapter
- Financial assets declined by $0.229m following the redemption of a CDO investment. This investment was redeemed for $0.500m which was its face value, resulting in a reversal of impairment of $0.271m
- Payables increased by $0.210m comprising higher trade creditors due to timing of project expenditure and increased wage and interest accruals
- higher borrowings with a new loan in 2010-11 of $1.800m
- Property, plant and equipment increased by $28.764m due primarily to the fair value revaluation of transport infrastructure and land and buildings of $27.705m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 9 156 | 8 783 |
| Cash flows from government | 2 681 | 2 885 |
| Payments to suppliers and employees | (10 054) | (10 053) |
| Interest received | 590 | 521 |
| Finance costs | (28) | (34) |
| **Cash from operations** | **2 345** | **2 102** |
| Capital grants and contributions | 347 | 2 015 |
| Dividends received - Cradle Mountain Water | 520 | 328 |
| Redemption of Financial Assets | 500 | 0 |
| Payments for property, plant and equipment | (3 704) | (4 127) |
| Proceeds from sale of property, plant and equipment | 319 | 892 |
| **Cash used in investing activities** | **(2 018)** | **(892)** |
| Proceeds from borrowings | 1 800 | 0 |
| Repayment of borrowings | (100) | (94) |
| **Cash from (used in) financing activities** | **1 700** | **(94)** |
| **Net increase in cash** | **2 027** | **1 116** |
| Cash at the beginning of the year | 6 924 | 5 808 |
| **Cash at end of the year** | **8 951** | **6 924** |

### Comment

Council's cash balance improved by $2.027m to $8.951m as at 30 June 2011.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.243m to $2.345m which included:

- Council's Net operating surplus of $0.118mm adjusted for depreciation of $2.579m, a non-cash item, providing $2.697m in operating cash inflows
- the impact of higher Payables and Provisions balances, $0.171m and $0.108m, respectively, that did not result in cash outflows in 2010-11, offset by
- the impact of a higher Receivables balance, $0.148m, that did not result in a cash inflow in 2010-11
- cash inflows from dividends received from Cradle Mountain Water of $0.520m recorded as an investing activity for cash flow purposes.

The major capital expenditure items in 2010-11 comprised:

- buildings, $0.731m, including Stage 2 of the Community Recreation Centre, $0.321m, and the Stanley Town Hall refurbishment, $0.163m,
- transport infrastructure, $1.429m, including Robert Street upgrade, $0.516m, Montagu Road, $0.590m, and road reseals, $0.228m,
- plant and equipment, $0.656m, including a new grader, $0.352m, and various fleet vehicles, $0.299m,
- work in progress, $0.796m, including Smith Street toilets, $0.214m, Tatlows Beach remedial works, $0.210m, and the West Esplanade Foreshore Park playground, $0.181m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 118 | 103 | 701 | 1 505 |
| Operating surplus ratio * | > 0 | 0.96 | 0.87 | 4.75 | 10.61 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 85% | 93% | 77% | 116% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | > 60% | 58.7% | 58.1% | 58.7% | 58.9% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 5 675 | 5 826 | 4 373 | 2 711 |
| Net financial liabilities ratio *** | 0%-(50%) | 46.0% | 49.4% | 29.6% | 19.1% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.14 | 6.87 | 4.87 | 3.45 |
| Current ratio | 1:1 | 4.57 | 4.90 | 3.68 | 3.10 |
| Interest coverage | 3:1 | 82.75 | 60.82 | 115.93 | 81.11 |
| Asset investment ratio | >100% | 143.6% | 158.0% | 162.2% | 171% |
| Self financing ratio | | 19.0% | 17.8% | 32.5% | 30.7% |
| Own source revenue | | 78.3% | 75.4% | 82.3% | 82.1% |
| Debt collection | 30 days | 29 | 26 | 23 | 30 |
| Creditor turnover | 30 days | 30 | 20 | 25 | 24 |
| Rates per capita ($) | | 753 | 715 | 919 | 889 |
| Rates to operating revenue | | 50.4% | 50.4% | 51.1% | 51.6% |
| Rates per rateable property ($) | | 1 302 | 1 244 | 1 598 | 1 559 |
| Operating cost to rateable property ($) | | 2 558 | 2 449 | 2 977 | 2 703 |
| Employee costs expensed ($'000s) | | 3 958 | 3 417 | 3 273 | 3 132 |
| Employee costs capitalised ($'000s) | | 124 | 86 | 162 | 112 |
| **Total employee costs ($'000s)** | | 4 082 | 3 503 | 3 435 | 3 244 |
| Employee costs as a % of operating expenses | | 32% | 29% | 23% | 25% |
| Staff numbers (FTEs) | | 56 | 52 | 52 | 54 |
| Average staff costs ($'000s) | | 73 | 67 | 66 | 60 |
| Average leave balance per FTE ($'000s) | | 14 | 13 | 13 | 12 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

** *Information was not available to calculate this ratio.*

*** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive, as is the case with Circular Head Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Both Liquidity and Current ratios were well above the benchmark in all years under review, indicating an ability to meet short-term commitments. This was due to the significant level of cash and investments held at year end.

Asset investment ratio indicates Council invested strongly in new and existing assets for the four years under review.

Self financing ratio improved in 2010-11 as Council's operating cash flows increased in comparison to total revenue. Further details were provided in the Cash Flow Statement section of this Chapter.

Own source revenue ratio showed Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on grant funding to the extent of 22% (2009-10, 25%).

Rates to operating revenue was fairly consistent in all four years under review. Council's other rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

For the first three years under review Council was able to contain labour costs by maintaining consistent staff levels. As a result, Average staff costs and Average employee entitlements increased slightly over that period mainly in line with pay rises under Council's Enterprise Agreement. In 2010-11 Council's Employee costs increased due to a combination of additional payments for co-sharing of staff with Waratah-Wynyard Council, EBA wage increases and higher staff numbers. These resulted in increased Employee costs as a percentage of operating expenses and Average staff costs.

# DORSET COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2011 and an unqualified audit report was issued on 30 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments during the year. The audit was completed satisfactorily with no major issues outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $0.911m in 2010-11 (2009-10, $0.133m). The improved result was due primarily to increased Rates, Grants and Interest revenue.

Council achieved a Net Surplus, after Capital grants, grants in advance and newly recognised assets of $3.843m (2009-10, $1.495m) and a Comprehensive Surplus of $1.056m ($39.880m). The Comprehensive Surplus included the net impacts of asset revaluations, $1.422m offset by the net write down in Council's interest in Ben Lomond Water of $4.190m.

Council's Net Assets increased to $161.554m, up from $160.498m the previous year. As at 30 June 2011 Council had Net Working Capital of $14.808m, up from $13.814m in 2010, due mainly to increased Cash and financial assets of $0.466m and higher Receivables of $0.366m.

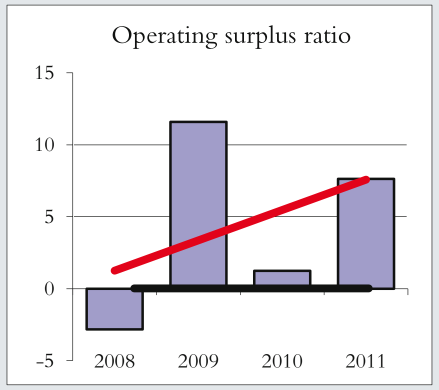
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

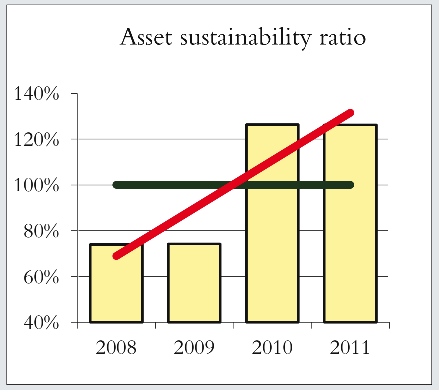
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio, as Council did not have a long-term asset management plan.

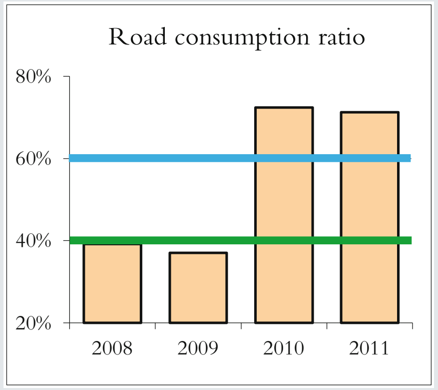
In general, the ratios indicate:




The positive operating surplus ratios reflected Council's operating surpluses for the past three years. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges for those years.

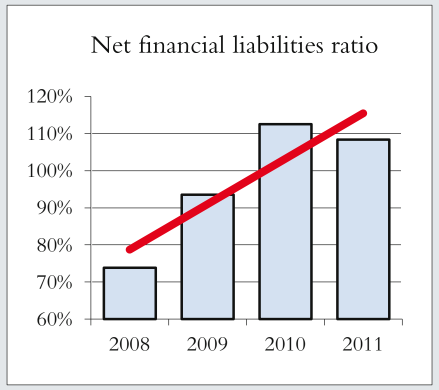



Asset sustainability ratio was below the 100% benchmark in the initial two years under review, but improved in 2010 and 2011. Over the four year period, Council's average ratio was 101%, slightly above the benchmark, indicating, subject to levels of maintenance expenditure and in the absence of a long-term asset management plan, Council maintained its investment in existing assets.




These ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 29% of the service potential of its road infrastructure assets.

This indicates a moderate financial sustainability risk. The improvement in the ratios over the period was primarily due to the revaluation of road assets at 30 June 2010. The revaluation, undertaken by an external engineer, reviewed useful lives and residual values, and resulted in an adjustment to the depreciation expense and accumulated depreciation balance. Overall, at that point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded a positive Net financial liabilities ratio with liquid assets well in excess of current and non-current liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet all current commitments.

Council's total liabilities consisted of payables, employee provisions, borrowings and tip rehabilitation provision.

### Governance

A review of governance arrangements indicated that Council does not have:

- an audit committee
- a long-term asset management plan.

However, Council does have a ten-year financial management plan covering the period 2004 to 2013. The plan is reviewed and updated annually by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded surpluses in each of the past three years.

The Asset sustainability ratio indicates Council increased its expenditure on existing assets over the period and averaged a ratio of 101%, which was slightly above the 100% benchmark. This indicates Council have maintained its investment in existing assets over the past four years. Council's road consumption ratios improved over the four year period, indicating its roads had sufficient capacity to continue to provide services to its ratepayers.

Council's Net financial liabilities ratio was positive indicating its liquidity was strong.

Council does not have an audit committee or long-term-asset management plan. These aspects of governance need to be addressed. However, Council does have a long-term financial management plan.

Based on these ratios and governance arrangements we have concluded that at 30 June 2011, Council was at high sustainability risk from a governance perspective but a low risk from an operating, asset management and financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

Management consider the Council's risk of not having an audit committee is reduced by the current practice of either tabling all audit related matters either through Council workshops or Council meetings. This practice is considered cost-effective and enables the full Council to be aware of its governance responsibility in relation to audit.

It is acknowledged that Council does not have long term asset management plans. Draft long term asset management plans have been prepared for roads and bridges and will be finalised during 2011-12. Council have allocated resources in the 2011-12 Annual Plan and Budget for development of asset management plan and systems.



## COMPREHENSIVE INCOME STATEMENT

| | **2010-11** | **2010-11** | **2009-10** |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 5 613 | 5 600 | 5 365 |
| Fees and charges | 786 | 843 | 885 |
| Grants ** | 3 363 | 3 777 | 3 207 |
| Other revenue | 158 | 770 | 436 |
| **Total Revenue** | **9 920** | **10 990** | **9 893** |
| Employee costs | 3 511 | 3 935 | 3 615 |
| Depreciation | 3 721 | 3 211 | 3 364 |
| Other expenses | 4 999 | 3 844 | 3 511 |
| **Total Expenses** | **12 231** | **10 990** | **10 490** |
| **Net Operating (Deficit) before** | **(2 311)** | **0** | **(597)** |
| Finance costs | (38) | (27) | (12) |
| Interest revenue | 1 065 | 938 | 742 |
| **Net Operating Surplus (Deficit)** | **(1 284)** | **911** | **133** |
| Capital grants | 1 003 | 1 197 | 1 339 |
| Financial assistance grant received in advance ** | 0 | 752 | 714 |
| Offset Financial assistance grant in advance ** | 0 | (714) | (691) |
| Recognition of assets | 0 | 1 697 | 0 |
| **Net Surplus (Deficit)** | **(281)** | **3 843** | **1 495** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 1 403 | 43 440 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | (5 055) |
| Fair value adjustment arising from change in allocation order | 0 | (4 389) | 0 |
| Current year fair value adjustment Ben Lomond Water | | 199 | 0 |
| **Total Comprehensive Income Items** | **0** | **(2 787)** | **38 385** |
| **Comprehensive Surplus** | **(281)** | **1 056** | **39 880** |

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
** *Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enables the above table to balance with Council's own Comprehensive income statement*

## Comment

In 2010–11 Council recorded a break-even Net Operating result before net financing revenues compared to a deficit of $0.597m in the prior year. The improved result was due to a combination of the following factors:

- increased Rates revenue of $0.235m, due to a higher general rate
- higher Grants revenue of $0.570m, with increased funding from the Federal Government for Financial Assistance Grants, $0.210m, and State Government for Rural Primary Health Services, $0.188m,
- increased Other revenue of $0.334m, due to additional revenue from private works, reimbursement of management costs associated with the Bridport Walking Track and investment revenue from Ben Lomond Water

- lower Depreciation of $0.153m, due to the impact of a revaluation of road assets undertaken during 2009-10 which resulted in a review of useful lives, all offset by
- higher Employee costs of $0.320m, primarily due an EBA increase of 4.1% from July 2010
- additional Other expenses of $0.333m, due to:
  - increased progress payments for the Trail of the Tin Dragon facility of $0.090m
  - increased consultant costs of $0.100m, as a result of the resignation of Council's manager of Development and Environmental Services
  - triennial valuation expenses of $0.090m
  - renegotiated contract costs for Council's waste transfer stations up $0.085m.

While Council budgeted for a Net Operating Deficit of $1.284m, after accounting for Interest revenue and Finance costs, it achieved a Net Operating Surplus of $0.911m (2009-10, $0.133m). This highlights the importance of interest revenue to Council, with interest revenue averaging $0.855m per annum over the past four years.

After accounting for Capital grants and newly recognised assets, Council recorded a Net Surplus of $3.843m for 2010-11, which improved $2.348m from the $1.495m surplus in 2009-10. The improvement was primarily attributable to Council's recognition of assets, $1.697m, being for land, $1.466m, and buildings, $0.231m, identified during the revaluation of Council's land and building assets.

Other Comprehensive Income resulted in a deficit of $2.787m, due to:

- fair value revaluation increment of Council's land, building, road, bridge and stormwater assets, $1.403m. The upward movement in the road valuation, $1.294m, was mainly due to increased residual valued applied to the road pavement and adoption of a residual value for the road seal, shoulders and earthworks
- decrease in Council's investment in Ben Lomond Water due to two factors. Firstly, an unfavourable adjustment of $4.389m due to Council's final ownership interest, applied to Ben Lomond Water's net assets at 30 June 2010, varying from that initially approved by the Treasurer, 4.60%, to 3.70%. The $4.389m represented the reduced 1.10% interest at 30 June 2010. Secondly, a favourable adjustment of $0.199m being Council's 3.70% interest in the increase in net assets of Ben Lomond Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | **2011** | **2010** |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 15 912 | 15 446 |
| Receivables | 825 | 464 |
| Inventories | 105 | 84 |
| Other | 204 | 194 |
| **Total Current Assets** | **17 046** | **16 188** |
| Payables | 310 | 321 |
| Borrowings | 95 | 89 |
| Provisions - employee benefits | 947 | 1 057 |
| Provisions - tip rehabilitation | 560 | 693 |
| Other | 326 | 214 |
| **Total Current Liabilities** | **2 238** | **2 374** |
| **Net Working Capital** | **14 808** | **13 814** |
| Property, plant and equipment | 129 989 | 125 695 |
| Investment in Ben Lomond Water | 18 241 | 22 431 |
| Other | 91 | 125 |
| **Total Non-Current Assets** | **148 321** | **148 251** |
| Borrowings | 255 | 350 |
| Provisions - employee benefits | 57 | 87 |
| Provisions - tip rehabilitation | 1 263 | 1 130 |
| **Total Non-Current Liabilities** | **1 575** | **1 567** |
| **Net Assets** | **161 554** | **160 498** |
| Reserves | 56 846 | 55 229 |
| Accumulated surpluses | 104 708 | 105 269 |
| **Total Equity** | **161 554** | **160 498** |

## Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $1.056m. Net assets increased in 2010-11 by the same amount to $161.554m. Major line item movements include:

- increased Cash of $0.466m which is discussed further in the Cash Flow Statement section of this Chapter
- increased Receivables of $0.361m, due to two significant outstanding debts for the Department of Health and Aging and Dorset Economic Development for consultant wages subsequently paid after year end.
- reduction in Council's investment in Ben Lomond Water of $4.190m, as discussed in the Comprehensive Income Statement section of this Chapter
- increased Property, plant and equipment of $4.294m primarily due to:
  - revaluation increments of $1.437m
  - additions of $4.605m
  - newly identified assets of $1.697m, offset by
  - depreciation expense of $3.211m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 7 607 | 7 765 |
| Cash flows from government | 3 815 | 3 230 |
| Payments to suppliers and employees | (8 663) | (7 653) |
| Interest received | 938 | 742 |
| Finance costs | (27) | (12) |
| **Cash from operations** | **3 670** | **4 072** |
| Capital grants and contributions | 1 197 | 1 339 |
| Dividends received - Ben Lomond Water | 104 | 14 |
| Payments for property, plant and equipment | (4 591) | (6 669) |
| Proceeds from sale of property, plant and equipment | 175 | 425 |
| **Cash (used in) investing activities** | **(3 115)** | **(4 891)** |
| Proceeds from borrowings | 0 | 300 |
| Repayment of borrowings | (89) | (62) |
| **Cash from (used in) financing activities** | **(89)** | **238** |
| **Net (decrease) increase in cash** | **466** | **(581)** |
| Cash at the beginning of the year | 15 446 | 16 627 |
| Less cash transferred to Ben Lomond Water | 0 | (600) |
| **Cash at end of the year** | **15 912** | **15 446** |

### Comment

Council's cash balance at 30 June 2011, $15.912m, comprised cash at bank, on hand and short-term deposits.

Council's cash position improved by $0.466m during 2010-11 with Cash from operations of $3.670m, Capital grants and contributions of $1.197m and Proceeds from sale of property, plant and equipment of $0.175m, being more than sufficient to fund Payments for property, plant and equipment of $4.591m and the Repayment of borrowings, $0.089m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.402m to $3.670m which included:

- Council's operating surplus of $0.911m adjusted for depreciation of $3.211m, a non-cash item, providing $4.122m in operating cash inflows, offset by
- cash inflows from dividends received from Ben Lomond Water, $0.104m, being recorded as an investing activity for cash flow purposes
- the impact of a higher Receivables balance by $0.361m, that did not result in a cash inflow in 2010-11.

Payments for property, plant and equipment of $4.591m largely comprised plant purchases of $0.537m and capital expenditure for roads and bridges of $3.477m, which included:

- Main Street Bridport, $0.546m,
- bridge works undertaken at:
    - Garibaldi Road, Ringarooma, $1.381m,
    - Gillespies Road, Little Forester, $0.266m,
    - Lisle Road, Little Forester, $0.227m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 911 | 133 | 1 541 | (340) |
| Operating surplus ratio * | >0 | 11.59 | 1.25 | 11.59 | (2.83) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 74% | 126% | 74% | 74% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road consumption ratio * | >60% | 71.2% | 72.5% | 37.0% | 39.2% |
| ***Liquidity*** | | | | | |
| Net financial liabilities ($'000s) | | 12 924 | 11 969 | 12 429 | 8 875 |
| Net financial liabilities ratio * *** | 0-(50%) | 108.4% | 112.5% | 93.5% | 73.9% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 22.90 | 25.50 | 21.37 | 11.57 |
| Current ratio | 1:1 | 7.62 | 6.82 | 9.85 | 6.61 |
| Interest coverage | 3:1 | 134.93 | 338.33 | 60.53 | 34.98 |
| Asset investment ratio | >100% | 143% | 198% | 92% | 118% |
| Self financing ratio | | 30.8% | 38.3% | 46.3% | 36.8% |
| Own source revenue | | 68.3% | 69.8% | 74.3% | 73.9% |
| Debt collection | 30 days | 47 | 27 | 28 | 17 |
| Creditor turnover | 30 days | 12 | 10 | 16 | 13 |
| Rates per capita ($) | | 761 | 727 | 902 | 863 |
| Rates to operating revenue | | 46.9% | 50.4% | 49.5% | 52.0% |
| Rates per rateable property ($) | | 1 093 | 1 052 | 1 302 | 1 239 |
| Operating cost to rateable property ($) | | 2 150 | 2 059 | 2 325 | 2 449 |
| Employee costs expensed ($'000s) | | 3 935 | 3 615 | 3 342 | 3 046 |
| Employee costs capitalised ($'000s) | | 340 | 276 | 267 | 240 |
| **Total employee costs ($'000s)** | | **4 275** | **3 891** | **3 609** | **3 286** |
| Employee costs as a % of operating expenses | | 36% | 34% | 28% | 25% |
| Staff numbers (FTEs) | | 50 | 51 | 54 | 53 |
| Average staff costs ($'000s) | | 85 | 76 | 67 | 62 |
| Average leave balance per FTE ($'000s) | | 20 | 22 | 18 | 19 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** Information not available to calculate ratio.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Dorset Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity have been discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Council's Liquidity and Current ratios were well above benchmark in all years under review indicating an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end and low levels of unpaid creditors.

Interest coverage ratios reflect Council's low level of finance costs associated with its borrowings. The unusually high ratio in 2009-10 was due to the transfer of loan debt to Ben Lomond Water on 1 July 2009.

Asset investment ratios indicate Council invested strongly in new and existing assets for three of the four years under review.

Self financing ratio declined in 2010-11 primarily due to the decrease in Cash from operations, as detailed in the Cash Flow Statement section of this Chapter. Own source revenue was constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2010-11 it was reliant on grant funding to the extent of 32% (2009-10, 30%).

Debt collection days were worse than benchmark for 2010-11. This was due to a higher Receivables balance at 30 June 2011, as detailed in the Statement of Financial Position section of this Chapter.

Council's rate statistics were relatively consistent over the period under review. Council's rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs gradually increased over the four year period under review in line with annual EBA salary and wage rises. Employee costs as a percentage of operating costs increased in 2009-10 primarily due to the impact of the transfer of water and sewerage services to Ben Lomond Water.

Average staff costs increased over the period under review primarily due to EBA increases. In addition, during 2010-11 Council reviewed its employee expense costings which resulted in costs previously recorded as other expenditure being included in the payroll expense. Prior period balances were not amended as the impact was assessed as immaterial.

# FLINDERS COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 28 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

Our 2010-11 audit findings included the following:

- Council does not use an asset management system to assist it to manage infrastructure assets. Instead, it continues to maintain asset registers in excel spreadsheets. With long-life infrastructure assets requiring increasing levels of resourcing and management, Council needs to ensure it uses an asset management system which can provide appropriate and reliable information on which to base current and future resource management and funding decisions.
- Council indexed its road assets at 30 June 2011 based on ABS construction indices. The indexation was based on Council's last full revaluation of its road assets conducted at 30 June 2006. Considerable time since the last full revaluation and each additional year of indexation increases risk the carrying amount of roads does not reflect fair value (written down replacement cost).

We recommended Council implement an asset management system and update its road valuation based on a full revaluation.

The audit was completed satisfactorily with no other major issues outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $0.607m in 2010-11 (2009-10, $0.226m). While we acknowledge this result was considerably better than the estimated deficit of $1.291m, it is our view that, to assure long-term financial sustainability, Council should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of depreciation. The deficit of $0.607m represented 15.2% (5.9%) of operating revenues (including interest). This situation needs to be addressed by Council.

Council recorded a Net Surplus of $0.172m (2009-10, $0.013m), which was achieved by the recognition of land and building assets of $0.478m not previously recorded. In addition, Council recorded a Comprehensive Surplus of $4.088m ($4.887m), which included the net impact of upward asset revaluations, $1.928m, and a write-up of its interest in Ben Lomond Water, $1.988m.

Council's Net Assets increased by $4.088m from $47.087m in the previous year. As at 30 June 2011 Council had Net Working Capital of $7.592m slightly down from $7.702m in 2009-10.

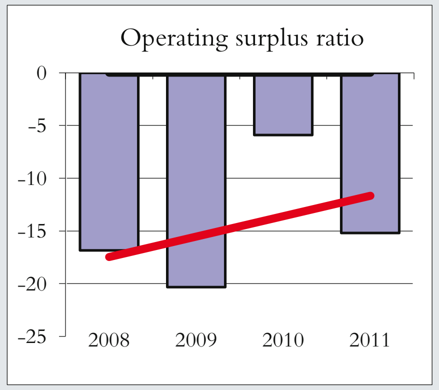
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

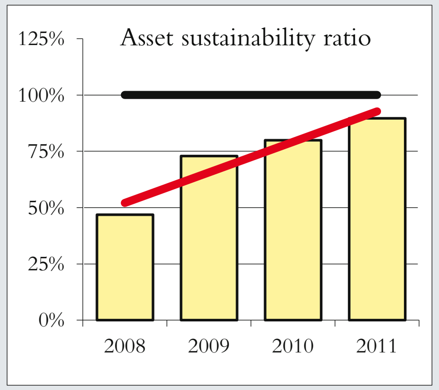
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because Council has a basic long-term asset management and no financial management plan.

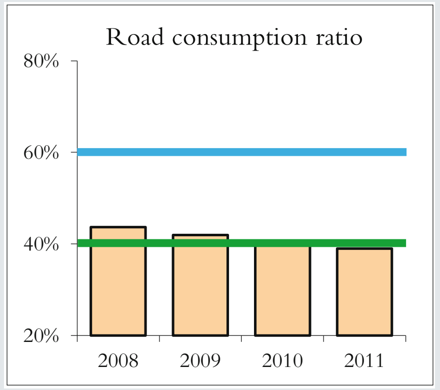
In general, the ratios indicate:




Council recorded operating deficits in each of the past four years with the trend line indicating these deficits, while improving, were below benchmark in all years. The negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

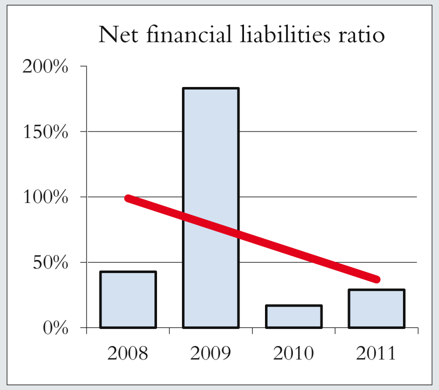



Asset sustainability ratio, although improving, was below the 100% benchmark in all four years under review. Subject to levels of maintenance expenditure and in the absence of long-term asset management plans, Council was under investing in existing assets.




The ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 61% of its road assets indicating that, at that point in time, the remaining service potential was relatively low.

Council needs to address this situation. A full revaluation (referred to earlier) of its road assets, which should include a condition assessment by a suitably qualified person, will assist Council to more fully assess the remaining service potential of its assets.




Council's recorded a positive net financial liabilities ratio indicated a strong liquidity position, whereby Council is able to meet all future commitments.

Council's total liabilities consist of payables, employee provisions and a quarry reinstatement provision. It had no borrowings in the period under review.

### Governance

A review of Council's governance arrangements indicated Council does not have an audit committee or a long term financial management plan.

Council has a long-term asset management plan. The asset management plan for the period 2010-11 to 2019-20 covers aerodrome infrastructure assets, plant, road and bridges. The plan is not detailed, nor does it cover all elements required in relation to infrastructure assets. The plan was formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating deficit in each of the four years under review.

The Asset sustainability ratio indicates Council, based on our 100% benchmark, underinvested in existing assets over the past four years although levels of investment improved. Council's Road consumption ratios declined over the four year period such that, by 30 June 2011, there was a risk to the service potential of road assets.

However, Council's Net financial liabilities ratio was positive and it has no debt indicating that at 30 June 2011 it was in a position to meet short-term commitments and had capacity to borrow should the need arise.

Council does have a long term asset management plan although it is not comprehensive. However, it does not have an audit committee nor long term financial management plans. These aspects of its governance need to be addressed.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council was at high financial sustainability risk from an operating and governance perspective, moderate risk from an asset management perspective, but low risk from a net financial liabilities perspective.

Management comments on this assessment of its financial sustainability

Council has undertaken to improve its financial and asset management systems in the year ahead and will implement a Finance and Audit Committee. As previously noted, with the LGAT currently working with all Tasmanian Councils to develop consistent asset and financial management plans, Council will work through this process to ensure the approach taken is in line with other Tasmanian Councils.

A net surplus is a key deliverable and quite simply in order to do this, hard decisions have to be made on an annual basis. Council's ability to generate further revenue is constrained by our static population and any expenditure must have a clear and demonstrable benefit. The revaluation of our roads and bridge assets is clearly beneficial and will be undertaken in the year ahead.

With a strong liquidity position, improved qualified staffing appointments and last years report putting Council at a moderate risk level, I still fail to see nor have I been given any evidence to confirm how your rating could change to a significant and high risk. With all trend lines (with the exception of the asset consumption ratio) trending in the right direction, one would have thought that a similar report to last year which put Council at moderate risk would have been more consistent and reasoned than is currently outlined in your report.

Unlike in previous years where the cost on Council of water and sewerage reform was referenced in the Auditor-General Report, the cost of yet another reform agenda from the State has been overlooked on this occasion. The State initiated Planning reforms have had a significant impact on Council's expenditure requiring the employment of a full time qualified staff member and associated travel, consultant and consultation costs. In fairness the impacts of continued State reforms on the finances of small councils such as ours should be referenced.

Extraordinary expenses were incurred in the leasing of shipping containers to mitigate a known food safety risk to our community until the State Government funded new shipping containers arrive in December of this year – cost $7 330 during 2010-11 plus a further $7 633 will be incurred during 2011-12. Also the expenditure of funds on master planning for the Lady Barron Port and safe harbour in partnership with Tasports and the State Government amounted to over $12 000. Again it should be noted that access and transport are key issues for our community's long term sustainability and Council has for some time been required to fill voids that are often State Government responsibilities.

Finally, the report is a fair representation of the sustainability of Councils position in all but one key area. Your suggestion that Council is at high risk from a governance perspective overlooks significant reform that has occurred to the governance practices of this Council in the past few years and would appear to be at odds with the methodology employed by previous Auditors in assessing these areas of Council operation.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 1 133 | 1 142 | 1 041 |
| Fees and charges | 579 | 732 | 809 |
| Grants ** | 1 296 | 1 606 | 1 582 |
| Other revenue | 0 | 99 | 24 |
| **Total Revenue** | **3 008** | **3 579** | **3 456** |
| Employee costs | 1 497 | 1 381 | 1 203 |
| Depreciation | 1 403 | 1 421 | 1 412 |
| Other expenses | 1 750 | 1 801 | 1 431 |
| **Total Expenses** | **4 650** | **4 603** | **4 046** |
| **Net Operating (Deficit) before** | **(1 642)** | **(1 024)** | **(590)** |
| Finance costs | 0 | 0 | 0 |
| Interest revenue | 351 | 417 | 364 |
| **Net Operating Surplus (Deficit)** | **(1 291)** | **(607)** | **(226)** |
| Capital grants | 194 | 284 | 215 |
| Financial assistance grant received in advance ** | 0 | 298 | 281 |
| Offset Financial assistance grant received in advance ** | 0 | (281) | (255) |
| Assets not previously recognised | 0 | 478 | 0 |
| **Net Surplus (Deficit)** | **(1 097)** | **172** | **15** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 1 928 | 4 555 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | 319 |
| Fair value adjustment arising from change in allocation order | 0 | 1 950 | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 38 | 0 |
| **Total comprehensive income items** | **0** | **3 916** | **4 874** |
| **Comprehensive Surplus (Deficit)** | **(1 097)** | **4 088** | **4 889** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenues of $1.024m, compared to a deficit of $0.590m in the prior year, worse by $0.434m, but better than budget by $0.618m. The higher deficit was predominately due to increased:

- Employee costs, $0.178m, arising from additional costs incurred at Flinders Island Airport related to birds nesting and settling on the runway and Council seeking to move to a certified airport under the Civil Aviation Safety Authority's regulations. In addition, Council redundancy costs related to the termination of an employee
- Other expenses, $0.370m, related to the payment of solar power incentives to ratepayers from grant funding received in 2009-10, consulting costs associated with a groundwater study, upgrading the planning scheme and development of a Flinders Island structure plan. In addition, Council incurred costs to lease shipping containers to mitigate a food safety risk

until the State Government funded new shipping containers which arrived in December 2010 and partially funded a master plan for the Lady Barron Port and safe harbour in conjunction with Tasports and the State Government.

Council achieved a Net Operating Deficit of $0.607m (2009-10, $0.226m). Interest revenue remained a significant source of income for Council averaging $0.378m per annum over the past four years.

After capital grants, $0.284m, and assets not previously recognised, $0.478m, Council produced a Net Surplus of $0.172m in 2010-11. Assets previously not recognised consisted of land and buildings identified during the revaluation of Council's non-road assets during 2010-11.

Other Comprehensive income totalled $3.916m in 2010-11 comprising:

- fair value revaluation of non-current assets of $1.928m which represented one year's indexation of roads and the revaluation of land and buildings
- increased Council investment in Ben Lomond Water due to two factors. Firstly, a favourable adjustment of $1.950m arising from Council's final ownership interest, initially based on an interim allocation order by the Treasurer, at 0.30%, applied to Ben Lomond Water's net assets at 30 June 2010. This changed to 0.70% when the final allocation order was made. The $1.950m represented Council additional 0.40% interest at 30 June 2010. Secondly, $0.038m being Council's 0.70% interest in the increased net assets of Ben Lomond Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and cash equivalents | 1 777 | 1 177 |
| Financial assets | 6 057 | 6 703 |
| Receivables | 115 | 125 |
| Inventories | 89 | 85 |
| Other | 65 | 44 |
| **Total Current Assets** | **8 103** | **8 134** |
| Payables | 196 | 203 |
| Provisions - employee benefits | 151 | 134 |
| Other | 164 | 95 |
| **Total Current Liabilities** | **511** | **432** |
| **Net Working Capital** | **7 592** | **7 702** |
| Property, plant and equipment | 40 262 | 38 135 |
| Investment in Ben Lomond Water | 3 451 | 1 463 |
| Other | 93 | 12 |
| **Total Non-Current Assets** | **43 806** | **39 610** |
| Provisions - employee benefits | 33 | 60 |
| Provisions - Quarry pit reinstatement | 190 | 165 |
| **Total Non-Current Liabilities** | **223** | **225** |
| **Net Assets** | **51 175** | **47 087** |
| Reserves | 12 153 | 10 505 |
| Accumulated surpluses | 39 022 | 36 582 |
| **Total Equity** | **51 175** | **47 087** |

## Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $4.088m during 2010-11. Net Assets increased by the same amount to $51.175m. Major line item movements included:

- increased Cash and cash equivalents, $0.600m, and decreased Financial assets, $0.646m, which are both discussed further in the Cash Flow Statement section of this Chapter
- Other current liabilities increased to $0.069m primarily due to $0.090m in grant revenue recorded as received in advance
- increased Property, plant and equipment, $2.127m, due to revaluations, $1.928m, and additions, $1.275m, offset by Depreciation, $1.421m,
- higher investment in Ben Lomond Water of $1.988m, details of which were previously provided in the Comprehensive Income Statement section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 2 113 | 2 343 |
| Cash flows from government | 1 666 | 1 608 |
| Payments to suppliers and employees | (3 349) | (2 793) |
| Interest received | 395 | 344 |
| **Cash from operations** | **825** | **1 502** |
| Capital grants and contributions | 332 | 215 |
| Redemption of financial assets | 646 | 0 |
| Purchase of financial assets | 0 | (2 185) |
| Payments for property, plant and equipment | (1 274) | (1 129) |
| Proceeds from sale of property, plant and equipment | 71 | 0 |
| **Cash (used in) investing activities** | **(225)** | **(3 099)** |
| **Net increase (decrease) in cash** | **600** | **(1 597)** |
| Cash at the beginning of the year | 1 177 | 2 774 |
| **Cash at end of the year** | **1 777** | **1 177** |

### Comment

At 30 June 2011, Council held cash and cash equivalents of $1.777m, comprising cash at bank and on hand, $1.259m and deposits on call, $0.518m. Council's cash position improved by $0.600m during 2010-11.

Cash from operations, $0.825m, Capital grants and contributions, $0.332m, and Proceeds from the sale of property, plant and equipment, $0.071m, offset Payments for property, plant and equipment, mainly building infrastructure and road works, $1.274m. The Redemption of financial assets, $0.646m, was the primary reason for the improved cash balance at year-end.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.677m to $0.825m which included Council's operating deficit $0.607m adjusted for depreciation of $1.421m, a non-cash item, providing $0.814m in operating cash inflows.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (607) | (226) | (767) | (609) |
| Operating surplus ratio * | > 0 | (15.19) | (5.92) | (20.32) | (16.85) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 90% | 80% | 73% | 47% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 39.0% | 40.5% | 41.9% | 43.7% |
| ***Liability management*** | | | | | |
| Net financial liability surplus (deficit) | | 1 158 | 645 | 6 905 | 1 540 |
| Net financial liabilities ratio * *** | 0-(50%) | 29.0% | 16.9% | 183.0% | 42.6% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 5.45 | 4.37 | 32.51 | 9.07 |
| Current ratio | 1:1 | 15.86 | 18.83 | 22.22 | 21.45 |
| Asset investment ratio | >100% | 90% | 80% | 73% | 47% |
| Self financing ratio | | 20.6% | 39.3% | 31.6% | 24.6% |
| Own source revenue | | 59.8% | 58.6% | 57.4% | 58.9% |
| Debt collection | 30 days | 22 | 25 | 32 | 54 |
| Creditor turnover | 30 days | 23 | 25 | 5 | 8 |
| Rates per capita ($) | | 1 269 | 1 161 | 1 168 | 1 096 |
| Rates to operating revenue | | 28.6% | 27.3% | 28.0% | 26.9% |
| Rates per rateable property ($) | | 1 022 | 945 | 979 | 932 |
| Operating cost to rateable property ($) | | 4 121 | 3 672 | 4 201 | 4 045 |
| Employee costs expensed ($'000s) | | 1 381 | 1 203 | 1 150 | 1 227 |
| Employee costs capitalised ($'000s) | | 62 | 56 | 32 | 3 |
| **Total employee costs ($'000s)** | | **1 443** | **1 259** | **1 182** | **1 230** |
| Employee costs as a % of operating expenses | | 30% | 30% | 25% | 29% |
| Staff numbers (FTEs) | | 20 | 20 | 19 | 23 |
| Average staff costs ($'000s) | | 73 | 64 | 62 | 53 |
| Average leave balance per FTE ($'000s) | | 9 | 10 | 8 | 7 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** Information was not available to calculate this ratio.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Flinders Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Council's Liquidity and Current ratios were well above benchmark in all years under review indicating an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end and low levels of unpaid creditors.

Asset investment ratios were below benchmark in all years under review and suggest Council may have been under investing in new and existing assets.

Self financing ratio declined in 2010-11 for reasons outlined in the Cash Flow Statement section of this Chapter. Own source revenue was constant over the period, with Council generating approximately 60% of its operating revenue from its own sources, such as rates, fees and charges.

Creditor turnover was better than benchmark in all years under review reflecting Council's policy of paying outstanding creditors within a 30-day period.

Council's rates per head of population, rates to operating revenue and rates per rateable property all decreased slightly in 2009-10 due to water and sewerage rates not being raised. Employee costs as a percentage of operating expenses remained fairly stable, as no employees were transferred to Ben Lomond Water.

Average staff costs increased in 2008-09 due primarily to the second year of Council's EBA and casual employees receiving 12.5% superannuation effective March 2009. The increase in Average staff costs in 2010-11 was due to additional employee costs incurred at Flinders Island Airport related to birds nesting and settling on the runway and Council seeking to move to a certified airport under the Civil Aviation Safety Authority's regulations and redundancy costs related to the termination of an employee.

# GEORGE TOWN COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 21 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

On page 207 of our Report Volume 4, Part 2, 2009-10 Local Government Authorities, including Business Units, we made comment on a misappropriation, discovered in 2009-10. An employee had allegedly misappropriated funds from Council over a number of years. The total allegedly misappropriated amounted to $0.416m, including $0.186m in 2009-10.

In March 2011, the employee pled guilty to charges related to the fraud in the Supreme Court.

Council's Insurers indicated the claim for recovery of losses would be accepted and Council was reimbursed $0.390m with this recognised as non-operating income in 2010-11.

In June 2010, the Hillwood Football Club clubroom was severely damaged by fire. Council, as owners of the property, subsequently received an insurance payment of $0.250m to enable construction of a new building. This was also recognised as non-operating income in 2010-11. In addition, the carrying value of the destroyed building was written off this year.

The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $0.651m (2009-10, $0.292m). It is our view that, to assure long-term financial sustainability, Council should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of depreciation. The deficit of $0.651m represented 7.5% (3.5%) of operating revenues (including interest). Therefore, net operating deficits were incurred in each of the two most recent financial years following surpluses in each of 2007-08 and 2008-09. Council needs to address the decline in its operating results.

Council achieved a Net Surplus of $0.438m (2009-10, $0.873m) and a Comprehensive Surplus of $2.278m ($1.362m). The Comprehensive surplus included the net impacts of non-current asset fair value revaluations of $2.584m, offset by the net write down in Council's interest in Ben Lomond Water by $0.744m.

Consistent with the Comprehensive surplus of $2.278m, Council's Net Assets increased to $102.970m, up from $100.692m the previous year. As at 30 June 2011 Council had Net Working Capital of $3.763m, up from $3.539m in 2010, due mainly to increased Cash and financial assets of $0.688m, offset by decreased Receivables of $0.356m.

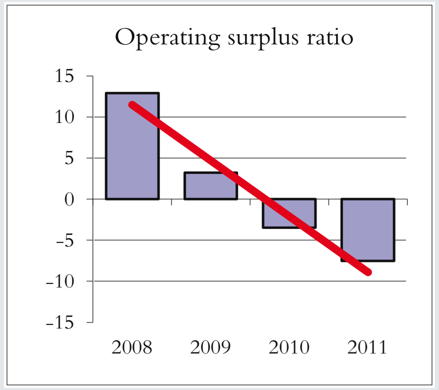
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

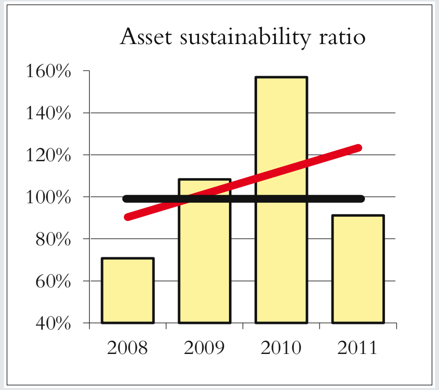
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were unable to compute an asset renewal funding ratio, as Council did not have a long-term financial management plan.

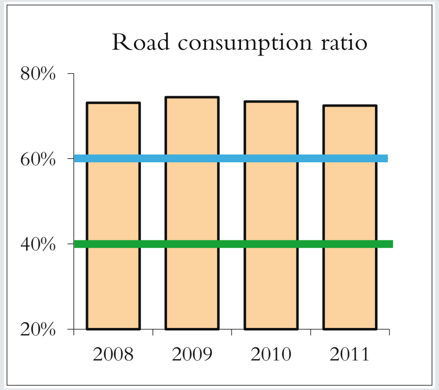
In general, the ratios indicate:




Council recorded a positive average Operating surplus ratio for the period, but reported operating deficits in each of the past two years with the trend line indicating increasing deficits. Negative Operating surplus ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including depreciation charges, in the last two years. Council needs to address the decline in its operating results.

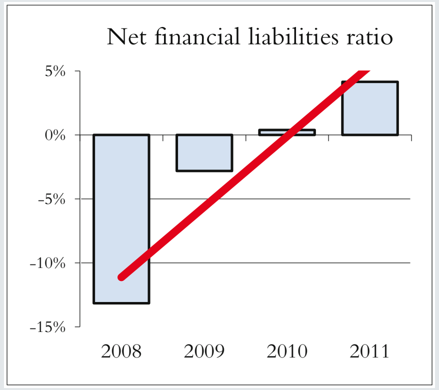



Asset sustainability ratio was below benchmark in two of the years under review. Over the four year period, Council's average ratio was 107% indicating it maintained its investment in existing assets at benchmark levels.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph shows that at 30 June 2011 Council had used (consumed) approximately 28% of the service potential of its road infrastructure assets. This indicates a low financial sustainability risk in relation to road assets. The strong ratios are primarily due to Council's valuation method that incorporates a regular review of useful lives and utilisation of residual values in the calculation of depreciation, which results in a lower accumulated depreciation balance. Overall, at 30 June 2011, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded positive Net financial liabilities ratio in the last two years under review with liquid assets in excess of current and non-current liabilities. Council's positive ratios indicate a strong liquidity position, with Council able to meet its current commitments.

Council's total liabilities consisted of payables, deposits and trust funds, employee provisions and borrowings.

### Governance

A review of Council's governance arrangements indicated it does not have an audit committee or internal audit function.

Council does have a long-term asset management plan covering all infrastructure assets for the period 2007-08 to 2017-18 and is in the process of completing a financial management plan.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's recorded an operating deficit in the past two years under review, but over the four year period achieved an average surplus.

Asset sustainability ratio shows Council averaged 107%, which was above the 100% benchmark. This indicates Council maintained its investment in existing assets at, on average, above benchmark levels over the past four years. Council's Road consumption ratio remained steady at better than 70% over the four year period, indicating its road infrastructure assets were at low sustainability risk and had sufficient capacity to provide services to its ratepayers.

Council's Net financial liabilities ratio was positive indicating its liquidity ratio is good.

From a governance perspective, Council does not have an audit committee although it did have a long-term asset management plan and is working on a long-term financial management plan.

Based on these ratios and governance arrangements we have concluded that at 30 June 2011, Council was at high sustainability risk from a governance perspective, but at low risk in all other respects. However, as noted previously, Council needs to address a declining level of Net operating results.

Management comments on this assessment of its financial sustainability

**Long-term asset & financial management plans**

Council is preparing a new Strategic plan in 2012.

As part of this process, the following is being undertaken:

1. The last asset management plan was developed in 2007 for the period 2008 to 2018. Council officers and consultant are currently preparing a review of this document to update information for future planning purposes.
2. Officers are also preparing a 10 year long-term financial plan to compare projected future cash flows from operations, with investing & financing requirements.

**Audit Committee**

Council has had a Finance and Audit Committee in place until April 2011.

At that time, the Committee was disbanded, in favour of the role and responsibilities being performed by all elected members as part of the Strategic Development, Infrastructure, Planning & Finance Committee.

## COMPREHENSIVE INCOME STATEMENT

| | **2010-11** | **2010-11** | **2009-10** |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 5 683 | 5 746 | 5 681 |
| Fees and charges | 629 | 610 | 622 |
| Grants ** | 1 640 | 1 637 | 1 600 |
| Other revenue | 272 | 495 | 386 |
| **Total Revenue** | **8 224** | **8 488** | **8 289** |
| Employee costs | 2 443 | 3 027 | 2 547 |
| Depreciation | 1 794 | 1 868 | 1 808 |
| Other expenses | 3 701 | 4 253 | 4 130 |
| **Total Expenses** | **7 938** | **9 148** | **8 485** |
| **Net Operating Surplus Deficit before** | **286** | **(660)** | **(196)** |
| Finance costs | (179) | (173) | (239) |
| Interest revenue | 140 | 182 | 143 |
| **Net Operating Surplus (Deficit)** | **247** | **(651)** | **(292)** |
| Capital grants | 331 | 625 | 1 336 |
| Financial assistance grant received in advance ** | 0 | 415 | 409 |
| Offset Financial assistance grant in advance ** | 0 | (409) | (394) |
| Insurance recovery - misappropriation | 0 | 390 | 0 |
| Misappropriation loss | 0 | 0 | (186) |
| Insurance recovery - Hillwood Football Club building | 0 | 250 | 0 |
| Write off - Hillwood Football Club building | 0 | (182) | 0 |
| **Net Surplus** | **578** | **438** | **873** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 2 584 | 8 558 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | (8 069) |
| Fair value adjustment arising from change in allocation order | 0 | (975) | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 231 | 0 |
| **Total comprehensive income items** | **0** | **1 840** | **489** |
| **Comprehensive Surplus** | **578** | **2 278** | **1 362** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenues of $0.660m, compared to a deficit of $0.196m in 2009-10. The higher deficit was predominantly due to increased Employee costs of $0.480m due to wage rises and the employment of additional staff. This was also the main contributing factor to the worse than budget Net Operating result.

After capital grants, insurance recoveries and other non operating transactions, Council recorded a Net Surplus of $0.438m in 2010-11, compared with $0.873m in 2009-10.

Capital grants totalled $0.625m for 2010-11, a decrease of $0.711m from 2009-10. These grants included:

- Australian Government Roads to Recovery Fund, $0.241m (2009-10, $0.241m),
- Low Head recreational walkway, $0.250m ($0.250m).

Other Comprehensive income totalled $1.840m and included:

- fair value revaluation of Council's roads, drainage, bridges, jetties and pontoons totalling $2.584m, offset by
- Council's lower investment in Ben Lomond Water due to two factors. Firstly, an unfavourable adjustment of $0.975m arising from Council's final ownership interest, initially based on an interim allocation order by the Treasurer, at 4.50%, applied to Ben Lomond Water's net assets at 30 June 2010. This changed to 4.30% when the final allocation order was made. The $0.975m represented Council reduced 0.20% interest at 30 June 2010. Secondly, $0.231m, being Council's 4.30% interest in higher net assets of Ben Lomond Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 4 063 | 3 375 |
| Receivables | 254 | 610 |
| Non-current assets held for sale | 704 | 699 |
| Other | 48 | 91 |
| **Total Current Assets** | **5 069** | **4 775** |
| Payables | 624 | 713 |
| Borrowings | 54 | 51 |
| Provisions - employee benefits | 447 | 281 |
| Other | 181 | 191 |
| **Total Current Liabilities** | **1 306** | **1 236** |
| **Net Working Capital** | **3 763** | **3 539** |
| Property, plant and equipment | 80 660 | 77 926 |
| Investment in Ben Lomond Water | 21 199 | 21 943 |
| **Total Non-Current Assets** | **101 859** | **99 869** |
| Borrowings | 2 522 | 2 576 |
| Provisions - employee benefits | 130 | 140 |
| **Total Non-Current Liabilities** | **2 652** | **2 716** |
| **Net Assets** | **102 970** | **100 692** |
| Reserves | 56 793 | 53 154 |
| Accumulated surpluses | 46 177 | 47 538 |
| **Total Equity** | **102 970** | **100 692** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $2.278m during 2010-11. Net Assets increased by the same amount to $102.970m. Major line item movements included:

- increased Cash and financial assets of $0.688m which is discussed further in the Cash Flow Statements section of this Chapter
- decreased Receivables of $0.356m due to the prior year balance including one significant debtor related to the Low Head walkway project
- increased Property, plant and equipment of $2.734m due to:
  - revaluation increments, $2.584m,
  - additions, $2.199m, offset by
  - disposals, $0.181m,
  - deprecation expense, $1.868m,
- a decline in the investment in Ben Lomond Water of $0.744m, as discussed in the Comprehensive Income Statement section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 8 430 | 7 027 |
| Cash flows from government | 1 643 | 1 614 |
| Payments to suppliers and employees | (7 769) | (7 010) |
| Interest received | 182 | 144 |
| Finance costs | (173) | (239) |
| Misappropriation loss | 0 | (186) |
| **Cash from operations** | **2 313** | **1 350** |
| Capital grants and contributions | 625 | 1 336 |
| Payments for property, plant and equipment | (2 199) | (2 939) |
| Proceeds from sale of property, plant and equipment | 0 | 23 |
| **Cash used in investing activities** | **(1 574)** | **(1 580)** |
| Repayment of borrowings | (51) | (48) |
| **Cash used in financing activities** | **(51)** | **(48)** |
| **Net (decrease) increase in cash** | **688** | **(278)** |
| Cash at the beginning of the year | 3 375 | 3 653 |
| **Cash at end of the year** | **4 063** | **3 375** |

### Comment

At 30 June 2011, Council's total cash balance of $4.063m comprised cash at bank, on hand and short-term investments. Its cash position improved by $0.688m, with Cash from operations of $2.313m and Capital grants and contributions $0.625m being more than sufficient to fund Payments for Property, plant and equipment of $2.199m and the Repayment of borrowings, $0.051m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.963m to $2.313m which included:

- Council's operating deficit of $0.651m adjusted for depreciation of $1.868m, a non-cash item, providing $1.217m in operating cash inflows
- cash inflows from insurance recoveries $0.640m, not included in the operating result
- impact of additional cash through the Receivables balance decreasing by $0.356m at 30 June 2011.

Payments for Property, plant and equipment of $2.199m included:

- Low Head walkway, $0.110m,
- upgrade chlorination system and floors, $0.111m,
- purchase of new recycling bins, $0.153m,
- Glen Road realignment and sealing, $0.082m,
- York Cove walkway upgrade, $0.375m,
- bitumen resealing, $0.181m,
- Hillwood Football Club reconstruction, $0.243m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (651) | (292) | 341 | 1 373 |
| Operating surplus ratio * | > 0 | (7.51) | (3.46) | 3.22 | 12.90 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 91% | 157% | 108% | 71% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 72.4% | 73.4% | 74.4% | 73.1% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabiltities) ($'000s) | | 359 | 33 | (298 ) | (1402 ) |
| Net financial liabilities ratio * *** | 0%-(50%) | 4.1% | 0.4% | (2.8%) | (13.2%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 5.03 | 4.17 | 6.01 | 2.55 |
| Current ratio | 1:1 | 3.88 | 3.86 | 4.84 | 2.54 |
| Interest coverage | 3:01 | 12.37 | 4.65 | 13.01 | 12.42 |
| Asset investment ratio | >100% | 118% | 163% | 123% | 243% |
| Self financing ratio | | 26.7% | 16.0% | 26.5% | 26.2% |
| Own source revenue | | 81.1% | 81.0% | 81.5% | 84.0% |
| Debt collection | 30 days | 15 | 35 | 14 | 18 |
| Creditor turnover | 30 days | 13 | 32 | 7 | 19 |
| Rates per capita ($) | | 834 | 832 | 1 002 | 916 |
| Rates to operating revenue | | 66.3% | 67.4% | 63.7% | 58.0% |
| Rates per rateable property ($) | | 1 330 | 1 326 | 1 577 | 1 513 |
| Operating cost to rateable property ($) | | 2 157 | 2 037 | 2 395 | 2 272 |
| Employee costs expensed ($'000s) | | 3 027 | 2 547 | 2 992 | 2 439 |
| Employee costs capitalised ($'000s) | | 293 | 278 | 190 | 431 |
| **Total employee costs ($'000s)** | | 3 320 | 2 825 | 3 182 | 2 870 |
| Employee costs as a % of operating expenses | | 32% | 29% | 29% | 26% |
| Staff numbers (FTEs) | | 46 | 39 | 46 | 46 |
| Average staff costs ($'000s) | | 73 | 73 | 69 | 62 |
| Average leave balance per FTE ($'000s) | | 13 | 11 | 12 | 12 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** Information not available to calculate ratios.*
**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with George Town Council in 2009-10 and 2010-11, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will focus on Operation efficiency matters.

Liquidity and Current ratios were above benchmark in all years under review indicating an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end.

Interest coverage ratio reflects Council's relatively low level of borrowings. The ratio decreased in 2009-10 in line with decreased cash flows as water and sewerage operations were transferred to Ben Lomond Water.

Asset investment ratio indicates Council invested strongly in new and existing assets for each of the years under review.

Self financing ratio remained relatively consistent across all years under review. The decrease in 2009-10 was attributable to lower cash flows as water and sewerage operations were transferred to Ben Lomond Water. Own source revenue was also constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2010-11 it was reliant on grant funding to the extent of 19% (2009-10, 19%).

Rates statistics were relatively consistent over the period under review. Council's rate statistics and ratios all decreased in 2009-10 primarily because water and sewerage rates were no longer being raised.

Employee costs as a percentage of operating costs gradually increased over the four year period under review in line with annual enterprise agreement pay rises.

Council filled a number of positions during 2010-11 within Infrastructure and Development Services which were vacant at 30 June 2010, as demonstrated by the increase in FTE staff numbers.

Average staff costs and Average employee entitlements were fairly consistent for the period under review.

# GLAMORGAN SPRING BAY COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 with an unqualified audit report issued on 29 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

Our 2010-11 audit noted that Council indexed its infrastructure assets at 30 June 2011 based on ABS construction indices. Council's last full revaluation of its infrastructure assets was conducted on 1 July 2005.

We recommended Council update its land, building and infrastructure valuations based on a full revaluation. Considerable time has elapsed since the last full revaluation and each additional year of indexation increases the risk the carrying amount of infrastructure does not reflect fair value (written down replacement cost). Council will undertake a revaluation in 2011-12.

Other than this finding, the audit was completed satisfactorily with no other major matters outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.384m in 2010-11 (2009-10, $0.574m). It achieved a Net Surplus of $0.767m ($1.218m) and a Comprehensive Surplus of $2.001m ($24.759m). The Comprehensive Surplus was after bringing to account a revaluation increment, $1.017m, and increase in the fair value of Council's investment in Southern Water, $0.217m.

Consistent with the Comprehensive Surplus of $2.001m, Council's Net Assets increased to $88.222m, up from $86.221m on the previous year, mainly related higher property, plant and equipment. At 30 June 2011 Council had Net Working Capital of $1.485m, a decrease of $0.122m from the prior year, due mainly to higher payables at 30 June 2011.

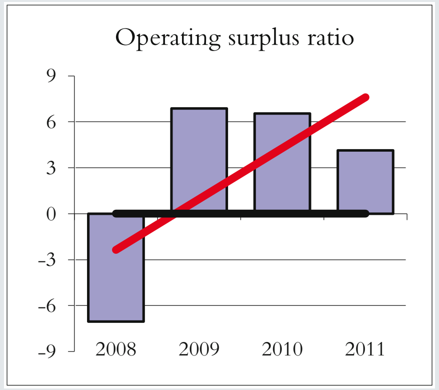
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

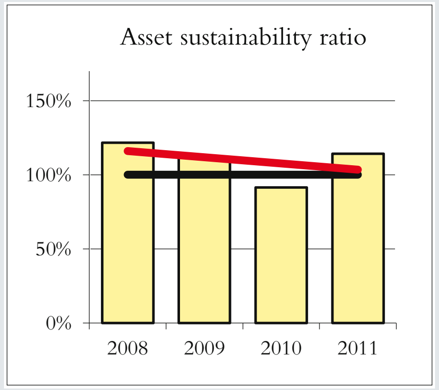
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio, as Council's asset management plan only covers the period 2007-08 to 2011-12, inclusive.

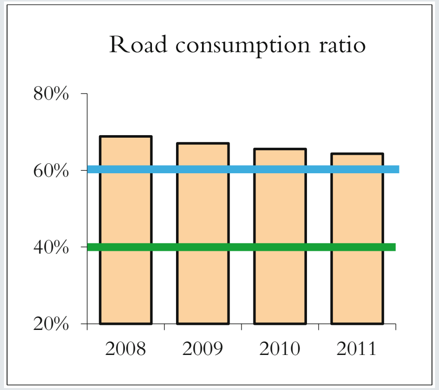
In general, the ratios indicate:




Council recorded an operating surplus ratio above bench mark of zero in each of the past three years. This was a positive outcome for Council bearing in mind its small ratepayer base.

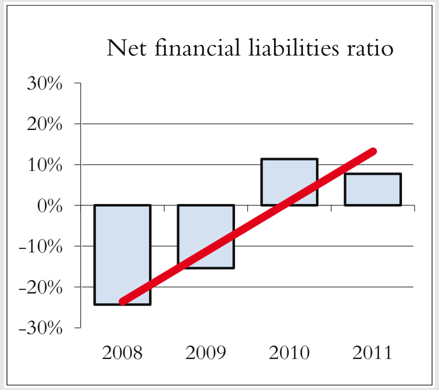



While the sustainability ratio was below the 100% benchmark in 2009-10, the four year trend was positive.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

This roads consumption ratio represents Council's utilisation (consumption) of roads. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 36% of its road's indicating that, at that point in time, its roads had sufficient remaining capacity to continue to provide services to its ratepayers.




This roads consumption ratio represents Council's utilisation (consumption) of roads. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 36% of its road's indicating that, at that point in time, its roads had sufficient remaining capacity to continue to provide services to its ratepayers.

### Governance

A review of Council's governance arrangements indicated it:

- does not have an audit committee
- had a five-year asset management plan and a financial management plan. However these only covered the period 2007-08 to 2011-12.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded operating surpluses in three of the past four years.

The Asset sustainability ratio indicates Council maintained existing assets at the rate of 110% of its depreciation charges over the four year period, above our 100% benchmark. Road asset consumption ratio indicates Council's roads had sufficient remaining capacity to provide services to ratepayers.

Council's Net financial liabilities ratio improved following the water and sewerage reforms indicating it was in a position to meet its short-term commitments and may have a capacity to borrow should the need arise.

Council does not have an audit committee. Council had an asset management plan, covering the five years ending 2011-12, which is due to be updated in the 2011-12 financial year. Council had a financial management plan but this had not been approved by Council at the time of writing this Report. Council needs to address these aspects of its governance.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011, Council was at high risk from a governance perspective but low financial sustainability risk from an operating, asset management and net financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

**Governance**

Council has not had an audit committee since 2006 and has not considered it necessary at this stage as a full set of accounts are detailed in each agenda on a monthly basis.

Council does have a long term asset management plan that expires this financial year and will be updated for the next 10 years in line with the financial plan during this financial year.

**Conclusion as to financial sustainability**

Council does not believe that it was at high risk from a governance perspective as it has provided a long term financial plan and is in the process of updating its long term asset management plan that expires this year. A complete assessment and re valuation of the assets will occur this year which is line with a seven year cycle.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 5 555 | 5 651 | 5 273 |
| Fees and charges | 1 448 | 1 018 | 998 |
| Grants ** | 1 534 | 1 887 | 1 957 |
| Other revenue | 418 | 521 | 398 |
| **Total Revenue** | **8 955** | **9 077** | **8 626** |
| Employee costs | 3 241 | 2 962 | 2 626 |
| Depreciation | 1 455 | 1 600 | 1 461 |
| Other expenses | 4 576 | 4 303 | 4 066 |
| **Total Expenses** | **9 272** | **8 865** | **8 153** |
| **Net Operating Surplus (Deficit) before:** | **(317)** | **212** | **473** |
| Finance costs | (30) | (29) | (57) |
| Interest revenue | 100 | 201 | 158 |
| **Net Operating Surplus (Deficit)** | **(247)** | **384** | **574** |
| Capital grants | 322 | 378 | 632 |
| Financial assistance grant received in advance ** | 0 | 317 | 312 |
| Offset Financial assistance grant in advance ** | 0 | (312) | (300) |
| **Net Surplus** | **75** | **767** | **1 218** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 1 017 | 1 001 |
| Fair value initial adjustment Southern Water | 0 | 0 | 22 540 |
| Current fair value adjustment Southern Water | 0 | 217 | 0 |
| **Total comprehensive income items** | **0** | **1 234** | **23 541** |
| **Comprehensive Surplus** | **75** | **2 001** | **24 759** |

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was no subject to audit.*
** *Grants received in advance has been shown separately after net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Surplus before net financing costs of $0.212m, compared to a surplus of $0.473m in the prior year, a decrease of $0.261m. The lower surplus was predominately due to increased:

- Employee costs, $0.336m (12.8%), mainly due to:
  - annual salary increments
  - an additional six FTE's, mainly casuals, hired for the Visitor Information Centre, this was matched to increased revenue of $0.035m
- Other expenses $0.237m, primarily due to Council providing additional financial support for a doctor together with associated staff, $0.173m. The increase was also attributable to higher discounts provided on early rate payments, $0.043m, and legal fees incurred for planning issues, $0.034m.

The forgoing was partly offset by increased Rates, $0.378m, due to an increase in the AAV following a municipal revaluation in 2010-11, a higher consumer price index and several large developments.

After accounting for Interest revenue and Finance costs, Council made a Net Operating Surplus of $0.384m (2009-10, $0.574m), highlighting the importance of Interest revenue to Council's annual operating performance.

Council's Net Surplus amounted $0.767m (2009-10, $1.218m). Capital grants, $0.378m in 2010-11, comprised:

- Roads to Recovery, $0.299m,
- Swansea Hall upgrade, $0.034m,
- Spring Bay Linkway, $0.015m,
- Regional and Local Community Infrastructure Program (RCLIP), $0.030m.

Other comprehensive income totalled, $1.234m in 2010-11 comprising:

- fair value revaluation of non-current assets, $1.017m, which represented one year's indexation of infrastructure, buildings and land
- increased Council investment in Southern Water, $0.217m, being Council's 4.1% interest in the net assets of Southern Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 1 618 | 1 282 |
| Receivables | 291 | 334 |
| Investments | 910 | 1 085 |
| Other | 162 | 43 |
| **Total Current Assets** | **2 981** | **2 744** |
| Payables | 828 | 505 |
| Borrowings | 67 | 49 |
| Provisions - employee benefits | 441 | 416 |
| Other | 160 | 167 |
| **Total Current Liabilities** | **1 496** | **1 137** |
| **Net Working Capital** | **1 485** | **1 607** |
| Property, plant and equipment | 49 527 | 47 577 |
| Investment in Southern Water | 37 766 | 37 549 |
| Receivables | 51 | 54 |
| **Total Non-Current Assets** | **87 344** | **85 180** |
| Borrowings | 464 | 531 |
| Provisions - employee benefits | 143 | 35 |
| **Total Non-Current Liabilities** | **607** | **566** |
| **Net Assets** | **88 222** | **86 221** |
| Reserves | 27 242 | 25 960 |
| Accumulated surpluses | 60 980 | 60 261 |
| **Total Equity** | **88 222** | **86 221** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $2.001m. Net Assets increased by the same amount to $88.222m. Major line item movements included:

- increased Cash and financial assets, $0.161m, discussed further in the Cash Flow Statement section in this Chapter
- higher Payables of $0.323m, due to larger invoices unpaid as at 30 June 2011 related to capital works, in particular an outstanding amount to TasSpan of $0.175m
- Property, plant and equipment increased by $1.950m due to:
  - capital additions, $2.533m, comprising Swansea Heritage Centre upgrade, $0.332m, plant replacements, $0.313m, and road and bridges construction and resealing, $1.619m,
  - revaluation increment of $1.017m due to the indexation of infrastructure, buildings and land
  - offset by Depreciation expense, $1.600m,
- higher investment in Southern Water of $0.217m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 7 225 | 7 579 |
| Cash flows from government | 1 962 | 2 013 |
| Payments to suppliers and employees | (7 004) | (7 711) |
| Interest received | 188 | 128 |
| Finance costs | (30) | (49) |
| **Cash from operations** | **2 341** | **1 960** |
| Capital grants and contributions | 378 | 632 |
| Payments for investments | (910) | (1 085) |
| Proceeds from investments | 1 085 | 0 |
| Payments for property, plant and equipment | (2 571) | (1 889) |
| Proceeds from sale of property, plant and equipment | 62 | 190 |
| **Cash used in investing activities** | **(1 956)** | **(2 152)** |
| Repayment of borrowings | (49) | (78) |
| **Cash used in financing activities** | **(49)** | **(78)** |
| **Net (decrease) increase in cash** | **336** | **(270)** |
| Cash at the beginning of the year | 1 282 | 2 317 |
| Transfer of cash to Southern Water | 0 | (765) |
| **Cash at end of the year** | **1 618** | **1 282** |

### Comment

At 30 June 2011, Council held Cash and financial assets of $1.618m, comprising cash at bank and on hand, $0.144m, committee accounts, $0.091m, and short-term deposits, $1.383m. Council's cash position improved by $0.336m during the 2010-11 financial year.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.381m to $2.341m which included:

- Council's operating surplus of $0.384m adjusted for Depreciation of $1.600m, a non cash item, providing $1.984m in operating cash inflows, offset by
- the impact of cash to increase Payables, other liabilities and Provisions by $0.449m during 2010-11.

Reasons for variations in cash flow amounts mostly reflect comments made previously in the Comprehensive Income Statement and the Statement of the Financial Position sections of this Chapter.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 384 | 574 | 774 | (718) |
| Operating surplus ratio * | >0 | 4.14 | 6.53 | 6.87 | (7.05) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 114% | 91% | 112% | 122% |
| Asset renewal funding ratio** | 90%-100% | N/A | N/A | N/A | N/A |
| Roads consumption ratio * | >60% | 64.3% | 65.5% | 67.0% | 68.8% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 716 | 998 | (1 730) | (2 474) |
| Net financial liabilities ratio * *** | 0%-(50%) | 7.7% | 11.4% | (15.4%) | (24.3%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.15 | 4.88 | 1.39 | 1.14 |
| Current ratio | 1:1 | 1.99 | 2.41 | 1.11 | 0.98 |
| Interest coverage | 3:1 | 77.03 | 39.00 | 17.09 | 10.42 |
| Asset investment ratio | >100% | 161% | 129% | 147% | 122% |
| Self financing ratio | | 25.2% | 22.3% | 23.4% | 17.7% |
| Own source revenue | | 79.7% | 77.7% | 84.8% | 88.2% |
| Debt collection | 30 days | 16 | 19 | 38 | 23 |
| Creditor turnover | 30 days | 22 | 19 | 29 | 38 |
| Rates per capita ($) | | 1 254 | 1 172 | 1 608 | 1 525 |
| Rates to operating revenue | | 60.9% | 60.0% | 63.8% | 66.0% |
| Rates per rateable property ($) | | 1 016 | 966 | 1 317 | 1 219 |
| Operating cost to rateable property ($) | | 1 598 | 1 505 | 1 923 | 1 978 |
| Employee costs expensed ($'000s) | | 2 962 | 2 626 | 2 365 | 2 977 |
| Employee costs capitalised ($'000s) | | 170 | 133 | 219 | 102 |
| **Total employee costs ($'000s)** | | **3 132** | **2 759** | **2 584** | **3 079** |
| Employee costs as a % of operating expenses | | 33% | 32% | 23% | 27% |
| Staff numbers (FTEs) | | 51 | 45 | 44 | 43 |
| Average staff costs ($'000s) | | 61 | 61 | 59 | 72 |
| Average leave balance per FTE ($'000s) | | 11 | 10 | 9 | 11 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** Information not available to calculate ratio.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Glamorgan Spring Bay Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will focus on Operational efficiency measures.

Liquidity and Current ratios were strong in each of the past two years. This was mainly attributable to the transfer of water and sewerage loans to Southern Water on 1 July 2009 and improved operating results.

Interest coverage ratio also improved significantly from 2009-10, for the same reason. The high Interest coverage indicates Council is generating sufficient revenue to meet its interest obligations. In 2010-11 this ratio improved due to principal repayments of borrowings and Cash from operations increasing by $0.381m.

Asset investment ratio was above the benchmark in all years under review and suggests Council invested sufficiently in new and existing assets.

Self financing ratio generally improved over the four year period. This ratio increased in 2010-11 due to higher Cash from operations as detailed in the Cash Flow Statement section of this Chapter.

Own source revenue indicates Council generated most of its Operating revenue from its own sources, such as rates and user charges. The reduction in 2009-10 was directly related to the loss of water and sewerage rating income. Consequently, grant revenue as a percentage of total revenue increased indicating Council has a moderate reliance on financial assistance grants.

Debt collection improved over the four year period and was well higher than benchmark in 2008-09 due to the issuing of invoices for water meter debtors in June 2009. These debtors were usually not invoiced until October. However, Council was required to bring forward this process in June 2009 due to water and sewerage reforms.

Creditor turnover remained relatively consistent from 2009-10 and was better than benchmark, reflecting Council's policy of paying outstanding creditors within a 30 day period.

Rates statistics were relatively consistent over the first two years of the review. Council rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating expenses generally increased over the four year period in line with annual EBA salary and wage pay rises. The decrease in 2008-09 was due to Council contracting out rubbish and childcare functions. This was also reflected in Average staff costs in that year.

Staff numbers, expressed as FTE's, increased by six, mainly due to casuals hired for the Visitor Information Centre in 2010-11.

# LATROBE COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011. An unqualified audit report was issued on 23 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments during the year. The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.486m in 2010-11 (2009-10, $0.203m). The improved result was due primarily to increased rates, as detailed in the Comprehensive Income Statement section of this Chapter.

Council recorded a Net Surplus of $2.331m (2009-10, $1.207m), which included Capital grants of $0.930m and contributions of non-monetary assets of $0.565m.

The Comprehensive Surplus of $36.194m included the impacts of upward asset revaluations of $31.732m and total increase in Council's interest in Cradle Mountain Water of $2.074m.

Consistent with the Comprehensive surplus of $36.194m Council's Net Assets increased to $156.646m from $120.452m the previous year. As at 30 June 2011 Council had Net Working Capital of $5.350m, up from $4.062m the previous year.

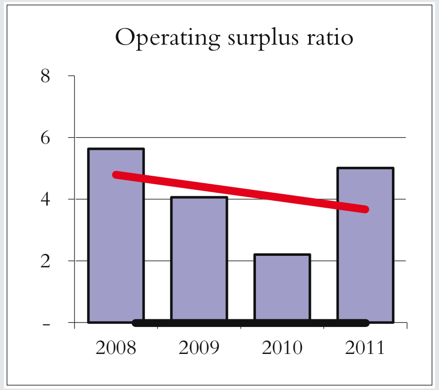
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

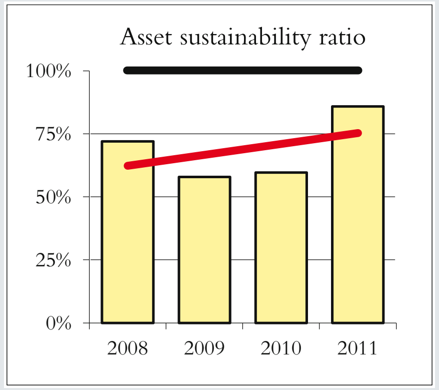
### Relevant financial sustainability ratios

The following four graphs, and the discussion about asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend.

In general, the ratios indicate:



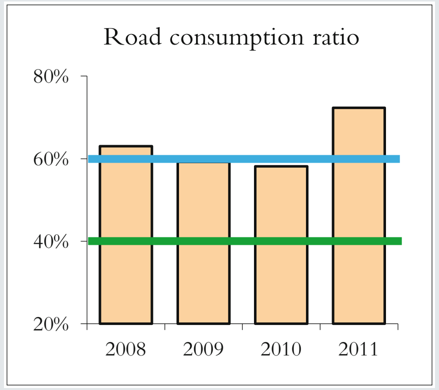

The positive operating surplus ratios reflected Council's operating surpluses for the past four years. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges.




Asset sustainability ratio was below benchmark in all years under review, although it improved to 86% in 2010-11. Over the four year period, Council's average ratio was 69%, indicating, subject to levels of maintenance expenditure and the long-term asset management plan, Council was under-investing in existing assets.

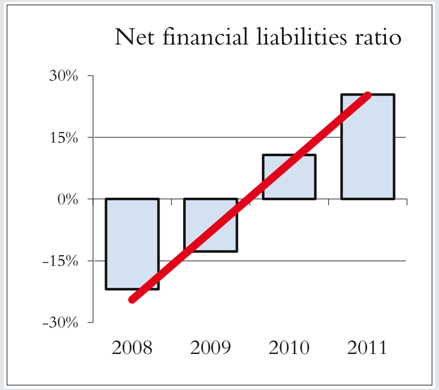
#### Asset renewal funding ratio

Council's long-term asset management plan indicates an asset renewal funding ratio of 77% at 30 June 2011, based on intended asset replacement expenditure. Council's current long-term asset management plan forecasts expected and required renewal expenditure to 2028-29 for transport infrastructure and to 2019-20 for parks and reserves – land improvements. Our target for this ratio is that performance should be between 90% to 100% indicating Council's is below benchmark.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011 Council had used (consumed) approximately 28% of the service potential of its road assets. The ratio improved in 2010-11 due to a revaluation of roads on 1 July 2010 which included a review of useful lives and residual values used in the calculation of asset lives. Overall, at that point in time, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded positive Net financial liabilities ratios, with liquid assets in excess of current and non-current liabilities for 2009-10 and 2010-11. These positive ratios indicate a strong liquidity position, with Council able to meet its current commitments.

The significant improvement in 2009-10 was primarily due to the transfer of loan debt to Cradle Mountain Water on 1 July 2009.

Council's total liabilities consisted of payables, employee provisions, rehabilitation provision, bonds, security deposits, refundable donor fees – elderly units and borrowings.

### Governance

A review of Council's governance arrangements indicated that Council does not have an audit committee.

Council has long-term asset management and financial management plans. The asset management plan for transport infrastructure covers 2009-10 to 2028-29. The asset management plan for parks and reserves – land improvements covers 2010-11 to 2019-20. Both plans are detailed, regularly reviewed and cover elements required in relation to Council's key infrastructure assets. However, the plans have not been formally adopted by Council.

The long-term financial management plan was adopted by Council in 2005-06, has been recently reviewed and extends to 2014-15. Council is currently developing a 10 year financial management plan, expected to be completed during 2011-12.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's continuing operating surpluses indicate it was generating sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, it under-invested in existing assets over the period of the analysis, with an average ratio of 69%. However, the road consumption ratio indicates Council's road consumption was in the low risk range, with road infrastructure assets only being 28% consumed.

Council's liquidity position was strong with it able to meet all its short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise.

From a governance perspective, Council does not have an audit committee and while it has both long-term asset management and financial management plans, the long-term asset management plan had not been adopted by Council. In addition, we concluded that Council's asset renewal funding ratio of 77% was below our target of 90% to 100%.

Based on these ratios and governance arrangements we concluded that at 30 June 2011, Council was at moderate risk from a governance and asset management perspective but low financial sustainability risk from an operating and net financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

Council generally accepts the above risk assessment given the information available at the time the assessment was made. Asset management plans require regular review, particularly following revaluations of infrastructure and re-assessments of asset condition and expected useful lives as occurred during the 2011 financial year. At the time of writing, Council's asset management plan for transport assets is being reviewed to incorporate these changes and Council expects to meet its required renewal expenditure over the period of its current long term financial management plan. Council takes the view that the best value for money is delivered to ratepayers by renewing assets at the optimum intervention time rather than by averaging out renewal expenditure over the longer term to meet financial ratio benchmarks.

Regarding the lack of an audit committee, Council has in the past considered that being a relatively small council, the cost of an audit committee was prohibitive. Some of the functions of an audit committee are currently fulfilled by Council's budget review group which includes every elected member of Council. Council is currently re-considering the relative costs and benefits of an audit committee and potential opportunities to share resources for this purpose.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 | 2010-11 | 2009-10 |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 5 389 | 5 374 | 5 018 |
| Fees and charges | 1 379 | 1 496 | 1 536 |
| Grants ** | 1 087 | 1 615 | 1 649 |
| Other revenue | 907 | 880 | 801 |
| **Total Revenue** | **8 762** | **9 365** | **9 004** |
| Employee costs | 2 670 | 2 714 | 2 715 |
| Depreciation | 2 445 | 2 368 | 2 258 |
| Other expenses | 4 258 | 4 107 | 4 003 |
| **Total Expenses** | **9 373** | **9 189** | **8 976** |
| **Net Operating Surplus (Deficit) before** | **(611)** | **176** | **28** |
| Finance costs | (27) | (27) | (31) |
| Interest revenue | 210 | 337 | 206 |
| **Net Operating Surplus (Deficit)** | **(428)** | **486** | **203** |
| Capital grants | 268 | 930 | 339 |
| Financial assistance grant received in advance ** | 0 | 391 | 370 |
| Offset Financial assistance grant in advance ** | 0 | (370) | (324) |
| Contributions of non-current assets - other | 123 | 329 | 175 |
| Contributions of non-current assets - infrastructure | 600 | 565 | 444 |
| **Net Surplus** | **563** | **2 331** | **1 207** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets - Council | 2 769 | 31 732 | 3 129 |
| Fair value revaluation of non-current assets - Associates | 0 | 57 | (8) |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | (4 503) |
| Fair value adjustment arising from change in allocation order | 0 | 1 949 | 0 |
| Current year fair value adjustment Cradle Mountain Water | 517 | 125 | 0 |
| **Total Comprehensive Income Items** | **3 286** | **33 863** | **(1 382)** |
| **Comprehensive Surplus (Deficit)** | **3 849** | **36 194** | **(175)** |

** The Estimate represents Council's original estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010–11 Council recorded a Net Operating Surplus before net financing revenues of $0.176m, compared to the 2009-10 surplus of $0.028m. The improved result was predominately because of increased Rates revenue of $0.356m, due to a higher general rate, offset to an extent by increased depreciation of $0.110m.

After accounting for net interest revenues and expenses Council recorded an Operating Surplus of $0.486m (2009-10, $0.203m) highlighting the importance of Interest revenue to Council's annual operating performance with Interest revenue averaging $0.223m per annum over the past four years.

After accounting for Capital grants and Contributions of non-current assets, Council recorded a Net Surplus of $2.331m for 2010-11 (2009-10, $1.207m).

Capital grants totalled $0.930m for 2010-11, an increase of $0.591m from 2009-10. These grants included:

- Australian Government Roads to Recovery Fund, $0.234m (2009-10, $0.234m),
- Elderly Persons Units' funding, $0.450m.

Other Comprehensive Income totalled $33.863m (2009-10, Deficit $1.382m), comprising:

- fair value revaluation increment of Council's infrastructure assets, $31.732m, the majority being road infrastructure, $30.387m,
- Council's share of Dulverton Regional Waste Management Authority's revaluation increment of $0.057m
- higher investment in Cradle Mountain Water due to two factors. Firstly, a favourable adjustment of $1.949m arising from Council's final ownership interest, initially based on an interim allocation order by the Treasurer, at 7.6%, applied to Cradle Mountain Water's net assets on this basis at 30 June 2010. This changed to 8.2% when the final allocation order was made. The $1.949m represented Council's increased interest of 0.6% at 30 June 2010. Secondly, a $0.125m increase being Council's 8.2% interest in the higher net assets of Cradle Mountain Water at 30 June 2011.

Council achieved a Net Operating Surplus of $0.486m compared to a budgeted Deficit of $0.428m. The major variances from budget were:

- Grants, $1.615m were $0.528m greater than budget, mainly due to timing of financial assistance grant payments with only three instalments included in the budget due to the receipt during 2009-10 of the first quarter of 2010-11
- Other revenue, $0.179m, greater mainly because of unbudgeted contributions
- Other expenses, $0.184m, less than budget due to operating costs being contained
- Interest revenue, $0.127m higher due to greater use of term deposits and active management of cash.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 5 429 | 4 093 |
| Receivables | 275 | 277 |
| Inventories | 22 | 28 |
| Other | 1 411 | 1 395 |
| **Total Current Assets** | **7 137** | **5 793** |
| Payables | 705 | 745 |
| Borrowings | 20 | 41 |
| Provisions - employee benefits | 631 | 561 |
| Other | 431 | 384 |
| **Total Current Liabilities** | **1 787** | **1 731** |
| **Net Working Capital** | **5 350** | **4 062** |
| Property, plant and equipment | 125 280 | 92 706 |
| Investments in associates | 521 | 446 |
| Investment in water corporation | 26 760 | 24 686 |
| Receivables | 186 | 201 |
| **Total Non-Current Assets** | **152 747** | **118 039** |
| Borrowings | 370 | 630 |
| Provisions - employee benefits | 42 | 26 |
| Provisions - rehabilitation | 656 | 656 |
| Other | 383 | 337 |
| **Total Non-Current Liabilities** | **1 451** | **1 649** |
| **Net Assets** | **156 646** | **120 452** |
| Reserves | 85 098 | 53 184 |
| Accumulated surpluses | 71 548 | 67 268 |
| **Total Equity** | **156 646** | **120 452** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $36.194m. Net assets increased by the same amount to $156.646m. Major line item movements included:

- higher Cash of $1.336m, which is discussed further in the Cash Flow Statement section of this Chapter
- increased Property, plant and equipment of $32.574m primarily due to:
  - revaluation increments, $31.732m, mainly roads, $30.387m,
  - additions and contributions, $3.468m, offset by
  - depreciation expense, $2.368m
- increased investment in Cradle Mountain Water of $2.074m, as discussed in the Comprehensive Income Statement section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 7 847 | 7 457 |
| Cash flows from government | 1 563 | 1 710 |
| Payments to suppliers and employees | (7 171) | (7 149) |
| Interest received | 313 | 183 |
| Finance costs | (27) | (31) |
| **Cash from operations** | **2 525** | **2 170** |
| Capital grants and contributions | 690 | 339 |
| Capital contributions - cash | 197 | 15 |
| Returns received - Cradle Mountain Water | 402 | 244 |
| Elderly persons unit donor fees | 124 | 109 |
| Community loans | 13 | (33) |
| Payments for property, plant and equipment | (2 770) | (2 173) |
| Proceeds from sale of property, plant and equipment | 196 | 109 |
| **Cash used in investing activities** | **(1 148)** | **(1 390)** |
| Proceeds from borrowings | 0 | 240 |
| Repayment of borrowings | (41) | (69) |
| **Cash from (used in) financing activities** | **(41)** | **171** |
| **Net increase in cash** | **1 336** | **951** |
| Cash at the beginning of the year | 4 093 | 4 028 |
| Less cash transferred to Cradle Mountain Water | 0 | (886) |
| **Cash at end of the year** | **5 429** | **4 093** |

### Comment

Council's cash balance at 30 June 2011, $5.429m, comprised cash at bank, on hand and short-term deposits. Its cash position increased by $1.336m in 2010-11. This was because Cash from operations, $2.525m, Capital grants and contributions, $0.690m, Capital contributions – cash, $0.197m, and Returns received - Cradle Mountain Water, $0.402m, were more than sufficient to meet Payments for property plant and equipment , $2.770m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.355m to $2.525m which included:

- Council's operating surplus, $0.486m, adjusted for depreciation, $2.368m, a non-cash item, providing $2.854m in operating cash inflows, offset by
- cash inflows from Cradle Mountain Water, $0.402m, being recorded as an investing activity for cash flow purposes.

Capital expenditure during the period included road infrastructure works totalling $1.182m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 486 | 203 | 474 | 633 |
| Operating surplus ratio * | >0 | 5.01 | 2.20 | 4.06 | 5.63 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 86% | 60% | 58% | 72% |
| Asset renewal funding ratio* ** | 90%-100% | 77% | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 72.4% | 58.2% | 59.3% | 63.0% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 2 466 | 990 | (1 486) | (2 464) |
| Net financial liabilities ratio * *** | 0%-(50%) | 25.4% | 10.7% | (12.7%) | (21.9%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 4.93 | 3.74 | 1.27 | 1.04 |
| Current ratio | 1:1 | 3.99 | 3.35 | 1.35 | 1.24 |
| Interest coverage | 3:1 | 92.52 | 69.00 | 52.69 | 21.56 |
| Asset investment ratio | >100% | 110% | 96% | 116% | 153% |
| Self financing ratio | | 26.0% | 23.6% | 30.8% | 15.9% |
| Own source revenue | | 83.4% | 82.1% | 87.8% | 89.8% |
| Debt collection | 30 days | 15 | 15 | 12 | 17 |
| Creditor turnover | 30 days | 30 | 38 | 32 | 22 |
| Rates per capita ($) | | 536 | 522 | 829 | 788 |
| Rates to operating revenue | | 55.4% | 54.5% | 66.2% | 63.6% |
| Rates per rateable property ($) | | 977 | 928 | 1 456 | 1 380 |
| Operating cost to rateable property ($) | | 1 676 | 1 665 | 2 109 | 2 047 |
| Employee costs expensed ($'000s) | | 2 714 | 2 715 | 3 095 | 2 941 |
| Employee costs capitalised ($'000s) | | 181 | 135 | 221 | 315 |
| **Total employee costs ($'000s)** | | **2 895** | **2 850** | **3 316** | **3 256** |
| Employee costs as a % of operating expenses | | 29% | 30% | 28% | 28% |
| Staff numbers (FTEs) | | 45 | 42 | 53 | 54 |
| Average staff costs ($'000s) | | 65 | 68 | 63 | 60 |
| Average leave balance per FTE ($'000s) | | 15 | 14 | 12 | 11 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
*** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Latrobe Council during 2009-10 and 2010-11, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will focus on Operational efficiency measures.

Liquidity and Current ratios were well above benchmark in all four years under review indicating ability to meet short-term commitments. This was due mainly to the large cash balances held at each year end.

Interest coverage ratios reflected Council's low level of finance costs because of its low level of borrowings.

Asset investment ratio shows Council's total capital expenditure was well above depreciation expense for all years under review, except for 2009-10. The expenditure averaged 119% over the four years.

Council's positive Self financing ratios indicate it generated operating cash flows which contributed towards capital expenditure programs. Own source revenue percentages show Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on recurrent grant funding to the extent of only 16.6% (2009-10, 17.9%).

Creditor turnover was consistent with benchmark at 30 June 2011. Creditor balance at 30 June 2010 included an invoice for a large capital purchase. Council's policy is to pay outstanding creditors within a 30 day period.

Rate statistics were relatively consistent over the period under review. Its rate statistics all decreased in 2009-10 mainly due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs were consistent across the period.

Average staff costs and Average leave balances increased over the review period, mainly due to pay rises under Council's Enterprise Agreement.

# SOUTHERN MIDLANDS COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on 30 September 2011.

## KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major issues outstanding.

During 2010-11, Council created two wholly owned subsidiaries, Heritage Building Solutions Pty Ltd and Heritage Education & Skills Centre Pty Ltd. Council created the two companies based on a strategic objective of developing its heritage base to generate employment and business growth and because of its large stock of heritage assets requiring conservation and restoration work. It invested a total of $0.200m in these two companies in 2010-11. It is anticipated the subsidiaries will not require financial support from Council.

For more information refer to the Results of Subsidiary Entities section of this Chapter.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $0.909m in 2010-11 (2009-10, $0.974m). While we acknowledge this result was considerably better than the estimated Deficit of $1.777m, it is our view that, to assure long-term financial sustainability, Council should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of Depreciation. The deficit of $0.909m represented 11.0% (13.6%) of operating revenues including interest. This situation needs to be addressed by Council.

Council achieved a Net Surplus, after capital grants of $0.909m (2009-10, $0.815m) and a Comprehensive surplus of $5.138m ($0.885m). The Comprehensive surplus included asset revaluation increments of $1.402m and fair value adjustments to Council's interest in Southern Water which totalled $2.827m.

Consistent with its Comprehensive Surplus of $5.138m, Council's Net Assets increased to $97.864m. As at 30 June 2011 Council had Net Working Capital of $7.598m, consistent with prior year of $7.592m.

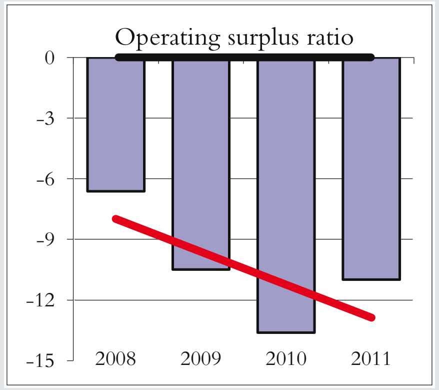
## Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

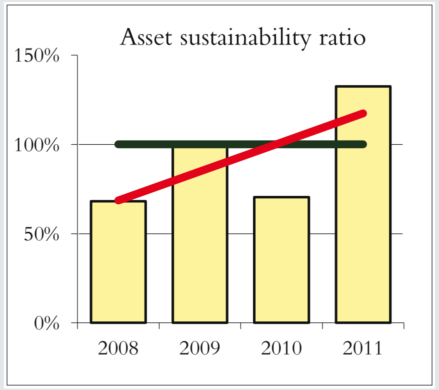
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio, as Council did not have long-term asset management or financial management plans.

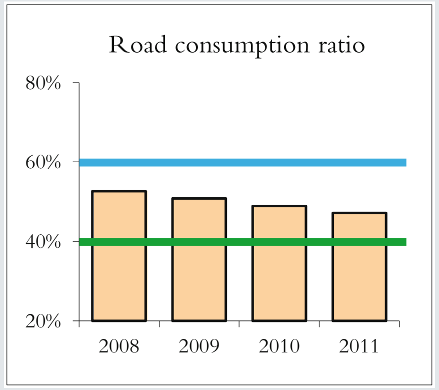
In general, the ratios indicate:




Council's Operating surplus ratios are reflective of operating deficits recorded in each of the past four years. The negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

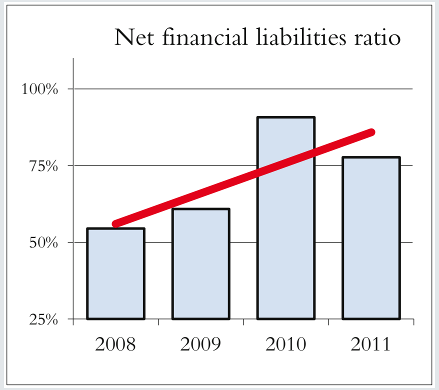



Asset sustainability ratios were below the 100% benchmark in two of the four years. Over the four year period, Council's average ratio was 93%, slightly below the benchmark, indicating, subject to levels of maintenance expenditure and the in the absence of long term asset management plans, Council may have been under investing in existing assets for those years. The ratio improved in 2011, due to the completion if the refurbishment of the Callington Mill, with expenditure of $2.900m (2009-10, $1.663m).




These ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2011, Council had used (consumed) approximately 53% of the service potential of its road infrastructure assets. This indicated a moderate financial sustainability risk. Overall, at that point in time, Council's road assets had sufficient capacity to continue to provide services to its ratepayers.




Council recorded a positive Net financial liabilities ratio with liquid asset well in excess of current and non-current liabilities in each year under review. Council's total liabilities consist of payables, employee provisions and borrowings. Its positive ratios indicate a strong liquidity position and an ability to meet future commitments.

### Governance

A review of Council's governance arrangements indicated Council does not have an audit committee or a long term asset management plan.

However, Council does have a long term financial management plan. Council's financial management strategy covers the ten year period 2009-2019, is reviewed annually and approved by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating deficit in each of the four years under review.

The Asset sustainability ratio indicated Council increased its expenditure on existing assets over the period and averaged a ratio of 93%, below the 100% benchmark. This indicated Council under invested in existing assets over the past four years although not significantly. Council's Road consumption ratios declined slightly over the four year period, but is at moderate risk.

Council's Net financial liabilities ratio is positive indicating its liquidity is strong.

Council does not have an audit committee or a long-term asset management plan or financial management plan. These aspects of governance need to be addressed. However it does have a financial management plan.

Based on these ratios and governance arrangements we have concluded that at 30 June 2011, Council was at a high financial sustainability risk from an operating and governance perspective, moderate risk from an asset management perspective and low risk from a net financial liabilities perspective.

### Management comments on this assessment of its financial sustainability

In relation to financial sustainability risk, the Southern Midlands Council has previously acknowledged that it is yet to fully fund its annual depreciation. Council is aiming to increase the percentage funding through the implementation of its long-term financial management strategy and associated policies. It is however noted from a recent report 'Towards Improved Local Government in Southern Tasmania – Asset Management and Maintenance', prepared on behalf of the Southern Tasmanian Council's Authority, that the Southern Midlands level of depreciation as a percentage of non-current assets is substantially higher that the average for the southern region (3.4% compared to 1.96%). In essence, a reduction in depreciation to similar percentage levels would effectively result in a break even situation.

A long-term Asset Management Plan is in the development phase with roads and associated infrastructure being the priority.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 | 2010-11 | 2009-10 |
|---|---|---|---|
| | Estimate* | Actual | Actual |
| | $'000s | $'000s | $'000s |
| Rates | 3 556 | 3 617 | 3 422 |
| Fees and charges | 1 070 | 711 | 641 |
| Grants ** | 2 689 | 3 001 | 2 802 |
| Other revenue | 71 | 583 | 32 |
| **Total Revenue** | **7 386** | **7 912** | **6 897** |
| Employee costs | 3 084 | 2 908 | 2 613 |
| Depreciation | 3 078 | 3 185 | 3 075 |
| Other expenses | 3 123 | 3 011 | 2 388 |
| **Total Expenses** | **9 285** | **9 104** | **8 076** |
| **Net Operating (Deficit) before** | **(1 899)** | **(1 192)** | **(1 179)** |
| Finance costs | (63) | (69) | (55) |
| Interest revenue | 185 | 352 | 260 |
| **Net Operating (Deficit)** | **(1 777)** | **(909)** | **(974)** |
| Capital grants | 1 468 | 1 784 | 1 752 |
| Financial assistance grant received in advance ** | 0 | 720 | 686 |
| Offset Financial assistance grant in advance ** | 0 | (686) | (649) |
| **Net Surplus (Deficit)** | **(309)** | **909** | **815** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 1 402 | 392 |
| Fair value initial adjustment Southern Water | 0 | 0 | (322) |
| Fair value adjustment arising from change in allocation order | 0 | 2 747 | 0 |
| Current year fair value adjustment Southern Water | 0 | 80 | 0 |
| **Total comprehensive income items** | **0** | **4 229** | **70** |
| **Comprehensive Surplus (Deficit)** | **(309)** | **5 138** | **885** |

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
** *Grants received in advance have been shown separately after Net Operating Deficit.*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010–11 Council recorded a Net Operating Deficit before net financing revenues of $1.192m (2009-10, Deficit $1.179m), an increase of $0.013m. The higher Deficit was predominately due to increased:

- higher Rates revenue of $0.195m, primarily attributable to an increase in the general rate charged
- increased Other revenue of $0.516m, due to unbudgeted external sales revenue derived from Council's wholly owned subsidiary, Heritage Building Solutions Pty Ltd, offset by,
- increased Employee costs of $0.295m, primarily due an EBA increase of 4.1% applied from July 2010
- additional Other expenses of $0.623m, primarily due to $0.459m of expenditure related to the operations of Heritage Building Solutions Pty Ltd.

After accounting for Interest revenue and Finance costs, Council achieved a Net Operating Deficit of $0.909m (Deficit $0.974m). Net interest revenue was a consistent source of revenue for Council averaging $0.252m over the past four years.

Following the recognition of Capital grants, Council recorded a Net Surplus of $0.909m for 2010-11, an increase of $0.094m from the $0.815m Surplus in 2009-10.

Other Comprehensive Income totalled $4.229m in 2010-11 and comprised:

- fair value revaluation of Council's building, bridge, road and stormwater assets, with increments of $1.402m
- an increase in the recorded value of Council's investment in Southern Water in two respects. Firstly, a favourable adjustment of $2.747m arising from Council's final ownership interest, initially approved by the Treasurer at 1.20% and applied to Southern Water's net assets on this basis at 30 June 2010, being changed by the Treasurer to 1.50%. Therefore, the $2.747m represents Council's additional 0.30% interest at 30 June 2010. Secondly, $0.080m being Council's 1.50% interest in the increase in net assets of Southern Water at 30 June 2011.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 8 281 | 8 457 |
| Receivables | 750 | 579 |
| Inventories | 246 | 97 |
| **Total Current Assets** | **9 277** | **9 133** |
| Payables | 568 | 531 |
| Borrowings | 102 | 96 |
| Provisions - employee benefits | 1 009 | 914 |
| **Total Current Liabilities** | **1 679** | **1 541** |
| **Net Working Capital** | **7 598** | **7 592** |
| Property, plant and equipment | 77 383 | 75 149 |
| Investment in water corporation | 13 817 | 10 990 |
| **Total Non-Current Assets** | **91 200** | **86 139** |
| Borrowings | 804 | 905 |
| Provisions - employee benefits | 130 | 100 |
| **Total Non-Current Liabilities** | **934** | **1 005** |
| **Net Assets** | **97 864** | **92 726** |
| Reserves | 41 677 | 37 941 |
| Accumulated surpluses | 56 187 | 54 785 |
| **Total Equity** | **97 864** | **92 726** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $5.138m. Net Assets increased in 2011 by the same amount to $97.864m. Reasons for major line item movements included:

- decreased in Cash and financial assets of $0.176m which is discussed further in the Cash Flow Statement section of this Chapter
- increased in Property, plant and equipment of $2.234m primarily due to:
  - revaluation increments of $1.402m
  - additions of $4.219m, offset by
  - depreciation expense of $3.185m
- fair value adjustments to Council's investment in Southern Water of $2.827m, as discussed in the Comprehensive Income Statement section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 5 172 | 4 521 |
| Cash flows from government | 3 035 | 2 839 |
| Payments to suppliers and employees | (6 310) | (5 024) |
| Interest received | 350 | 259 |
| Finance costs | (68) | (55) |
| **Cash from operations** | **2 179** | **2 540** |
| Capital grants and contributions | 1 784 | 1 860 |
| Payments for property, plant and equipment | (4 223) | (3 324) |
| Proceeds from sale of property, plant and equipment | 179 | 326 |
| **Cash (used in) investing activities** | **(2 260)** | **(1 138)** |
| Proceeds from borrowings | 0 | 150 |
| Repayment of borrowings | (95) | (84) |
| **Cash from (used in) financing activities** | **(95)** | **66** |
| **Net increase (decrease) in cash** | **(176)** | **1 468** |
| Cash at the beginning of the year | 8 457 | 7 026 |
| Less cash transferred to Southern Water | 0 | (37) |
| **Cash at end of the year** | **8 281** | **8 457** |

### Comment

Council's cash balance at 30 June 2011, $8.281m, comprised cash at bank, on hand and short term deposits.

Council's cash position reduced by $0.176m during 2010-11 with Cash from operations of $2.179m, Capital grants and contributions of $1.784m and Proceeds from sale of property, plant and equipment, $0.179m, being insufficient to fund Payments for property plant and equipment of $4.223m and the Repayment of borrowings, $0.095m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.361m to $2.179m which included Council's operating deficit $0.909m adjusted for depreciation of $3.185m, a non cash item, providing $2.276m in operating cash inflows.

Payments for property, plant and equipment of $4.223m largely comprised capital expenditure for the Callington Mill of $2.900m (2009-10, $1.663m).

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (909) | (974) | (872) | (529) |
| Operating surplus ratio * | > 0 | (11.00) | (13.61) | (10.49) | (6.62) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 133% | 70% | 101% | 68% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Roads consumption ratio * | >60% | 47.2% | 48.9% | 50.8% | 52.7% |
| ***Liquidity*** | | | | | |
| Net financial liabilities ($'000s) | | 6 418 | 6 490 | 5 052 | 4 351 |
| Net financial liabilities ratio * *** | 0%-(50%) | 77.7% | 90.7% | 60.8% | 54.5% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 13.48 | 14.41 | 13.19 | 14.21 |
| Current ratio | 1:1 | 5.53 | 5.93 | 5.68 | 5.90 |
| Interest coverage | 3:1 | 31.04 | 45.18 | 37.53 | 25.71 |
| Asset investment ratio | >100% | 133% | 108% | 115% | 77% |
| Self financing ratio | | 26.4% | 35.5% | 36.2% | 28.4% |
| Own source revenue | | 63.7% | 60.8% | 65.8% | 65.5% |
| Debt collection | 30 days | 63 | 52 | 63 | 57 |
| Creditor turnover | 30 days | 26 | 31 | 22 | 23 |
| Rates per capita ($) | | 589 | 565 | 627 | 604 |
| Rates to operating revenue | | 43.8% | 47.8% | 44.8% | 44.4% |
| Rates per rateable property ($) | | 1 035 | 983 | 1 089 | 1 056 |
| Operating cost to rateable property ($) | | 2 625 | 2 336 | 2 686 | 2 537 |
| Employee costs expensed ($'000s) | | 2 908 | 2 613 | 2 873 | 2 598 |
| Employee costs capitalised ($'000s) | | 362 | 284 | 223 | 167 |
| **Total employee costs ($'000s)** | | **3 270** | **2 897** | **3 096** | **2 765** |
| Employee costs as a % of operating expenses | | 32% | 32% | 31% | 31% |
| Staff numbers (FTEs) | | 46 | 44 | 45 | 45 |
| Average staff costs ($'000s) | | 71 | 66 | 69 | 61 |
| Average leave balance per FTE ($'000s) | | 25 | 23 | 20 | 18 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Southern Midlands Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity ratios show Council had sufficient liquid assets to meet its short term liabilities as they fall due.

Current ratio reflects a strong financial position and was well above benchmark in all four years under review, which indicated an ability to meet its short-term commitments.

Interest coverage ratios were consistent with Council's low level of borrowings, indicating Council's debt service commitments were low. The increase in 2009-10 was primarily due to the transfer of loan debt to Southern Water on 1 July 2009.

Asset investment ratios indicate Council investment in new and existing assets for the four years under review was above benchmark. This was assisted by work undertaken on the refurbishment of the Callington Mill.

Self financing ratio declined in 2010-11 as Council's operating cash flows decreased in comparison to its Total Revenue. As a result, Council's cash position was lower at 30 June 2011. Further details were provided in the Cash Flow Statement section of this Chapter.

Own source revenue shows that Council generated the majority of its operating revenue from its own sources and in 2010-11 was reliant on grant funding to the extent of 36 per cent.

Debt collection ratios were worse than benchmark for all four years under review. This is because Council's Receivables were high in relation to its Rate revenue and Fees and charges. This suggests Council could improve its debt collection processes, with rate and other debtors remaining relatively high in each of the four years under review.

Council's rate statistics were comparatively consistent over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs remained relatively unchanged during the four year period under review.

Average staff costs increased over the period under review in line with Council's EBA increases.

## RESULTS OF SUBSIDIARY ENTITIES

### Heritage Education & Skills Centre Pty Ltd

Heritage Education & Skills Centre Pty Ltd (the Company) is a wholly owned small proprietary Company and was not deemed a reporting entity. Consequently, the subsidiary was not subject to a separate audit.

The Company was established on the 28 July 2010. Its main objectives are to facilitate research and provide education and training in all aspects of traditional heritage building skills, reducing skills shortages and skills gaps.

The Company did not trade in the financial period to 30 June 2011. As at 30 June 2011, Council had invested $0.050m in the Company, which was subsequently transferred to Heritage Building Solutions Pty Ltd.

### Heritage Building Solutions Pty Ltd

| | **2011** |
|---|---|
| | $'000s |
| Total Revenue | 938 |
| Total Expenses | 879 |
| **Net Surplus** | **59** |
| Total Assets | 473 |
| Total Liabilities | 414 |
| **Net Assets** | **59** |
| **Total Equity** | **59** |

Heritage Building Solutions Pty Ltd (the Company) is a small proprietary Company and was not deemed a reporting entity. Consequently, the subsidiary was not subject to a separate audit.

The Company was established on 19 July 2010. Its purpose is to provide professional heritage conservation and restoration services. Council was the Company's largest client.

The Company generated an operating surplus during 2010–11 of $0.059m. As at 30 June 2011, Council had invested $0.150m in the Company, with an additional $0.050m being provided by the Heritage Education & Skills Centre Pty Ltd.

# WEST COAST COUNCIL

## AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 18 September 2011 and an unqualified audit report was issued on 30 September 2011. The statutory deadline of the 15 August 2011 was not met due to illness of key Council accounting staff.

## KEY FINDINGS AND DEVELOPMENTS

There were no significant developments during the year.

The audit was completed satisfactorily with no major items outstanding other than the failure to meet the reporting deadline and the internal control matter noted above.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.559m in 2010-11 (2009-10, $0.093m). The improved result was primarily due to increased Rates and Other revenue.

Council reported a Net Surplus of $3.425m (2009-10, $2.840m) and a Comprehensive Surplus of $10.142m ($12.003m). The Comprehensive Surplus included net impacts of asset revaluations, $6.599m, and a net gain on the write-up of Council's interest in Cradle Mountain Water of $0.118m.

Consistent with the Comprehensive Surplus of $10.142m, Council's Net Assets increased to $101.500m, up from $91.358m the previous year. As at 30 June 2011 Council had Net Working Capital of $3.179m, down from $4.075m in 2010, predominately due to lower Cash and financial assets.

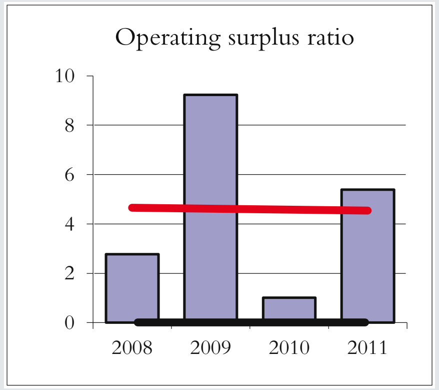
### Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

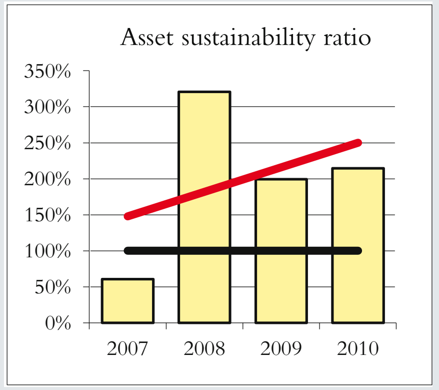
#### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because Council did not have long-term asset management and financial management plans.

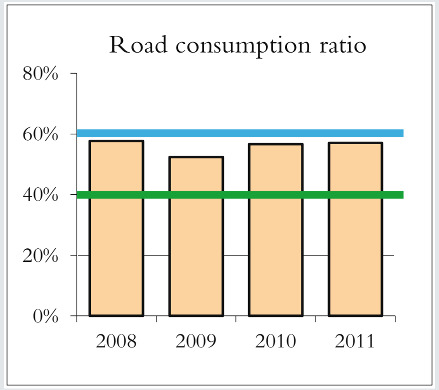
In general, the ratios indicate:




The positive Operating surplus ratios reflected Council's operating surpluses for the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operational requirements, including its depreciation charges.

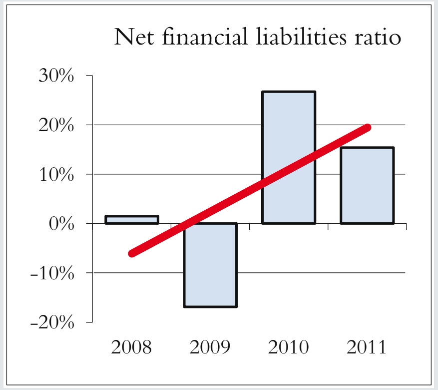



The positive Operating surplus ratios reflected Council's operating surpluses for the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operational requirements, including its depreciation charges.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011 Council had used (consumed) approximately 43% of the service potential of its road infrastructure assets. This has been consistent over the four year period and indicates a moderate financial sustainability risk.




Council recorded positive Net financial liabilities ratios, with liquid assets in excess of current and non-current liabilities, in three years out of the four under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet its commitments.

### Governance

A review of governance arrangements indicated that Council does not have:

- an audit committee
- a long-term asset management plan
- a long-term financial management plan.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's operating surpluses indicate it is generating sufficient revenue to meet operating requirements.

Asset sustainability ratio indicated increased expenditure on existing assets since 2007 with an average above benchmark. This shows that Council maintained its investment in existing assets over the past four years. Road consumption ratio, despite the high levels of expenditure on existing assets, was in the moderate risk category throughout the four year period. While this indicates Council's roads still have sufficient capacity to provide services to ratepayers, Council may need to re-visit the levels of investments in its road infrastructure.

Council's Net financial liabilities ratio was positive demonstrating strong liquidity.

Council does not have an audit committee, long-term asset management plan or long-term financial management plan. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we concluded that at 30 June 2011 Council was at high financial sustainability risk from a governance perspective but at a low risk from an operating, asset management and financial liabilities perspective.

## COMPREHENSIVE INCOME STATEMENT

| | 2010-11 Estimate* $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|
| Rates | 5 498 | 5 489 | 5 074 |
| Fees and charges | 712 | 916 | 882 |
| Grants ** | 1 628 | 2 301 | 2 115 |
| Other revenue | 863 | 1 395 | 894 |
| **Total Revenue** | **8 701** | **10 101** | **8 965** |
| Employee costs | 3 496 | 3 196 | 3 048 |
| Depreciation | 2 380 | 2 383 | 2 297 |
| Other expenses | 3 799 | 4 139 | 3 741 |
| **Total Expenses** | **9 675** | **9 718** | **9 086** |
| **Net Operating Surplus (Deficit) before** | **(974)** | **383** | **(121)** |
| Finance costs | (103) | (102) | (27) |
| Interest revenue | 133 | 278 | 241 |
| **Net Operating Surplus (Deficit)** | **(944)** | **559** | **93** |
| Mining companies contribution to Trial Harbour Road | 250 | 250 | 250 |
| Capital grants | 181 | 2 199 | 2 164 |
| Financial assistance grant received in advance ** | 0 | 499 | 441 |
| Offset Financial assistance grant in advance ** | 0 | (441) | (403) |
| Land and buildings transferred by Crown | 0 | 163 | 295 |
| Structures transferred from MAST | 0 | 111 | 0 |
| Adjustment for Valuation on Land and Buildings Purchased | 0 | 227 | 0 |
| Removal of Assets not Controlled | 0 | (142) | 0 |
| **Net Surplus (Deficit)** | **(513)** | **3 425** | **2 840** |
| **Other Comprehensive Income** | | | |
| Fair value revaluation of non-current assets | 0 | 6 599 | 4 692 |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | 4 471 |
| Current year fair value adjustment Cradle Mountain Water | 0 | 118 | 0 |
| **Total comprehensive income items** | **0** | **6 717** | **9 163** |
| **Comprehensive Surplus (Deficit)** | **(513)** | **10 142** | **12 003** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit)*
*The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

### Comment

In 2010-11 Council recorded a Net Operating Surplus before net financing revenue of $0.383m compared to a Deficit of $0.121m in the prior year, an improvement of $0.504m and $1.357m better than budget.

The improved result was predominately due to:

- increased Rates revenue, $0.415m, due to a higher general rate
- higher Other revenue, $0.501m, due to the increased dividend received from the Cradle Mountain Water, $0.295m, and increased proceeds from the sale of properties to cover rates, $0.180m, offset by
- higher Other expenses, $0.398m, predominately due to increased materials and contracts of $0.364m.

After accounting for interest revenues and finance costs, Council generated a Net Operating Surplus of $0.559m (2009-10, $0.093m) highlighting the relative importance of interest revenue to Council's annual operating performance with net interest revenue averaging $0.195m per annum over the past two years.

Council recorded a Net Surplus of $3.425m (2009-10, $2.840m). The $2.866m improvement from the Operating Surplus was due to:

- contributions received from mining companies for Trial Harbour Road works of $0.250m
- Grants received for capital works of $2.199m
- land and buildings transferred from the Crown, $0.163m,
- structures transferred from Marine and Safety Tasmania (MAST), $0.111m,
- upward adjustment of $0.227m for the value of land and buildings purchased for below market value but recognised at fair value
- derecognition of Assets not controlled by Council, $0.142m.

Council recorded a Comprehensive Surplus for 2010-11 of $10.142m. This included the Net Surplus, $3.425m, Fair value revaluation of non-current assets, $6.599m, and Write-up of the investment in Cradle Mountain Water, $0.118m.

## STATEMENT OF FINANCIAL POSITION

| | 2011 | 2010 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 4 166 | 5 530 |
| Receivables | 614 | 371 |
| Inventories | 42 | 39 |
| Other | 169 | 108 |
| **Total Current Assets** | **4 991** | **6 048** |
| Payables | 951 | 815 |
| Borrowings | 115 | 108 |
| Provisions - employee benefits | 437 | 472 |
| Other | 309 | 578 |
| **Total Current Liabilities** | **1 812** | **1 973** |
| **Net Working Capital** | **3 179** | **4 075** |
| Property, plant and equipment | 74 281 | 63 414 |
| Investment in Cradle Mountain Water | 25 356 | 25 238 |
| Other | 54 | 99 |
| **Total Non-Current Assets** | **99 691** | **88 751** |
| Borrowings | 1 277 | 1 392 |
| Provisions - employee benefits | 93 | 76 |
| **Total Non-Current Liabilities** | **1 370** | **1 468** |
| **Net Assets** | **101 500** | **91 358** |
| Reserves | 60 370 | 34 413 |
| Accumulated surpluses | 41 130 | 56 945 |
| **Total Equity** | **101 500** | **91 358** |

### Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Council's Total Equity increased by $10.142m.

Net Assets increased by the same amount with reasons for major line item movements including:

- lower Cash and financial assets of $1.364m, discussed further in the Statement of Cash Flows section of this Chapter;
- increased Receivables of $0.243m, 65%, primarily due to higher Other debtors of $0.166m related to a major debtor at 30 June 2011, and increased GST receivable of $0.071m
- higher Other Assets by $0.061m, 56%, predominately due to accrued revenue at 30 June 2011 related to tax equivalents payable to Council by Cradle Mountain Water
- increased Payables, $0.136m, 17%, related to capital expenditure invoiced around year end
- lower Other Liabilities, $0.269m, predominately due to reduced proceeds on sale of properties of $0.211m. This was because the claim period had expired and items were recognised as revenue
- increased Property, plant and equipment, $10.867m, primarily due to the revaluation increment, $6.599m, and additions, $7.229m, offset by depreciation, $2.383m.

## STATEMENT OF CASH FLOWS

| | 2010-11 | 2009-10 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers | 7 029 | 6 465 |
| Cash flows from government | 2 468 | 2 234 |
| Payments to suppliers and employees | (7 375) | (6 348) |
| Interest received | 332 | 180 |
| Finance costs | (103) | 0 |
| **Cash from operations** | **2 351** | **2 531** |
| Capital grants and contributions | 2 199 | 2 414 |
| Dividends - Cradle Mountain Water | 560 | 266 |
| Payments for property, plant and equipment | (6 618) | (6 129) |
| Proceeds from sale of property, plant and equipment | 252 | 156 |
| **Cash (used in) investing activities** | **(3 607)** | **(3 293)** |
| Proceeds from borrowings | 0 | 1 500 |
| Repayment of borrowings | (108) | 0 |
| **Cash from (used in) financing activities** | **(108)** | **1 500** |
| **Net increase (decrease) in cash** | **(1 364)** | **738** |
| Cash at the beginning of the year | 5 530 | 5 458 |
| Less cash transferred to Cradle Mountain Water | 0 | (666) |
| **Cash at end of the year** | **4 166** | **5 530** |

### Comment

At 30 June 2011, Council held cash of $4.166m, comprised of cash at bank and on hand, $0.083m, and short-term deposits, $4.083m.

Council's cash position decreased by $1.364m during 2010-11. Cash from operations, $2.351m, Capital grants, $2.199m, Dividends received from Cradle Mountain Water, $0.560m, and Proceeds from sale of property, plant and equipment, $0.240m, were not sufficient to fund Payments for property, plant and equipment, which mainly comprised infrastructure and road works, totalling $6.618m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.180m to $2.351m which included:

- Council's operating surplus of $0.559m adjusted for depreciation of $2.383m, a non-cash item, providing $2.942m in operating cash inflows, offset by
- cash inflows from Cradle Mountain Water, $0.560m, being treated as an investing activity for cash flow purposes.

Major capital expenditure projects during the period included the works on roads and bridges, $1.117m, buildings additions, $0.950m, plant and equipment, predominately motor and other utility vehicle additions, $0.913m, and capital expenditure still in progress on the following projects; Queenstown Urban Renewal Orr Street, $1.148m, Strahan Esplanade, $0.949m, and the Affordable Housing project, $0.514m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 559 | 93 | 1 079 | 267 |
| Operating surplus ratio * | > 0 | 5.39 | 1.01 | 9.23 | 2.77 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | 100% | 215% | 199% | 321% | 61% |
| Asset renewal funding ratio* ** | 90%-100% | N/A | N/A | N/A | N/A |
| Road asset consumption ratio * | >60% | 57.1% | 56.7% | 52.4% | 57.6% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 1 598 | 2 460 | (1 977) | 144 |
| Net financial liabilities ratio* *** | (0%-50%) | 15.4% | 26.7% | (16.9%) | 1.5% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.48 | 3.93 | 1.46 | 2.12 |
| Current ratio | 1:1 | 2.75 | 3.07 | 1.27 | 1.69 |
| Interest coverage | 3:1 | 21.83 | - | 43.73 | 28.53 |
| Asset investment ratio | >100% | 277% | 267% | 363% | 65% |
| Self financing ratio | | 22.7% | 27.5% | 32.5% | 32.8% |
| Own source revenue | | 77.8% | 77.0% | 83.2% | 82.0% |
| Debt collection | 30 days | 35 | 23 | 31 | 15 |
| Creditor turnover | 30 days | 33 | 31 | 36 | 68 |
| Rates per capita ($) | | 1,045 | 923 | 1 451 | 1 165 |
| Rates to operating revenue | | 52.9% | 55.1% | 65.1% | 63.3% |
| Rates per rateable property ($) | | 1 154 | 1 073 | 1 659 | 1 331 |
| Operating cost to rateable property ($) | | 2 064 | 1 927 | 2 313 | 2 046 |
| Employee costs expensed ($'000s) | | 3 196 | 3 048 | 3 583 | 3 310 |
| Employee costs capitalised ($'000s) | | 224 | 165 | 117 | 16 |
| **Total employee costs ($'000s)** | | **3 420** | **3 213** | **3 700** | **3 326** |
| Employee costs as a % of operating expenses | | 33% | 33% | 34% | 35% |
| Staff numbers (FTEs) | | 53 | 56 | 63 | 56 |
| Average staff costs ($'000s) | | 65 | 57 | 59 | 59 |
| Average leave balance per FTE ($'000s) | | 10 | 10 | 13 | 13 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with West Coast Council, liquid assets exceed total liabilities.*

## Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will focus on Operational efficiency measures.

Current and Liquidity ratios were above benchmark in most years under review, indicating an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end and low levels of unpaid creditors.

Interest coverage ratios reflected Council's low level of finance costs, reflecting its relatively low level of debt.

Self financing ratio declined slightly over the four year period in line with decreased Cash from operations.

Own source revenue was constant over the past two years. The 6% drop in 2009-10 was due to reduced rates following the formation of Cradle Mountain Water. Council generated the majority of its operating revenue from its own sources.

Council's Debt collection days increased above benchmark in 2010-11 as a result of significant debtors held at 30 June 2011 as discussed in the Statement of Financial Position section of this Chapter. Creditor turnover days were consistent over the last three years, with the ratio being worse than benchmark at 65 days in 2007-08 due to the purchase late in June 2008 of a new truck for $0.355m.

Rates statistics steadily increased over the first two years of the review. The decrease since 2009-10 was primarily due to the transfer of the water and sewerage activities. The increase in 2010-11 was a result of higher Rates. Despite this there was a slight decrease in the Rates to operating revenue ratio due to increased Other revenue, discussed earlier in this Chapter.

Employee numbers in 2010-11 remained relatively consistent with 2009-10. The significant decrease after 2008-09 was due to the transfer of seven employees to Cradle Mountain Water.

Average employee costs increased 14% in 2010-11 due to general wage increases, 3.5%, and as a result of significant rises in management and executive staff salaries. However, when expressed as a percentage of operating expenses Employee costs remained reasonably consistent over the four years.

# APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report entitled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising six volumes, satisfies this requirement each year. The volumes are:

- Volume 1 – Analysis of the Treasurer's Annual Financial Report
- Volume 2 – Executive and Legislature, Government Departments and other General Government Sector State entities
- Volume 3 – Government Business Enterprises, State Owned Corporations, and Water Corporations and Superannuation Funds
- Volume 4 – Local Government Authorities
- Volume 5 – Other State entities 30 June
- Volume 6 - Other State entities 31 December, including University of Tasmania.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.



## FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplemented by financial analysis applying the indicators documented in the Financial Performance sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity.

Departments are required to present budget amounts on the face of their primary statements. As a consequence details and commentary in relation to these amounts have been included in this Report.

## FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating:

- performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| **Financial Performance** | | |
| Earnings Before Interest and Tax (EBIT) ($'000s) | | Result from Ordinary Activities before Gross Interest Expense and Tax |
| EBITDA ($'000s) | | Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation |
| Operating margin | >1.0 | Operating Revenue divided by Operating Expenses |
| Operating surplus (deficit) ($'000s) | | Own source revenue percentage |
| Operating surplus ratio | >0 | Net operating surplus (deficit) divided by total operating revenue |
| Own source revenue | | Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments |
| Return on assets | 5.21% | EBIT divided by Average Total Assets |
| Return on equity | | Result from Ordinary Activities after Taxation divided by Average Total Equity |
| Self financing ratio | | Net Operating Cash Flows divided by Operating Revenue |

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| **Financial Management** | | |
| Asset consumption ratio | Between 40% and 80% | Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset |
| Asset renewal funding ratio | 90%-100% | Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required |
| Asset sustainability ratio | >100% | Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets |
| Capital Investment Gap, Asset investment ratio or Investment gap | >100% | Payments for Property, plant and equipment divided by Depreciation expenses |
| Capital Replacement Gap, Asset renewal ratio or Renewal gap | 100% | Payments for Property, plant and equipment on existing assets divided by Depreciation expenses |
| Cost of debt | 6.9% | Gross Interest Expense divided by Average Borrowings (include finance leases) |
| Creditor turnover | 30 days | Payables divided by credit purchases multiplied by 365 |
| Current ratio | >1 | Current Assets divided by Current Liabilities |
| Debt collection | 30 days | Receivables divided by billable Revenue multiplied by 365 |
| Debt to equity | | Debt divided by Total Equity |
| Debt to total assets | | Debt divided by Total Assets |
| Indebtedness Ratio | | Non-Current Liabilities divided by Own Source Revenue |
| Interest coverage ratio | 3:1 | Net operating cashflows less interest and tax payments divided by Net interest payments |
| Interest cover – EBIT | >2 | EBIT divided by Gross Interest Expense |
| Interest cover – EBITDA | >2 | EBITDA divided by Gross Interest Expense |
| Interest cover – Funds from Operations | >2 | Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense |
| Liquidity ratio | 2:1 | Liquid assets divided by current liabilities other than provisions |
| Net financial assets (liabilities) ($'000s) | | Total financial liabilities less liquid assets |
| Net financial liabilities ratio | 0 – (50%) | Total liabilities less liquid assets divided by total operating income |

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| **Returns to Government** | | |
| CSO funding ($'000) | | Amount of community service obligation funding received from Government |
| Dividend payout ratio | 50% | Dividend divided by Result from Ordinary Activities after Tax |
| Dividend to equity ratio | | Dividend paid or payable divided by Average Total Equity |
| Dividends paid or payable ($'000s) | | Dividends paid or payable that relate to the year subject to analysis |
| Effective tax rate | 30% | Income Tax paid or payable divided by Result form Ordinary Activities before Tax |
| Government guarantee fees ($'000) | | Amount of guarantee fees paid to owners (usually Government) |
| Income tax paid ($'000s) | | Income Tax paid or payable that relates to the year subject to analysis |
| Total return to equity ratio | | Total Return divided by Average Equity |
| Total return to the State ($'000s) or total return to owners | | Dividends plus Income Tax and Loan Guarantee fees |
| **Other Information** | | |
| Average leave per FTE ($'000s) | | Total employee annual and long service leave entitlements divided by Staff Numbers |
| Average long service leave balance | Not more than 100 days | Actual long service leave provision days due divided by average FTE's |
| Average recreational leave balance | 20 days [3] | Actual annual leave provision days due divided by average FTE's |
| Average staff costs (2) ($'000s) | | Total employee expenses (including capitalised employee costs) divided by Staff Numbers |
| Employee costs (2) as a % of operating expenses | | Total employee costs divided by Total Operating Expenses |
| Employee costs capitalised ($'000s) | | Capitalised employee costs |
| Employee costs expensed ($'000s) | | Total employee costs per Income Statement |
| Operating cost to rateable property | | Operating expenses plus finance costs divided by rateable properties per valuation roll |
| Rates per capita | | Population of council area divided by rates revenue |

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| Rates per operating revenue | | Total rates divided by operating revenue including interest income |
| Rates per rateable property | | Total rates revenue divided by rateable properties per valuation rolls |
| Staff numbers FTEs | | Effective full time equivalents |

1 *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*
2 *Employee costs include capitalised employee costs, where applicable, plus on-costs.*
3 *May vary in some circumstances because of different award entitlements.*

An explanation of most financial performance indicators is provided below:

## FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating Surplus (Deficit) or Result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating surplus ratio** – a positive result indicates a surplus with the larger the surplus the stronger surplus and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by a council through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.

## FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing existing non-current assets (caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

## RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – the relative size an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

## OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – represents the level of employee costs expensed, ie. included in the Income Statement. This together with the Employee costs Capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

# APPENDIX 2 - AUDIT STATUS

| Entity | Financial Statement deadline | Signed Financial Statements Received | Re-signed/ Amended Financial Statements Received | Clear opinion issued | Audit opinion signed | < 8 weeks | 8 to 10 weeks | 10 to 12 weeks | 12 to 14 weeks | 14 to 16 weeks | > 16 weeks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **LOCAL GOVERNMENT AUTHORITIES** | | | | | | | | | | | |
| **MAJOR CITY COUNCILS** | | | | | | | | | | | |
| Clarence City Council | 15 August 2011 | 15 August 2011 | 16 September 2011 | ✓ | 21 September 2011 | | | ✓ | | | |
| Glenorchy City Council | 15 August 2011 | 15 August 2011 | 7 September 2011 | ✓ | 7 September 2011 | | ✓ | | | | |
| Hobart City Council | 15 August 2011 | 15 August 2011 | | ✓ | 9 September 2011 | | | ✓ | | | |
| Launceston City Council | 15 August 2011 | 15 August 2011 | | ✓ | 31 August 2011 | | ✓ | | | | |
| **MEDIUM COUNCILS** | | | | | | | | | | | |
| Brighton Council | 15 August 2011 | 15 August 2011 | | ✓ | 16 September 2011 | | | ✓ | | | |
| Burnie City Council | 15 August 2011 | 12 August 2011 | | ✓ | 23 September 2011 | | | | ✓ | | |
| Central Coast Council | 15 August 2011 | 28 September 2011 | | ✓ | 30 September 2011 | | | | ✓ | | |
| Derwent Valley Council | 15 August 2011 | 15 August 2011 | | ✓ | 23 September 2011 | | | | ✓ | | |
| Devonport City Council | 15 August 2011 | 15 August 2011 | | ✓ | 23 September 2011 | | | | ✓ | | |
| Huon Valley Council | 15 August 2011 | 12 August 2011 | 22 September 2011 | ✓ | 23 September 2011 | | | | ✓ | | |
| Kingborough Council | 15 August 2011 | 12 August 2011 | | ✓ | 23 September 2011 | | | | ✓ | | |
| Meander Valley Council | 15 August 2011 | 15 August 2011 | | ✓ | 23 September 2011 | | | | ✓ | | |
| Northern Midlands Council | 15 August 2011 | 23 August 2011 | | | 30 September 2011 | | | | ✓ | | |
| Sorell Council | 15 August 2011 | 24 August 2011 | | ✓ | 26 September 2011 | | | | ✓ | | |
| Waratah-Wynyard Council | 15 August 2011 | 12 August 2011 | 6 September 2011 | ✓ | 13 September 2011 | | | ✓ | | | |
| West Tamar Council | 15 August 2011 | 10 August 2011 | | ✓ | 31 August 2011 | | ✓ | | | | |

| Entity | Financial Statement deadline | Signed Financial Statements Received | Re-signed/ Amended Financial Statements Received | Clear opinion issued | Audit opinion signed | < 8 weeks | 8 to 10 weeks | 10 to 12 weeks | 12 to 14 weeks | 14 to 16 weeks | > 16 weeks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **SMALL COUNCILS** | | | | | | | | | | | |
| Break O'Day Council | 15 August 2011 | 8 November 2011 | | | | | | | | | |
| Central Highlands Council | 15 August 2011 | 15 August 2011 | | ✓ | 30 September 2011 | | | | ✓ | | |
| Circular Head Council | 15 August 2011 | 12 August 2011 | | ✓ | 27 September 2011 | | | | ✓ | | |
| Dorset Council | 15 August 2011 | 11 August 2011 | | ✓ | 30 September 2011 | | | | ✓ | | |
| Flinders Council | 15 August 2011 | 15 August 2011 | | ✓ | 28 September 2011 | | | | ✓ | | |
| George Town Council | 15 August 2011 | 15 August 2011 | | ✓ | 21 September 2011 | | | ✓ | | | |
| Glamorgan-Spring Bay Council | 15 August 2011 | 15 August 2011 | | ✓ | 29 September 2011 | | | | ✓ | | |
| Kentish Council | 15 August 2011 | 15 August 2011 | | | | | | | | | |
| King Island Council | 15 August 2011 | | | | | | | | | | |
| Latrobe Council | 15 August 2011 | 15 August 2011 | | ✓ | 23 September 2011 | | | | ✓ | | |
| Southern Midlands Council | 15 August 2011 | 15 August 2011 | | ✓ | 30 September 2011 | | | | ✓ | | |
| Tasman Council | 15 August 2011 | 11 November 2011 | | | 14 November 2011 | | | | | | ✓ |
| West Coast Council | 15 August 2011 | 18 September 2011 | | ✓ | 30 September 2011 | | | | ✓ | | |

# APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| BAC | Burnie Airport Corporation Unit Trust |
| BSE | Burnie Sports and Events |
| CDO | Collateralised Debt Obligation |
| CMW | Cradle Mountain Water |
| CPM | Creative Paper Mills Pty Ltd |
| DHHS | Department of Health and Human Services |
| EBA | Enterprise Bargaining Agreement |
| FTE | Full Time Equivalents |
| GASP! | Glenorchy Art & Sculpture Park |
| QVMAG | Queen Victoria Museum and Art Gallery |
| TAFE | TAFE Tasmania |
| TCU | Tas Communications Unit Trust |

# APPENDIX 4 - RECENT REPORTS

| TABLED | TITLE |
|---|---|
| November 2011<br>No.5 of 2011-12 | Auditor General's Report on the Financial Statements of State entities – Volume 3 – Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11 |
| November 2011<br>No.4 of 2011-12 | Auditor General's Report on the Financial Statements of State entities – Volume 2 – Executive and Legislature, Government Departments and other General Government Sector entities 2010-11 |
| November 2011<br>No.3 of 2011-12 | Auditor General's Report on the Financial Statements of State entities – Volume 1 – Analysis of the Treasurer's Annual Financial Report 2010-11 |
| September 2011<br>No.2 of 2011–12 | Children in out of home care |
| September 2011<br>No.1 of 2011–12 | Tourism Tasmania: is it effective? |
| July 2011 | Special Report No. 100 Financial and economic performance of Forestry Tasmania |
| June 2011 | Special Report No. 99 Bushfire management |
| June 2011 | Special Report No. 98 Premier's Sundry Grants Program and Urban Renewal and Heritage Fund |
| May 2011 | Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania |
| May 2011 | Special Report No. 97 Follow up of Special Reports 69-73 |
| April 2011 | Special Report No. 96 Appointment of the Commissioner for Children |
| February 2011 | Special Report No. 95 Fraud control |
| November 2010 | Analysis of Treasurer's Annual Financial Report |
| November 2010 | Executive and Legislature, Government Department and other General Government State Sector Entities |
| November 2010 | Government Business Enterprises, State Owned Companies and Superannuation Funds |
| November 2010 | Special Report No. 94 Election promise: five per cent price cap on electricity prices |
| November 2010 | Special Report No. 93 Investigations 2004-2010 |
| October 2010 | Special Report No. 92 Public sector productivity: a ten-year comparison |
| September 2010 | Special Report No. 91 Follow up of special reports: 62-65 and 70 |
| July 2010 | Special Report No. 90 Science education in public high schools |
| June 2010 | Special Report No. 89 Post-Year 10 enrolments |

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**Our Vision**

*STRIVE I LEAD I EXCEL I TO MAKE A DIFFERENCE*

**Our Purpose**

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

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**This report is printed on recycled paper.**

# AUDIT MANDATE AND STANDARDS APPLIED

## MANDATE

Section 17(1) of the *Audit Act 2008* states that:

> "An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects."

Under the provisions of section 18, the Auditor-General:

"(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1)."

Under the provisions of section 19, the Auditor-General:

"(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards.

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority."

## STANDARDS APPLIED

Section 31 specifies that:

"The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards."

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Tasmanian
Audit Office

| | | | |
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