Tasmanian Audit Office

Making a Difference

Local Government Authorities 2007-2008

REPORT OF THE AUDITOR-GENERAL No. 1 of 2009

VOLUME TWO

May 2009

THE ROLE OF THE AUDITOR-GENERAL

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

Our major responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. As defined by the Act, State entity includes all public sector entities including those established under the *Local Government Act 1993*. It 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 financial report and the Whole of Government financial report.

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 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 and compliance audits. 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), account balances or projects.

Performance and compliance audits 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 House of Assembly and the Legislative Council in their review of the performance of Executive Government.

Accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses are detailed within the reports.

TASMANIA

2009
PARLIAMENT OF TASMANIA

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

By Authority:
Government Printer, Tasmania

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This report is printed on recycled paper.

ISSN 1327 2608

TABLE OF CONTENTS

CITY COUNCILS

BURNIE CITY COUNCIL

INTRODUCTION

The Burnie area was first proclaimed as a Municipality in 1866 and was granted City status in 1988. The population serviced by the Burnie City Council is approximately 19 700. The Municipal area covers 610 square kilometres.

Council has a controlling interest in four entities. The financial statements of the following four entities have been consolidated into Council's financial statements and the financial information reported in this Chapter is the consolidated position:

- Burnie Airport Corporation Unit Trust (BAC) - Council purchased a 51% interest in BAC, which operates the Burnie Airport, on 1 February 2002 for $0.510m. At 30 June 2008, Council's investment interest was recorded at $0.814m
- Creative Paper Mills Pty Ltd (CPM) – On 1 September 2003, Council created an incorporated body with share capital of one dollar issued to Council. At 30 June 2008, Council's investment interest was recorded at $0.180m
- Integrated Community Network Unit Trust (ICN) - During 2002-03, Council created an incorporated body with share capital of one hundred dollars issued to Council. At 30 June 2008, Council's investment interest was recorded at $0.690m
- 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 represents the issued units of the trust. At 30 June 2008, Council's investment interest was recorded at $0.320m.

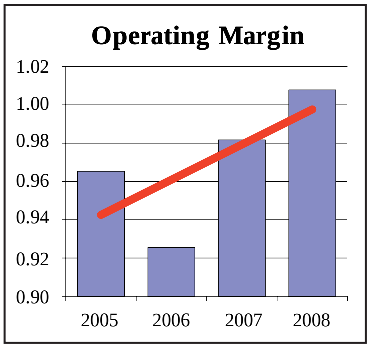
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2008, with amended signed statements received on 6 November 2008. An unqualified audit report was issued on 20 November 2008.

The audit was completed satisfactorily with no major issues outstanding.

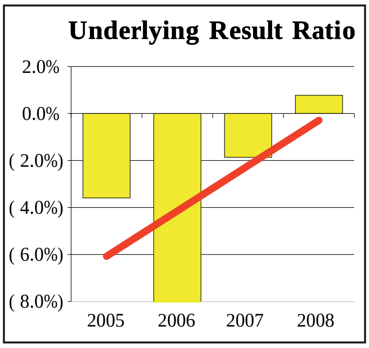
FINANCIAL RESULTS

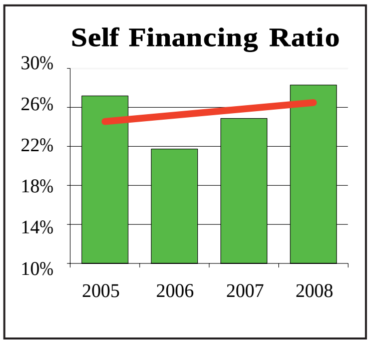
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was below the benchmark of one in the first three years under review, with 2007-08 the only year to exceed the benchmark. The positive result in 2007-08 was the only year in which Council produced an operating surplus.
An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

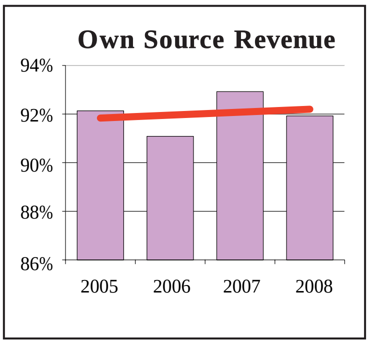
The Underlying results ratio was negative in the initial three years under review, with the positive result in 2007-08 reflecting an improved Operating margin in that financial year. Although it is not unusual for a council to incur operating deficits, we note in its Estimates Council budgeted for deficits in two of the four years under review (refer table in Income Statement section). To ensure long-tern financial sustainability, we would expect a council to, as a minimum, budget for a "break-even" operating result.

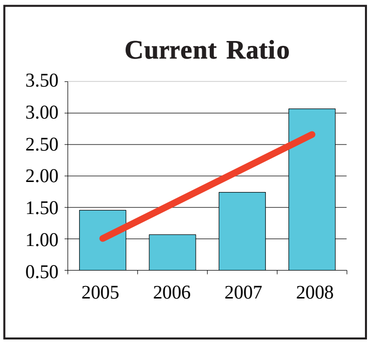




The Self financing ratio shows net operating cash flows generated by Council as a percentage of operating revenue. A positive ratio indicates a council is generating operating cash flows which are contributing towards its capital expenditure programs. Over the four year period of this analysis, Council's ratio of net operating cash flows to operating revenue remained steady at around 24%.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of only 8% (2004-05, 8%).





The Current ratio was above the benchmark in all four years indicating that Council was able to meet all short-term liabilities. The ratio improved significantly in 2007-08 because Council borrowed $3.750m which will be used for capital works in 2008-09.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	22 698	22 884	21 120	19 817	19 079
User charges	8 994	8 308	8 477	8 002	7 732
Grants	4 860	2 906	2 409	2 866	2 412
Other operating revenue	894	1 788	1 217	1 462	1 399
Gain on disposal of assets	327	98	822	0	40
Total Revenue	**37 773**	**35 984**	**34 045**	**32 147**	**30 662**
Employee costs	10 833	12 105	11 900	11 465	10 269
Borrowing costs	960	1 108	737	342	351
Depreciation	10 089	10 099	9 752	9 588	8 773
Other operating expenses	12 875	12 393	12 291	12 519	12 371
Net loss on disposal of assets	0	0	0	821	0
Total Expenses	**34 757**	**35 705**	**34 680**	**34 735**	**31 764**
Surplus (Deficit) before:	**3 016**	**279**	**(635)**	**(2 588)**	**(1 102)**
Capital grants	908	908	824	3 642	342
Non-current asset recognition adjustment	0	40	9	1 165	1 281
Revaluation decrement	0	0	(36)	(1 755)	(6 146)
Capital contributions	0	617	1 118	573	1 160
Insurance recovery - fire claim	0	2 416	0	0	0
Carrying amount of asset lost by fire	0	(2 464)	0	0	0
Surplus (Deficit)	**3 924**	**1 796**	**1 280**	**1 037**	**(4 465)**

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

Comment

Council recorded deficits from operating activities (before accounting for capital grants, non-current asset recognition, revaluation adjustments, capital contributions and the effects of a fire claim and associated write off of the relevant assets) in the initial three years under review. However, an operating surplus was recorded in 2007-08. Operating deficits may indicate Council was not generating sufficient revenue to fulfil its operating requirements, including coverage of its Depreciation charges and borrowing costs, both of which increased. Council's operating budgets, before capital grants, were as follows:

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Budgeted net surplus (deficit) including capital grants	3 924	415	3 869	0
Actual capital grants	(908)	(824)	(3 642)	(342)
Budgeted surplus (deficit) excluding capital grants	**3 016**	**(409)**	**227**	**(342)**

This indicates that for the 2004-05 and 2006-07 financial years, Council budgeted for a deficit. Actual results, adjusted further to take into account the unbudgeted surpluses and deficits on the disposal of non-current assets, indicate a surplus of $0.181m in 2007-08, with deficits of $1.457m in 2006-07, $1.767m in 2005-06 and $1.142m in 2004-05.

Rates, as expected, continue to represent the majority of Total Revenue, being 59.8% in 2007-08, with the preceding three years averaging 62%. Revenue from Rates increased by $3.805m, (or 19.4%), from 2004-05 to 2007-08. The increases in each year were in accordance with Council's Estimates.

Fees and charges represented 21.69% (2006-07, 24.90%) of total operating revenues in 2007-08. During 2007-08 the primary fees and charges were:

- child care centre revenue, $1.789m (2006-07, $1.862m; 2005-06, $1.435m)
- parking fees and fines, $1.487m (2006-07, $1.618m; 2005-06, $1.535m)
- passenger fares from BAC, $0.937m (2006-07 $0.951m; 2005-06 $1.011m).

A major component of operating Grant revenue was the Commonwealth tax sharing grant, $1.839m, in 2007-08 (2006-07, $1.816m; 2005-06, $1.798m; and 2004-05, $1.742m). This represented an increase of only 5.57% during the four year period under review.

Other revenue increased by $0.389m (or 27.8%) over the period under review and included interest income and sales revenue from Council's subsidiaries.

Council made both net gains and losses on the disposal of assets over the period under review, specifically:

- the Gain on disposal of assets in 2006-07 of $0.822m included gains on the sale of car parks and associated land in Wilmot and Wilson Streets, Burnie, offset by a loss on the sale of the Metro Cinema Complex
- the Loss on disposal of assets of $0.821m in 2005-06 was primarily due to the write-off of road assets replaced during the year and the write-off of non-existent park assets.

Employee costs represented 31.6% of Total revenue in 2007-08, which was below the average for the period of 33.9%. Overall Employee costs increased by $1.836m (or 17.8%) over the period under review. In general, gross salaries and wages paid to Council employees increased due to:

- pay rises under Council's Enterprise Agreement
- an increase in average staff numbers from 209 to 223, as noted under the Financial Analysis section.

Borrowing costs increased by $0.757m over the period under review due primarily to new loan borrowings of $17.250m from 2005-06 to 2007-08. Borrowings were used to fund capital works, including the capital commitments noted under the Balance Sheet section of this Chapter.

Depreciation charges represented 26.37% of Total Revenue in 2007-08, which was slightly below the 28.36% average over the four year period. Overall, depreciation increased by $1.326m (or 15.11%) over the period primarily attributable to an increase in 2005-06 of $0.815m, which included increased depreciation on Waste disposal assets, $0.480m. Waste disposal depreciation increased as a result of the recognition of rehabilitation and development assets relating to Stage 2 of the waste disposal site. As noted in the Balance Sheet section, Council revalued assets consistently, and as part of the revaluations, asset useful lives were reviewed. Consequently, material revaluation increments did not necessarily translate into direct increases in the depreciation expense.

Other operating expenses represented 34.4% of Total Revenue in 2007-08, which was below the 37.5% average for the period under review. The level of other operating expenses was fairly consistent, in dollar terms, over the period under review, but as a percentage of revenue it decreased.

Other operating expenses included materials and contract payments, levies paid to the State government and remissions and discounts.

Council received $5.716m in Capital grants during the period under review. Capital grants in 2007-08 included $0.488m funding under the Commonwealth Roads to Recovery initiative.

Capital grants in 2006-07 included:

- funding under the Commonwealth Roads to Recovery initiative, $0.609m
- the final payment from the Commonwealth government under the Creative Paper site redevelopment funding agreement, $0.085m.

Capital grants in 2005-06 included:

- CPM site redevelopment funding from the State and Commonwealth governments totalling $1.765m
- State government funding for the Waterfront and Surf Club development, $1.500m
- funding under the Commonwealth Roads to Recovery initiative, $0.304m.

The Non-current asset recognition adjustments in 2004-05 and 2005-06 of $1.281m and $1.165m respectively, represented newly identified assets in parks and recreation.

The revaluation decrement in 2004-05, $6.146m, related to Stormwater and Sewerage infrastructure assets. In revaluing these asset classes at 1 July 2004, Council's engineers reviewed replacement costs and changes in replacement techniques to determine appropriate replacement rates. The revaluation decrement in 2005-06, $1.755m, mainly comprised a decrement to Council's waste disposal assets of $1.740m.

Capital contributions totalling $3.648m for the period under review represented developer donations in the form of cash or tangible assets. In the main these contributions were in the form of tangible assets.

The Insurance recovery – fire claim related to an insurance settlement of $2.416m for fire damage sustained on the Adult Education building that was being used by CPM. The carrying amount of assets lost by fire, $2.464m, represented the loss on disposal of the Adult Education building.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	1 202	1 182	477	385
Receivables	5 566	2 511	2 432	2 297
Investments	13 158	7 268	4 912	13 420
Other	651	496	606	419
Total Current Assets	**20 577**	**11 457**	**8 427**	**16 521**
Payables	3 634	3 130	4 936	4 771
Borrowings	898	1 301	932	2 265
Provisions - employee benefits	1 647	1 767	1 252	1 182
Other	528	385	778	3 137
Total Current Liabilities	**6 707**	**6 583**	**7 898**	**11 355**
Working Capital	**13 870**	**4 874**	**529**	**5 166**
Property, plant and equipment	331 020	329 795	288 115	275 088
Receivables	26	43	21	24
Other	0	0	1	32
Investment properties	0	0	2 414	2 451
Total Non-Current Assets	**331 046**	**329 838**	**290 551**	**277 595**
Borrowings	18 794	16 170	9 500	3 335
Provision for rehabilitation	1 127	1 031	1 031	1 031
Provisions - employee benefits	220	354	572	589
Total Non-Current Liabilities	**20 141**	**17 555**	**11 103**	**4 955**
Net Assets	**324 775**	**317 157**	**279 977**	**277 806**
Reserves	78 224	73 001	37 010	35 876
Accumulated surpluses	242 393	240 146	238 958	237 920
Outside equity interests	4 158	4 010	4 009	4 010
Total Equity	**324 775**	**317 157**	**279 977**	**277 806**

Comment

Total Equity rose by $46.969m over the period under review due to:

- surpluses totalling $4.113m (2007-08, $1.796m; 2006-07, $1.280m and 2005-06, $1.037m)
- asset revaluation increments of $42.328m (2007-08, $5.223m; 2006-07, $35.991m; 2005-06, $1.134m)
- movements in Outside equity interests of $0.148m.

Council's Cash at 30 June 2008 totalled $1.202m. This balance comprised cash at bank, on hand and cash advances. A more detailed explanation of the movement in Council's cash balance is provided in the Cash Position section following. Council also held current investments of $13.158m, which comprised term deposits and managed funds. Over the four year period under review, the balances decreased by $0.262m. However, in 2005-06 the balance decreased by $8.508m due to significant capital works undertaken during that financial year. The balance increased by $8.246m during 2006-07 and 2007-08 due primarily to Council borrowing $11.750m principally to fund sewerage works. Sewerage and water infrastructure assets, together with associated debt, will transfer to Cradle Mountain Water on 1 July 2009. As part of its 2008-09 capital works program, Council expect to expend $22.100m, funded by borrowings $3.500m, capital grants $3.200m and cash generated from operations of $9.600m, with the balance of $5.800m coming from the cash balances.

The Receivables balance remained constant in the first three years under review. In 2007-08, the balance increased by $3.055m primarily due to the recognition of accrued revenue for an insurance settlement, totalling $2.416m for fire damage sustained on the Adult Education building.

Payables decreased by $1.806m in 2006-07 due to two large creditors outstanding at 30 June 2006 relating to contract payments for the Roundhill Sewerage Treatment Plant and the Burnie Marine Terrace Car Park.

Borrowings increased by $14.092m during the period under review. The increase reflected new loans of $5.500m in 2005-06, $8.000m in 2006-07 and $3.750m in 2007-08 offset by principal repayments. The new loans in 2005-06 included $5.000m drawn down by Council to fund future capital expenditure and a further $0.500m drawn down by BAC for the upgrade of the Burnie Airport. At 30 June 2006 Council recorded capital commitments of $6.522m, which included the following projects:

- Roundhill Sewerage Treatment Plant
- Marine Terrace Car Park
- Waterfront and Surf Club redevelopment
- CPM redevelopment.

The $8.000m drawn down in 2006-07 was used to fund capital expenditure, continuing the commitment to the completion of the Roundhill Sewerage Treatment Plant referred to above. A significant proportion of the $3.750m borrowed in 2007-08 was used on capital works relating to water and sewerage.

Other Current Liabilities at 30 June 2005, $3.137m, related to Council holding grant funds received in June 2005, for which no formal agreements had been entered into. The major grants received related to the future operations of CPM, $1.000m and funds for the Waterfront and Surf Club development totalling $1.500m both of which were transferred to income in 2005-06.

Property, plant and equipment increased by $54.707m during the period under review. The increase was primarily due to:

- asset additions totalling $50.972m
- asset revaluations totalling $37.330m
- Contributed assets and existing assets identified for the first time of $5.963m, less
- Depreciation charges of $29.439m
- revaluation decrements and asset write offs of $10.401m.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To maintain the currency of valuations, Council revalues its assets on a regular basis.

Investment properties at 30 June 2005 and 2006 represented the written down value of the Metro Cinema Complex which was sold during 2006-07.

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

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	32 649	32 522	31 334	28 701
Cash flows from Government	3 287	2 723	2 390	2 886
Payments to suppliers and employees	(25 646)	(26 695)	(27 289)	(24 064)
Interest received	999	571	880	1 181
Borrowing costs	(1 108)	(655)	(328)	(370)
Cash from operations	**10 181**	**8 466**	**6 987**	**8 334**
Capital grants and contributions	908	520	1 446	2 842
Proceeds from investments	0	0	8 507	691
Payments for investments	(5 880)	(2 156)	0	0
Payments for property, plant and equipment	(8 948)	(18 064)	(22 345)	(11 333)
Proceeds from sale of property, plant and equipment	1 899	4 993	666	621
Payments for distributions/Outside equity interest	(361)	(93)	0	0
Cash (used in) investing activities	**(12 382)**	**(14 800)**	**(11 727)**	**(7 179)**
Proceeds from borrowings	3 750	8 000	5 500	53
Repayment of borrowings	(1 529)	(961)	(668)	(831)
Cash from (used in) financing activities	**2 221**	**7 039**	**4 832**	**(778)**
Net increase in cash	**20**	**705**	**92**	**377**
Cash at the beginning of the year	1 182	477	385	8
Cash at the end of the year	**1 202**	**1 182**	**477**	**385**

Comment

Council's total cash balance increased from $0.008m at 30 June 2004 to $1.202m at 30 June 2008. Council generated strong levels of Cash from operations, however in the initial three years under review, the amounts generated were, in total, $4.326m less than the annual depreciation charges in the same period. This suggests Council relied on a mixture of cash generated from operations, debt funding, asset sales and Capital grants and contributions to fund its capital expenditure programs. In 2007-08, Cash from operations exceeded the Depreciation expense by $0.082m.

Over the four year period under review, Council generated $33.968m Cash from operations, received $5.716m in capital grant funding and $8.179m from the Proceeds from the sale of property plant and equipment. The cash inflows were primarily used to fund property, plant and equipment totalling $60.690m.

Other reasons for the variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and Balance Sheet sections of this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		279	(635)	(2 588)	(1 102)
Operating margin	>1.0	1.01	0.98	0.93	0.97
Underlying result ratio		0.8%	(1.9%)	(8.1%)	(3.6%)
Self financing ratio		28.3%	24.9%	21.7%	27.2%
Own source revenue ($'000s)		33 078	31 636	29 281	28 250
Financial Management					
Current ratio	>1	3.07	1.74	1.07	1.45
Indebtedness ratio		60.9%	55.5%	37.9%	17.5%
Cost of debt	7.5%	6.0%	5.3%	4.3%	5.9%
Debt service ratio		7.3%	4.7%	3.1%	3.9%
Debt collection	30 days	39	31	31	30
Creditor turnover	30 days	43	38	48	68
Capital expenditure/depreciation	>100%	89%	185%	233%	129%
Capital expenditure on existing assets/depreciation	100%	64%	73%	79%	66%
Other Information					
Employee costs expensed ($'000s)		12 105	11 900	11 465	10 269
Employee costs capitalised ('$000s)		1 008	1 915	1 394	938
Total employee costs ($'000s)		**13 113**	**13 815**	**12 859**	**11 207**
Employee costs expensed as % of operating expenses		34%	34%	33%	32%
Staff numbers (FTEs)		223	225	220	209
Average staff costs ($'000s)		59	61	58	54
Average leave balance per FTE ($'000s)		8	9	8	8

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits (after excluding non-operating items) in the first three years under review. In 2007-08, Council recorded a surplus. As a result, the Operating margin was slightly below the benchmark for the initial three years and, similarly, the Underlying result ratio was negative in those years. An operating surplus of $0.279m was recorded in 2007-08 resulting in a positive Operating margin and Underlying result ratio.

Self financing ratio was higher in 2007-08 due to higher Net operating cash flows in that year. Council's Own source revenue gradually increased over the period, due to the increased Rates and User charges noted in the Income Statement section.

Current ratio was above the benchmark in all years indicating Council was able to meet all short-term liabilities.

Council's Indebtedness ratio, which compares Non-current liabilities to Own source revenues, increased from 17.5% in 2004-05 to 60.9% in 2007-08 due to the increase in Non-current borrowings and Other Non-current liabilities. The increase in Non-current borrowings was due to new loans of $17.250m over the past three years.

Cost of debt ratio was below the benchmark of 7.5% in all years under review. The Debt service ratio indicated Council had no difficulty in servicing current debt levels. The increase from 3.9% to 7.3% over the period under review was due to new borrowings as noted above.

Debt collection ratio was consistent with the benchmark in all years.

Creditor turnover ratios for the first two years under review were distorted due to unusually high amounts of capital creditors at the end of both years. However, it is Council's policy to settle supplier invoices within a 30-day credit period.

Total capital expenditure to depreciation ratio was well above 100% in the first three years under review, which reflected Council's significant payments for Property, plant and equipment in those years. The ratio decreased in 2007-08 due to the completion of major capital projects including the Roundhill Sewerage Treatment Plant, Marine Terrace Car Park and Waterfront and Surf Club redevelopment.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio indicated that Council may not have invested sufficiently in maintaining existing assets during the four years under review.

Employee costs as a percentage of operating expenses and average employee entitlements were fairly stable. Average staff costs gradually increased over the period under review due to pay rises under Council's Enterprise Bargaining Agreement.

CLARENCE CITY COUNCIL

INTRODUCTION

Clarence City Council was initially proclaimed a municipality in 1860 and as a city on 24 November 1988. It has a population estimated at 51 170 people and 22 472 rateable properties.

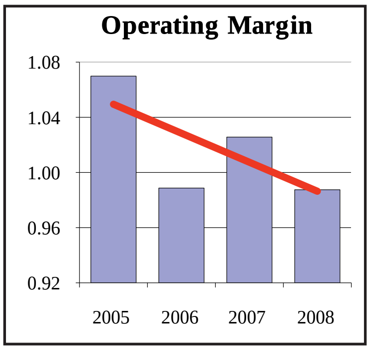
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 26 September 2008, with amended statements re-signed on 25 October 2008 and an unqualified audit report issued on 4 November 2008.

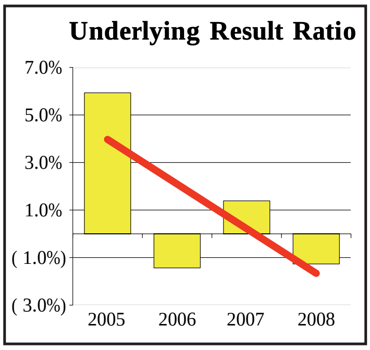
The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

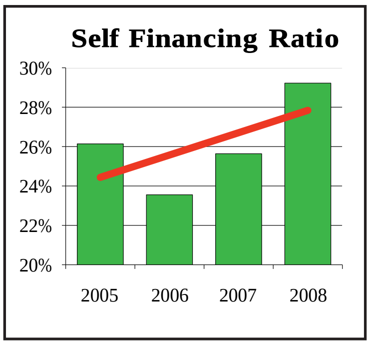
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin declined over the four years under review and was marginally under the benchmark, being greater than one in 2007-08 at 0.99. However, on average, the Operating margin was 1.02, suggesting that, throughout the four year period, Council generated sufficient revenue to fulfil its operating requirements.

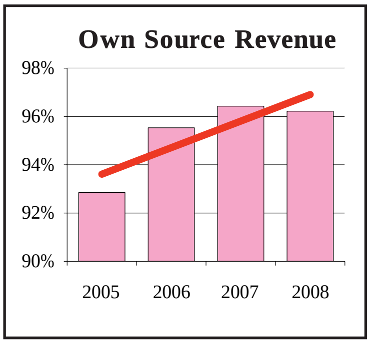


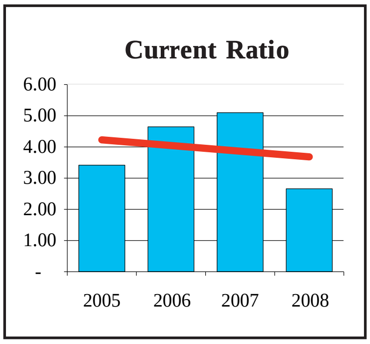
The Underlying results ratio declined in 2007-08 and over the period of review indicating operating deficits before capital grants occurred when compared with total operating revenues. Although it is not unusual for a council to incur operating deficits, we would expect, for long-term financial sustainability, that a council, as a minimum budget for a break-even operating result.



The Self financing ratio showed an improvement this year and was reasonably consistent at an average of 26% over the period of review. A positive ratio indicates that a council is generating operating cash flows which are contributing towards its capital expenditure programs.

The Own source revenue percentage was consistently rising over the period of review. Increases in this measure indicated Council was less reliant on external income, such as grants, to fund its operating activities. In 2007-08 Council was only reliant on recurrent grant funding to the extent of 4% (2004-05, 7%).





The Current ratio was above the benchmark of one in all four years indicating that Council was able to meet all short-term liabilities. The decline in the current year was a result of a change in offset facilities where $10.000m was transferred from non-current to current Borrowings.

INCOME STATEMENT

	2007-08 Estimate* $'000s	**2007-08** Actual $'000s	**2006-07** Actual $'000s	**2005-06** Actual $'000s	**2004-05** Actual $'000s
Rates	43 992	43 951	41 473	38 531	36 763
User Charges	4 437	5 803	4 355	3 631	3 733
Grants	2 031	2 199	1 952	2 262	3 456
Other operating revenue	5 239	6 194	6 839	6 205	4 406
Total Revenue	**55 699**	**58 147**	**54 619**	**50 629**	**48 358**
Employee costs	12 848	13 205	11 864	11 566	10 371
Borrowing costs	2 314	1 504	1 430	1 548	1 737
Depreciation	6 426	13 968	12 904	11 543	9 228
Other operating expenses	30 170	30 207	27 055	26 550	23 864
Loss on disposal of assets	0	0	608	148	290
Total Expenses	**51 758**	**58 884**	**53 861**	**51 355**	**45 490**
Surplus (Deficit) before:	**3 941**	**(737)**	**758**	**(726)**	**2 868**
Capital grants	603	603	686	688	1 140
Contributions of non-current assets	1 617	10 842	4 028	3 922	2 536
Surplus	**6 161**	**10 708**	**5 472**	**3 884**	**6 544**

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

Comment

In 2007-08 Council recorded a Deficit of $0.737m before Capital grants and Contributions of non-current assets. Council's operating results, before Capital grants and Contributions of non-current assets, over the four years under review showed a degree of volatility. For example, a surplus in 2006-07 of $0.758m, a deficit in 2005-06 of $0.726m, and a surplus in 2004-05 of $2.868m. Whilst Council Estimates indicated a surplus for 2007-08, depreciation was under budgeted by approximately 50%. Had depreciation been more appropriately estimated, budget estimates would have resulted in a deficit. Council's policy is to progressively phase in budgeting for 100% of its depreciation expense. For long term sustainability we would expect Council to budget for a break-even result as a minimum including coverage of its depreciation charge.

Rates revenue increased by $2.478m (5.97%) from 2006-07 and $7.188m (19.55%) over the period under review. The first full Municipality property revaluations since 2001 were undertaken in 2007-08, by the Valuer–General, with revised valuations taking effect from 1 July 2007. The revaluation revealed significant fluctuations in property valuations which by extension created major fluctuations in various classes of property rates. The rise in rates was also due in part to increased development, including a number of new subdivisions and new sites in and surrounding the Hobart International Airport.

User charges increased by $1.448m (33.25%) from 2006-07 and $2.070m (55.45%) over the period under review. The increase this year was due to a mixture of increased activity in development and building applications, above average water sales and excess consumption charges. Council also received a back-payment of lease revenue from Copping Refuse Disposal Site Joint Authority of $0.456m. The Authority had not paid rental lease payments to the member Councils in the past, due to unresolved terms and conditions of the lease being settled in 2007-08.

Grant revenue increased by $0.247m (12.65%) from 2006-07 to 2007-08 and was reasonably consistent from 2005-06.

Other operating income, while decreasing by $0.645m (9.43%) from last year, was generally consistent from 2005-06 and is expected to fluctuate, due to the different types and amounts of revenue included. Typically it includes interest income, government subsidies and movements in Council's interests in its associates such as Hobart Water and Copping Refuse Disposal Site Joint Authority.

Employee costs increased by $1.341m (11.30%) from last year, due mainly to the financial year containing an additional pay period (27 instead of 26) and general salary and wage increases. The 2005-06 increase of $1.195m (11.5%), was predominately due to an additional 13 staff.

Borrowing costs increased by $0.074m (5.17% from last year). The increase was due to a floating rate loan of $10.000m and a small rise in interest rates on this loan during the year. The Balance Sheet section of this Chapter contains further details of changes in Council's total borrowings.

Depreciation expense increased by $1.064m (8.25%) from last year due to the revaluation of water and sewer assets, which took effect from 1 July 2007. Sewerage depreciation increased by $0.476m (16.78%) and water by $0.426m (27.24%) with the balance of the increase due to additional infrastructure acquired by Council. This expense increased steadily over the period of review in line with increases in infrastructure assets increasing by $4.740m (51.37%).

Other operating expenses increased by $3.152m (11.65%) from last year reflecting upwards movements across a broad range of items including contracts $1.214m, materials $0.408m, State levies $0.625m and water $0.181m.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	13 637	12 169	12 857	16 144
Receivables	4 088	3 383	2 519	2 615
Investments	36 832	29 572	23 355	13 172
Inventories	285	222	224	238
Other	388	656	379	162
Total Current Assets	**55 230**	**46 002**	**39 334**	**32 331**
Payables	7 109	5 552	5 102	4 091
Borrowings	11 399	1 406	1 294	3 345
Provisions	2 255	2 064	2 070	2 027
Total Current Liabilities	**20 763**	**9 022**	**8 466**	**9 463**
Working Capital	**34 467**	**36 980**	**30 868**	**22 868**
Property, plant and equipment	495 796	450 126	429 373	352 196
Investments in associates	50 112	47 917	29 834	29 387
Other	134	147	161	183
Total Non-Current Assets	**546 042**	**498 190**	**459 368**	**381 766**
Borrowings	12 768	22 021	23 426	22 557
Provisions	456	341	335	380
Total Non-Current Liabilities	**13 224**	**22 362**	**23 761**	**22 937**
Net Assets	**567 285**	**512 808**	**466 475**	**381 697**
Reserves	262 391	218 320	193 573	116 428
Accumulated surpluses	304 894	294 488	272 902	265 269
Total Equity	**567 285**	**512 808**	**466 475**	**381 697**

Comment

Total equity increased by $54.477m (10.62%), from last year and a sizeable $185.588m (48.62%) over the period of review. A significant reason was due to net increments arising from the revaluation of non-current assets. This is reflected in the increase in Reserves of $145.963m (125.36%) from 2004-05. More specifically the revaluation of non-current assets included revaluation amounts of $41.071m in 2007-08, $23.569m in 2006-07 and $80.918m in 2005-06. In addition, recognition of Council's share of Associates' asset revaluation increments, predominantly in Hobart Water, was $2.437m in 2007-08 and $17.292m in 2006-07. The increase in Accumulated surpluses over the period of $39.625m were predominantly due to Contributions of non-current assets totalling $18.792m.

Council's Cash and Investments balance of $50.469m has risen from last year by $8.728m (21%) and significantly over the period of review by $21.153m (72%). This year it comprised cash at bank of $13.637m and short term investments of $36.832m. The Cash balances reflected funds retained for future infrastructure projects, yet to be commenced and timing differences, for capital projects progressing between financial years. At the end of 2007-08 Council had contractual capital commitments of $4.965m.

Inventories of $0.285m in 2007-08 was consistent with prior year amounts across the period of review. Other assets of $0.388m in 2007-08 mainly consist of prepaid expenditure which fluctuates over time.

Payables of $7.109m was the highest it has been over the four year review period. It included trade creditors of $5.910m and other creditors and accruals of $1.199m. The increase reflected timing differences in payments.

Total borrowings decreased over the period of review by $1.735m (6.70%). A $2.200m Tascorp loan was added to the loan portfolio this year. At 30 June 2008 an unusually high amount of $11.399m was recognised as a current liability, mainly due to maturing loans being replaced with $10.000m in an offset borrowing facility.

Total Provisions of $2.711m increased by $0.304m due to increases in annual and long service leave over the period.

Property, plant and equipment increased by $45.670m (10.15%) from last year and by $143.600m (40.77%) over the period. Additions this year included:

- construction of a $5.200m waste water treatment plant and installation of a new water main and fire supply main at the Hobart International Airport
- $1.100m sewerage pumping station and gravity mains due to expanding development in the Cambridge area
- construction of a 9 megalitre reservoir at Mornington as part of the Howrah/Warrane water augmentation program
- construction of the sewer rising main from the proposed Kennedy Drive Pump Station to the new Cambridge Waste Water Treatment Plant
- installation of sports ground lighting at Wentworth Park
- the Clarence Recycled Water Scheme was expanded to service major users in the Cambridge and Seven Mile Beach areas
- customer contributions of $10.842m non-current assets received in 2008 included contributions mainly due to increased development including a number of new subdivisions and new sites surrounding the Hobart International Airport.

Investment in associates of $50.112m included Hobart Water and Copping Refuse Disposal Site Authority, which increased by $2.195m this year principally as a result of revaluation increments reported by Hobart Water. Revaluation increments/decrements, over the period of review, included a large increment of $17.292m in 2006-07 and a decrement of $0.024m in 2005-06.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	52 698	47 884	43 890	39 843
Cash Flows from Government	4 068	3 628	4 070	4 186
Payments to suppliers and employees	(41 585)	(39 009)	(36 691)	(31 658)
Interest received	3 346	2 922	2 278	2 006
Borrowing costs	(1 535)	(1 422)	(1 622)	(1 737)
Cash from operations	**16 992**	**14 003**	**11 925**	**12 640**
Capital grants received	603	686	688	1 140
Payments for property, plant and equipment	(10 038)	(8 365)	(4 649)	(8 673)
Proceeds from sale of property, plant and equipment	431	498	114	129
Cash (used in) investing activities	**(9 004)**	**(7 181)**	**(3 847)**	**(7 404)**
Repayment of borrowings	(1 460)	(1 293)	(1 182)	(1 036)
Proceeds from borrowings	2 200	0	0	0
Cash from (used in) financing activities	**740**	**(1 293)**	**(1 182)**	**(1 036)**
Net increase in cash	**8 728**	**5 529**	**6 896**	**4 200**
Cash at the beginning of the year	41 741	36 212	29 316	25 116
Cash at the end of the year	**50 469**	**41 741**	**36 212**	**29 316**

Comment

Council consistently recorded net increases in cash over the period of review. Cash at the end of the 2007-08 year increased by $8.728m and by $5.529m in the previous year.

The Income Statement and Balance Sheet sections of this Chapter should be referred to as commentary included in these sections explain movements in Council's Cash position.

Cash used in investing activities rose by $1.823m from last year mainly reflecting an increase in the amount of Property, plant and equipment purchased and constructed this year.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(737)	758	(726)	2 868
Operating margin	>1.0	0.99	1.03	0.99	1.07
Underlying result ratio		(1.3%)	1.4%	(1.4%)	5.9%
Self financing ratio		29.2%	25.6%	23.6%	26.1%
Own source revenue ($'000s)		55 948	52 667	48 367	44 902
Financial Management					
Current ratio	>1	2.66	5.10	4.65	3.42
Indebtedness ratio		23.6%	42.5%	49.1%	51.1%
Cost of debt	7.5%	6.2%	6.1%	6.3%	6.7%
Debt service ratio		5.2%	5.0%	5.5%	5.7%
Debt collection	30 days	29	26	21	23
Creditor turnover	30 days	71	40	58	33
Capital expenditure/depreciation	>100%	72%	65%	40%	94%
Capital expenditure on existing assets/depreciation	100%	49%	40%	38%	32%
Other information					
Employee costs expensed ($'000s)		13 205	11 864	11 566	10 371
Employee costs capitalised ($'000s)		1 241	1 246	1 215	1 272
Total employee costs ($'000s)		**14 446**	**13 110**	**12 781**	**11 643**
Employee costs as a % of operating expenses		22%	22%	23%	23%
Staff numbers (FTEs)		243	244	245	232
Average staff costs ($'000s)		59	54	52	50
Average employee benefits per FTE ($'000s)		11	10	10	10

Comment

A number of the above margins, ratios and amounts have been commented on previously in the Financial Results section of this Chapter.

Indebtedness ratio decreased by around 18% from last year, and over the four year review period, reflected the change in the $10.000m offset borrowing facilities noted previously.

Cost of debt ratio was consistent over the period of review and below the benchmark. Similarly, the Debt service ratio was relatively consistent over the period of review.

Creditor turnover ratio increased significantly from last year and was the highest it had been over the period of review. This reflected the large increase in the payables balance, noted in the Balance Sheet section of this Chapter.

Capital expenditure/depreciation ratio increased from last year but fluctuated over the period of review. The increase this year reflected the large payments for Property, plant and equipment. The Balance Sheet section of this Chapter contains a review of selected new capital additions this financial year. However, the ratio was below the benchmark of 100% throughout the period indicating that Council may not have invested sufficiently in maintaining its infrastructure.

Capital expenditure on existing assets to depreciation improved steadily but remained low at 49%. This may indicate that Council needs to invest more in its existing asset base and highlights the importance of Council's renewal strategy.

Employee costs expensed increased over the period of review with details of movements in employee costs discussed in the Income Statement of this Chapter.

Employee costs as a percentage of operating expenses, staff numbers, average staff costs and average employee benefits per FTE were fairly consistent over the four year review period.

DEVONPORT CITY COUNCIL

INTRODUCTION

The Devonport City Council originated from the Municipality of Devonport, which was proclaimed in 1907. The municipality was proclaimed a City in 1981.

The municipality sits on the banks of the Mersey River, covers an area of approximately 116 square kilometres and serves a population in the order of 25 000 people.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

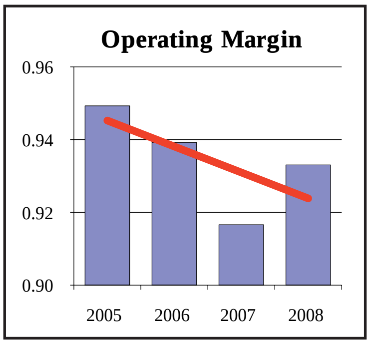
Signed financial statements were received on 30 October 2008 and an unqualified audit report was issued on 13 November 2008.

Council did not comply with Section 84 Financial Statements of the *Local Government Act 1993* in that the financial statements were not prepared and certified by the General Manager within 90 days after the end of the financial year.

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

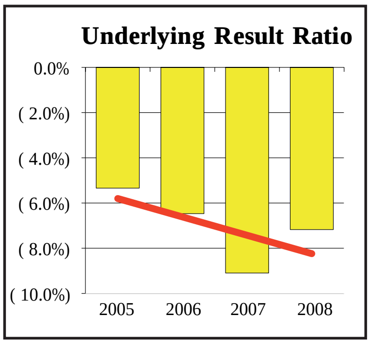
FINANCIAL RESULTS

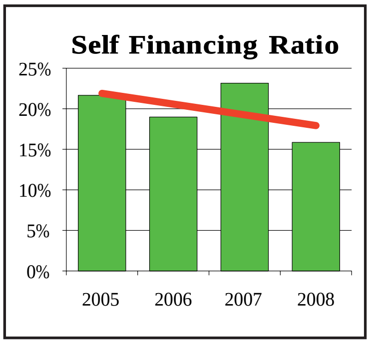
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was below the expected benchmark of one in all four years, which represents operating deficits before capital grants and contributions of non-current assets. An operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

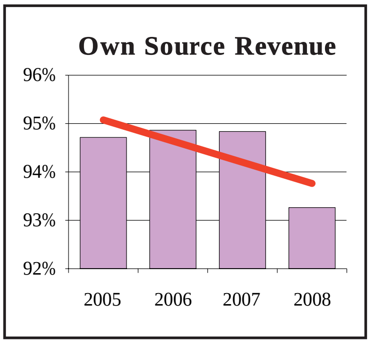
The negative Underlying result ratios are due to the operating deficits in all four years. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a deficit. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

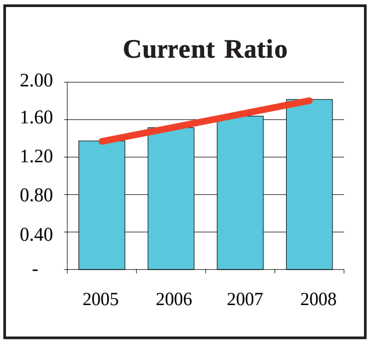




The Self financing ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue.
A positive ratio indicates that a council is generating operating cash flows which are contributing towards its capital expenditure programs. Management need to address reasons why operating cash flows are declining relative to total operating revenues.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources. However, by 2007-08 it was marginally more reliant on recurrent grant funding, 7% (2004-05, 5%).





The Current ratio was above the benchmark in all four years indicating that Council is able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	25 141	25 205	23 907	22 868	21 996
Fees and charges	7 101	7 222	6 790	5 945	6 396
Grants	2 587	2 514	1 782	1 697	1 708
Other operating revenue	1 775	2 380	2 025	2 521	2 209
Total Revenue	**36 604**	**37 321**	**34 504**	**33 031**	**32 309**
Employee costs	12 461	12 915	11 595	11 268	10 617
Borrowing costs	767	682	673	715	687
Depreciation	8 771	9 338	9 242	8 468	7 931
Other operating expenses	14 889	16 401	15 095	14 479	13 704
Loss on disposal of assets	0	663	1 038	238	1 096
Total Expenses	**36 888**	**39 999**	**37 643**	**35 168**	**34 035**
Deficit before:	**(284)**	**(2 678)**	**(3 139)**	**(2 137)**	**(1 726)**
Capital grants	395	384	3 339	1 346	269
Contributions of non-current assets	0	4 316	4 378	4 859	2 810
Surplus for the year	**111**	**2 022**	**4 578**	**4 068**	**1 353**

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

Comment

Council recorded deficits from operating activities (before accounting for capital grants and Contributions) in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges.

Council's Surpluses for the four years, totalling $12.021m, included Capital grants of $5.338m and Contributions of non-current assets of $16.363m. Contributions of non-current assets comprised subdivision assets taken over by Council.

Revenue from Rates increased by $3.209m, (or 14.59%) from 2004-05 to 2007-08. The increases in each year were in accordance with Council's Estimates. As a percentage of Total Revenue, Rates, as expected, continues to represent the greatest share being 67.2% in 2007-08, compared with 68.1% in 2004-05.

Fees and charges represented 19.4% of Total Revenue in 2007-08 compared to 19.8% in 2004-05. The primary revenue sources were:

- trade waste disposal fees, (2007-08 $1.487m, 2006-07 $1.463m)
- domestic and commercial water usage charges, ($1.625m; $1.679m)
- parking fees, ($1.229m; $1.169m)
- parking fines, ($0.446m; $0.395m)
- property leases and rental, ($0.618m; $0.583m).

Water usage charges increased by $0.516m, (or 44.37%), in 2006-07 due largely to an increase in the charge levied. For water supplied from 1 July 2005 to 30 June 2006, Council charged thirty-five cents per kilolitre for treated water in respect of all land that received a metered water supply. For water supplied from 1 July 2006 to 30 June 2007, Council increased this charge to forty-five cents per kilolitre.

A major component of operating Grant revenue was the Commonwealth tax sharing grant, $1.454m, in 2007-08 (2006-07, $1.447m; 2005-06, $1.492m; 2004-05, $1.535m). This represented a decrease of 5.3% during the period under review.

Other operating revenue includes interest income, (2007-08, $0.836m; 2006-07, $0.672m), and the share of profit relating to Council's investment in associates, ($0.468m; $0.399m).

Employee costs increased by $2.298m (or 21.6%) over the period. The main increase was in 2007-08, (an increase of $1.320m or 11.4%) which was due principally to an increase in total wages and salaries paid of $0.755m and a decrease in the capitalisation of wages of $0.499m. The increase in wages and salaries was due in part to a pay rise of 4.0% under Council's Enterprise Agreement and the payment of redundancies to a number of staff as a result of an organisational restructure. Staff numbers remained steady over the period.

Depreciation charges increased by $1.407m, (or 17.7%), in the period under review, due primarily to increases in the carrying value of Council's Property, plant and equipment due to regular revaluations.

Other operating expenses of $16.401m represented 43.9% of Total Revenue in 2007-08 (2004-05, 42.4%) and increased by $2.697m, (or 19.7%), in the period under review. The increase reflects a general increase in costs across all of Council's activities. The primary expenses were:

- water purchases, (2007-08, $3.325m; 2006-07, $3.213m)
- general services and materials, ($3.905m; $3.519m)
- government levies, ($2.015m; $1.916m)
- contractors, ($1.360m; $1.224m)
- professional consultants, ($0.881m; $0.722m)
- power charges, including street lighting, ($0.780m; $0.711m)
- advertising, printing and other office costs, ($0.749m; $0.694m).

Capital grants totalling $5.338m over the period under review included the following major items:

- State Government funding in 2006-07 of $2.500m for the Devonport Eastern Shore Project
- Roads to Recovery funding totalling $1.237m.

BALANCE SHEET

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Cash	9 137	7 334	7 354	6 151
Receivables	1 615	4 390	1 494	1 637
Investments	100	0	100	0
Inventories	204	208	220	190
Other	209	275	381	243
Total Current Assets	**11 265**	**12 207**	**9 549**	**8 221**
Payables	2 239	3 327	1 817	1 563
Borrowings	1 632	1 727	2 070	2 124
Provisions - employee benefits	2 333	2 398	2 417	2 300
Total Current Liabilities	**6 204**	**7 452**	**6 304**	**5 987**
Working Capital	**5 061**	**4 755**	**3 245**	**2 234**
Property, plant and equipment	352 917	339 233	325 973	313 868
Investments in associates	31 232	27 256	17 282	17 063
Investments	382	452	422	491
Other	547	722	1 360	1 506
Total Non-Current Assets	**385 078**	**367 663**	**345 037**	**332 928**
Borrowings	8 967	8 519	9 245	10 314
Provisions - employee benefits	303	386	333	415
Total Non-Current Liabilities	**9 270**	**8 905**	**9 578**	**10 729**
Net Assets	**380 869**	**363 513**	**338 704**	**324 433**
Reserves	212 146	196 068	175 689	166 676
Accumulated surpluses	168 723	167 445	163 015	157 757
Total Equity	**380 869**	**363 513**	**338 704**	**324 433**

Comment

Total Equity rose by $56.436m over the period under review due to:

- Council surpluses of $10.668m (2007-08, $2.022m; 2006-07, $4.578m and 2005-06, $4.068m)
- asset revaluation increments of $32.809m
- the write back of unrealised losses on holding monetary resources and inflation gains on holding loan capital (through Council's asset revaluation reserve) of $0.192m, and
- an increase in Council's share of the increase in associates' asset revaluation reserves of $13.151m.

Council's Cash balance at 30 June 2008, $9.137m, comprised cash at bank and on hand and short-term investments. According to Council's 2008-09 budget, the cash balance is expected to decrease to $6.353m at 30 June 2009 due to a significant capital budget totalling $15.069m. The capital budget was funded partly from new loans of $3.935m and partly from budgeted cash flows from operating activities and cash reserves. Council's 2008-09 capital works budget includes the following major projects:

- Horsehead Creek sewerage detention basin, $3.658m
- Devonport Eastern Shore Project - Wheeler and Tarleton St upgrades, $1.925m
- removal and replacement of Devonport Oval track lights, $0.615m
- Caroline Street Sewerage Pump Station partial switchboard upgrade, $0.570m
- stage one of the Home Hill redevelopment, $0.480m.

Council also held current and non-current financial assets of $0.482m (2006-07, $0.452m), comprising sinking fund investment funds held to meet loan redemptions. A more detailed explanation of the movement in Cash is provided in the Cash Position section below.

Receivables balance at 30 June 2007 included $2.500m relating to State government funding for the Devonport Eastern Shore Project. Funds were received in July 2007.

Council applies a revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value based on depreciated replacement cost. To maintain accurate valuations, Council undertakes a revaluation of these assets on a regular basis. Property, plant and equipment increased by $39.049m (or 12.4%) over the period under review due to additions of $22.710m, asset revaluation increments, $32.809m, and contributed assets, $13.353m. The increases in value were offset by depreciation expenses of $27.048m and asset disposals of $2.975m. The asset revaluations also resulted in a corresponding increase to the asset revaluation reserve, accounting for part of the upward movement in Reserves.

Council's Investment in associates represented Council's interest in Cradle Coast Water (CCW), $29.857m, and Dulverton Regional Waste Management Authority (DRWMA), $1.375m.
The investment is based on Council equity accounting its share of the financial position of each authority at 30 June each year. Council's investment in CCW increased by $12.794m since 30 June 2005 due to Council's share of profits of the Authority, $1.234m, less dividends received, $0.757m, plus the share of the Authority's asset revaluation increments, $12.317m. Council's initial contribution to DRWMA of $0.453m was converted from a loan (included in Other non-current assets) to an investment on 30 June 2007.

Other non-current assets represent loans and advances made to various sporting and community organisations. The balance decreased during 2006-07 primarily due to the transfer of the DRWMA loan receivable to Investments in associates as mentioned above.

Payables at 30 June 2007 increased by $1.510m from the prior year due to the timing of creditor payments. In previous years Council cleared creditors which were due at 30 June. However, due to computer system issues this did not occur at 30 June 2007.

Total borrowings decreased by $1.839m over the period due to principal repayments of $5.839m less new borrowings of $4.000m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	35 259	32 134	31 544	30 696
Cash flows from Government	2 514	1 782	1 697	1 708
Payments to suppliers and employees	(32 005)	(25 888)	(26 767)	(24 942)
Interest received	831	646	510	268
Borrowing costs	(682)	(685)	(715)	(733)
Cash from operations	**5 917**	**7 989**	**6 269**	**6 997**
Capital grants and contributions	2 884	839	1 346	269
Proceeds from investments	388	485	387	421
Payments for property, plant and equipment	(8 171)	(8 472)	(6 072)	(6 151)
Proceeds from sale of property, plant and equipment	432	208	396	852
Cash from (used in) investing activities	**(4 467)**	**(6 940)**	**(3 943)**	**(4 609)**
Proceeds from borrowings	2 000	1 000	1 000	2 060
Repayment of borrowings	(1 647)	(2 069)	(2 123)	(2 145)
Cash from (used in) financing activities	**353**	**(1 069)**	**(1 123)**	**(85)**
Net increase (decrease) in cash	**1 803**	**(20)**	**1 203**	**2 303**
Cash at the beginning of the year	7 334	7 354	6 151	3 848
Cash at the end of the year	**9 137**	**7 334**	**7 354**	**6 151**

Comment

Council generated positive cash inflows from operations in all years under review. However, whilst Receipts from customers increased by $4.563m, 14.9%, Payments to suppliers and employees has more than offset this increasing $7.063m, 28.3%. The fact that the inflationary trend in expenditure is greater than the growth in operating cash revenues confirms our earlier concern that this may be leading to difficulties in Council:

- meeting its operating commitments
- having the ability to fund its capital expenditure requirements, or
- servicing its debt.

This trend was particularly severe in 2007-08 when Receipts from customers increased by $3.125m and Payments to suppliers and employees increased by $6.117m resulting in a decrease in net operating cash flows of $2.072m.

The higher Payments to suppliers and employees in 2007-08 were due partly to the increased payables balance at 30 June 2007 referred to in the Balance Sheet section.

Payments for property, plant and equipment totalled $28.866m for the four years under review. Major capital expenditure projects included:

- property acquisitions and roadworks related to the Devonport Eastern Shore Project
- Pardoe waste water treatment plant works
- Council's annual reseal program and plant additions and replacements
- Rooke Mall redevelopment.

This capital expenditure was part funded by Capital grants to the extent of $5.338m. The high Capital receipts in 2007-08 were due to the collection in July 2007 of the Receivable of $2.500m for the Devonport Eastern Shore Project due at 30 June 2007.

Council recorded an overall increase in cash for the four years of $5.558m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(2 678)	(3 139)	(2 137)	(1 726)
Operating margin	>1.0	0.93	0.92	0.94	0.95
Underlying result ratio		(7.2%)	(9.1%)	(6.5%)	(5.3%)
Self financing ratio		15.9%	23.2%	19.0%	21.7%
Own source revenue ($'000s)		34 807	32 722	31 334	30 601
Financial Management					
Current ratio	>1	1.82	1.64	1.51	1.37
Indebtedness ratio		26.6%	27.2%	30.6%	35.1%
Cost of debt	7.5%	6.5%	6.2%	6.0%	5.5%
Debt service ratio		6.2%	8.0%	8.6%	8.9%
Debt collection	30 days	16	20	17	19
Creditor turnover	30 days	30	48	28	25
Capital expenditure/depreciation	>100%	88%	92%	72%	78%
Capital expenditure on existing assets/depreciation	100%	55%	62%	58%	75%
Other Information					
Employee costs expensed ($'000s)		12 915	11 595	11 268	10 617
Employee costs capitalised ($'000s)		1 137	1 137	731	691
Total employee costs ('000s)		**14 052**	**12 732**	**11 999**	**11 308**
Employee costs as % of operating expenses		32%	31%	32%	31%
Staff numbers (FTEs)		205	206	204	201
Average staff costs ($'000s)		69	62	59	56
Average leave balance per FTE ($'000s)		13	14	14	14

Comment

Council recorded operating deficits (before including capital grants and contributions) in all years under review resulting in Operating margins below the benchmark and negative Underlying result ratios. As noted earlier this may indicate that Council might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges.

Council's Self financing ratio decreased from 23.2% in 2006-07 to 15.9% in 2007-08 due mainly to decreased Cash from operations, as discussed in the Cash Position section of this Chapter. Council's Own source revenue gradually increased over the period which is due to the increase in Rates revenue and Fees and charges noted in the Income Statement section.

Council's Current ratio was above the benchmark in all years under review, which indicates an ability to meet short term commitments.

Council's Indebtedness ratio gradually decreased over the period which is related to the increase in Own source revenue.

Debt collection ratio was under the benchmark of 30 days for all years under review. The ratios reflect Council's good debt recovery procedures.

Creditor turnover ratio was below or equal to the benchmark in 2004-05, 2005-06 and 2007-08. The 2006-07 ratio was above benchmark due to the higher Payables balance discussed earlier in the Balance Sheet section. The increase at 30 June 2007 is not of concern bearing in mind Council's policy of paying outstanding creditors within a 30 day period.

Capital expenditure to depreciation ratio was below 100% for all years reported, indicating that Council might not have invested sufficiently in maintaining assets in these financial years.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio was well below the benchmark in all years. This may indicate that Council might not have invested sufficiently in maintaining existing assets. A significant amount of capital expenditure during 2005-06 and 2006-07 was land purchases relating to the Devonport Eastern Shore Project.

Employee costs as a percentage of operating expenses and average employee entitlements were fairly stable throughout the period. The increase in average staff costs in 2007-08 was partly due to the redundancy payments, as detailed in the Income Statement section.

GLENORCHY CITY COUNCIL

INTRODUCTION

The Glenorchy area was first proclaimed as a Municipality in 1864 and was granted City status in 1964. The population serviced by the Glenorchy City Council is of the order of 44 250 people and the Municipality covers an area of 120 square kilometres.

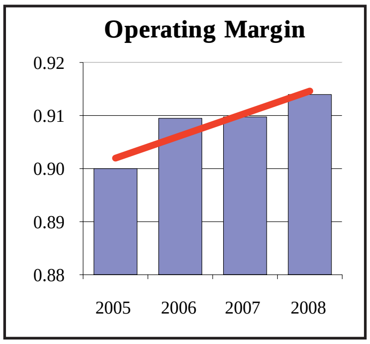
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2008 and an unqualified audit report was issued on the same day.

The audit was completed with satisfactorily with no major issues outstanding.

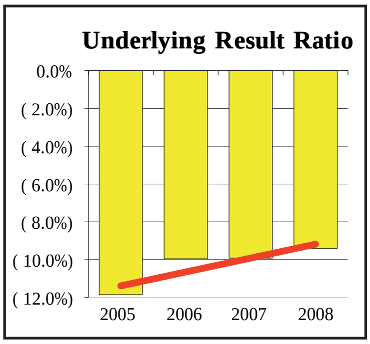
FINANCIAL RESULTS

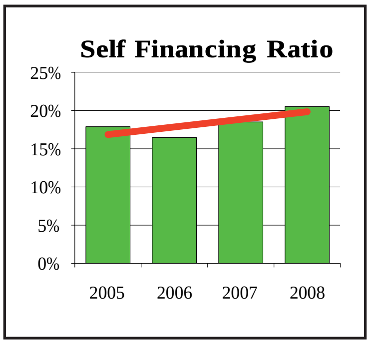
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



Although the Operating margin is below the benchmark of one in all four years, it is reasonably stable albeit on a slight increase. An operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

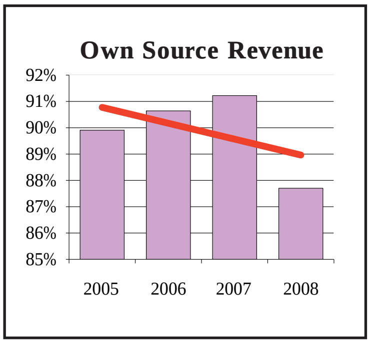
The negative Underlying results ratio improved over the period indicating that operating deficits before capital grants decreased when compared with total operating revenues. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a deficit. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

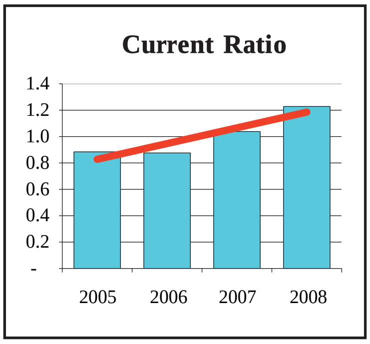




Whilst the Self financing ratio indicated a slight incline Council had an average ratio of 18.35% over the period under review. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. The positive ratio indicates that a council is generating operating cash flows which are contributing towards its capital expenditure programs.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources. However, by 2007-08 it was marginally more reliant on recurrent grant funding, 12.30% (2004-05, 10.09%).





The Current ratio increased over the period of review. Whilst the initial two years were below the benchmark of one in the most recent two years the benchmark was exceeded. This indicated that Council is now able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	**2007-08** Actual $'000s	**2006-07** Actual $'000s	**2005-06** Actual $'000s	**2004-05** Actual $'000s
Rates	38 321	39 194	36 158	33 723	32 753
User charges	11 483	11 871	11 431	10 692	9 059
Grants	5 587	7 710	5 045	5 127	5 131
Other operating revenue	4 520	3 922	4 834	5 246	3 898
Total Revenue	**59 911**	**62 697**	**57 468**	**54 788**	**50 841**
Employee costs	19 358	19 275	18 751	17 108	15 843
Borrowing costs	1 395	1 430	1 532	1 609	1 553
Depreciation	14 186	17 094	14 669	13 411	13 234
Other operating expenses	29 068	30 800	28 217	28 113	26 237
Total Expenses	**64 007**	**68 599**	**63 169**	**60 241**	**56 867**
(Deficit) before:	**(4 096)**	**(5 902)**	**(5 701)**	**(5 453)**	**(6 026)**
Capital grants	1 001	1 054	1 152	763	592
Contributions of non-current assets	0	1 008	3 268	6 796	2 565
Surplus (Deficit)	**(3 095)**	**(3 840)**	**(1 281)**	**2 106**	**(2 869)**

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

Comment

In 2007-08 Council recorded a Deficit before Capital grants and Contributions of $5.902m, which was consistent with deficits recorded in the other three years under review. This indicates that Council may not have sufficient revenue to fulfil its operating requirements, although, as noted below, there were positive operating cash flow results and a reduction in borrowings over the period of review.

These deficits emphasise that Council revenues may not be sufficient to cover non-cash expenses such as depreciation charges. Generating sufficient revenue to cover depreciation is a measure of an entity's ability to meet future asset replacement. In each of the four years under review, Council's operating budgets, before capital grants, were as follows:

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Budgeted net surplus (deficit)	(3 095)	(4 199)	(661)	(420)
Budgeted capital grants	1 011	441	370	408
Budgeted surplus (deficit) less capital grants	**(4 106)**	**(4 640)**	**(1 031)**	**(828)**

The budgeted operating deficits (excluding budgeted capital grants) supports comments above and later in this Chapter regarding depreciation to capital expenditure ratios. It could be argued that capital revenues contribute to the Depreciation charges. However, deficits were incurred in each year even after bringing Capital grants to account.

Revenue from rates increased by $6.441m (20%) in the four year period under review. Additional rates income was attributable to an increase in the rate base (population and increased business activity) and increases in the general rate charged. Rates continue to be a major component of Council's revenue, 63.96% in 2007-08.

User charges represented 19.17% of total operating revenues in 2007-08 which was consistent with prior years. Sale of water to special consumers and excess charges, $2.693m in 2007-08, comprised the largest component and remained reasonably consistent over the period of review averaging $2.601m. The most significant increases in User charges over the period were in relation to the Derwent Entertainment Centre commissions and recoveries of $1.614m in 2007-08; up $0.751m (87%) from $0.863 in 2004-05; and Landfill fees of $2.397m; up $0.688m (40%) from $1.709m.

Grant revenue increased in 2007-08; by $2.665m and included childcare services grants and federal government assistance. The increase in grant revenue is attributable to an increase in the Department of Transport grant and the Chance on Main grant.

Employee costs increased by $3.432m (21.66%) between 2004-05 to 2007-08. This was mainly due to an increase in maintenance expenditure (at the temporary cost of Capital works), staff movements, pay rises under Council's Enterprise Agreement of 4.0% in 2005-06 and 2006-07 and the flow on effect from employee provisions. In addition, over the period Council engaged an additional 19 FTE, which, at an average cost of about $60 000 per FTE, represented additional Employee costs of $1.140m per annum.

Depreciation expense increased $2.425m (16.53%) in 2007-08. This was due to the revaluation of roads resulting in revaluation increments, indexation of other infrastructure assets resulting in revaluation increments, and asset additions.

Other operating expenses represented 45.41% of Total Expenses in 2007-08, which was the average across the period under review. This expense includes materials, services, contracts, state levies, purchases of water, losses on disposal of assets and Borrowing costs. Bulk water purchases averaged $6.924m over the period (2007-08, $7.252m).

Contributions of non-current assets continued to decrease in 2007-08, reduced by $2.260m (69.16%) compared to 2006-07. In 2005-06 contributions increased due to sub-division infrastructure assets such as footpaths, roads and stormwater.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	3 104	5 677	4 210	3 487
Receivables	2 518	2 208	2 101	1 894
Investments	8 731	4 039	3 000	4 074
Inventories	330	398	360	307
Other	1 215	988	1 467	397
Total Current Assets	**15 898**	**13 310**	**11 138**	**10 159**
Payables	5 379	5 309	5 120	4 638
Borrowings	2 722	2 819	2 904	2 666
Provisions – employee benefits	4 089	3 894	3 573	3 511
Other	755	800	1 118	671
Total Current Liabilities	**12 945**	**12 822**	**12 715**	**11 486**
Working Capital	**2 953**	**488**	**(1 577)**	**(1 327)**
Property, plant and equipment	595 657	552 430	518 266	501 724
Investments in associate	69 456	66 728	41 880	41 542
Investment properties	3 059	3 101	2 998	2 281
Other	1 301	2 104	1 182	1 995
Total Non-Current Assets	**669 473**	**624 363**	**564 326**	**547 542**
Borrowings	17 187	19 869	21 188	22 090
Employee benefits provision	1 434	1 478	1 227	1 161
Other	1 084	1 047	970	858
Total Non-Current Liabilities	**19 705**	**22 394**	**23 385**	**24 109**
Net Assets	**652 721**	**602 457**	**539 364**	**522 106**
Reserves	361 814	305 586	240 082	223 944
Accumulated surpluses	290 907	296 871	299 282	298 162
Total Equity	**652 721**	**602 457**	**539 364**	**522 106**

Comment

Total equity rose by $130.615m over the period of review due predominately to:

- the revaluation of road and infrastructure assets with $105.210m recognised in the revaluation reserve (2007-08, $50.699m; 2006-07, $39.818m; 2005-06, $14.693m
- recognition of the Council's share of Hobart Water's asset revaluation increment of $28.421m ($3.405m; $24.556m; $0.460m)
- Council's deficit or surplus for the year ($3.840m deficit; $1.281m deficit; $2.106m surplus).

Council achieved an improved working capital position increasing $2.465m for 2007-08, a marked improvement compared to the three prior years. This was predominantly driven by increased cash from operations.

Council's total cash and investments balance at 30 June 2008 was $11.835m (2006-07, $9.716m; 2005-06, $7.210m; 2004-05, $7.561). The balance comprised cash at bank and on hand of $3.104m and short term investments of $8.731m. During 2007-08 Council's strategy was to reduce cash at bank and on hand and instead hold these balances in interest bearing investments. A more detailed explanation of the movement is provided in the Cash Position section following. These funds were not committed to any major future capital project.

Borrowings over the period of review declined $4.847m. The most significant movement was a reduction of $2.779m in 2007-08, comprising repayment of $4.280m offset by new Borrowings of $1.500m.

Property, plant and equipment increased $93.933m over the period under review primarily due to the revaluation of infrastructure as noted previously, net capital expenditure of $37.708m, contributed assets of $13.637m offset by depreciation charges of $58.408m.

Investments in associate represents Council's interest in Hobart Water. The investment is based on Council equity accounting its share of Hobart Water at 30 June each year. This increase was a result of revaluation increments reported by Hobart Water plus Council's share of profits, less dividends received. The carrying value of the investment increased significantly in 2006-07 due mainly to an upward revaluation by Hobart Water of its assets effective 1 July 2006.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	57 899	54 719	49 134	46 320
Cash flows from government	5 909	5 046	5 127	5 131
Payments to suppliers and employees	(50 488)	(48 358)	(44 228)	(41 412)
Interest received	978	768	601	631
Borrowing costs	(1 430)	(1 532)	(1 609)	(1 572)
Cash from operations	**12 868**	**10 643**	**9 025**	**9 098**
Capital grants and contributions	1 861	1 152	763	592
Payments for property, plant and equipment	(9 945)	(8 990)	(9 653)	(9 120)
Proceeds from sale of property, plant and equipment	113	1 101	176	398
Cash (used in) investing activities	**(7 971)**	**(6 737)**	**(8 714)**	**(8 130)**
Proceeds from borrowings	1 502	1 500	2 002	1 502
Repayment of borrowings	(4 280)	(2 900)	(2 664)	(2 465)
Cash (used in) financing activities	**(2 778)**	**(1 400)**	**(662)**	**(963)**
Net increase (decrease) in cash	**2 119**	**2 506**	**(351)**	**5**
Cash at the beginning of the year	9 716	7 210	7 561	7 556
Cash at the end of the year	**11 835**	**9 716**	**7 210**	**7 561**

Comment

Cash improved over the period of review, chiefly due to substantial increases in 2006-07 and 2007-08. These increases were driven by higher Receipts from customers, primarily due to increased Rate revenue including residential rates (2007-08, 3.73%; 2006-07, 5.39%). This was partially offset in each year by increases in Payments to suppliers and employees due to general increases in employee costs and materials and contracts.

Council maintained its investment in new Property, plant and equipment at an average of $9.427m throughout period of review with additions totalling $37.708m, compared with Depreciation expense for the same period of $59.360m. Cash used in investing activities was less than Depreciation expense for all years. In summary, Council's Cash increased by $4.279m due to:

	($'000s)
Cash generated from operations	41 634
Capital investments net of grants and sale proceeds	(31 552)
Net borrowing repayments	(5 803)
Net increase in cash holdings	**4 279**

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(5 902)	(5 701)	(5 453)	(6 026)
Operating margin	>1.0	0.91	0.91	0.91	0.90
Underlying result ratio		(9.4%)	(9.9%)	(10.0%)	(11.9%)
Self financing ratio		20.5%	18.5%	16.5%	17.9%
Own source revenue ($'000s)		54 987	52 423	49 661	45 710
Financial Management					
Current ratio	>1	1.23	1.04	0.88	0.88
Indebtedness ratio		35.8%	42.7%	47.1%	52.7%
Cost of debt	7.5%	6.7%	6.5%	6.6%	6.2%
Debt service ratio		9.1%	7.7%	7.8%	8.1%
Debt collection	30 days	18	17	17	13
Creditor turnover	30 days	15	9	40	43
Capital expenditure/depreciation	>100%	58%	61%	72%	69%
Capital expenditure on existing assets/depreciation	100%	47%	54%	58%	55%
Other Information					
Employee costs expensed ($'000s)		19 275	18 751	17 108	15 843
Employee costs capitalised ($'000s)		2 156	2 083	2 240	1 586
Total employee costs ($'000s)		**21 431**	**20 834**	**19 348**	**17 429**
Employee costs as % of operating expenses		28%	30%	28%	29%
Staff numbers (FTEs)		310	300	304	291
Average staff costs ($'000s)		69	69	64	54
Average leave balance per FTE ($'000s)		18	18	16	16

Comment

Council incurred deficits from operations during each of the four years under review, which were reflected in the Operating margin below one. An operating margin below the benchmark indicates that a council might not be generating sufficient revenue to fulfil its operating requirements.

The negative Underlying results ratio improved over the period indicating that operating deficits before capital grants decreased when compared with total operating revenues. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a deficit. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

Whislt the Self financing ratio indicated a slight incline Council had an average ratio of 18.35% over the period. The ratio shows net operating cash flows generated by a council expressed as a percentage of operating revenue. The positive ratio indicates that Council generated operating cash flows which contributed towards its capital expenditure programs.

Own source revenue shows Council generated the majority of its operating revenue from its own sources and in 2007-08 was reliant on recurrent grant funding to the extent of 12.30% (2004-05, 10.09%).

Current ratio increased over the period of review. Whilst the initial two years were below the benchmark of one, in the most recent two years the benchmark was exceeded. This indicates that Council is now able to meet all short-term liabilities.

Creditor turnover dropped significantly in 2006-07 compared to the previous two years due to a differing allocation between accruals and creditors which resulted from the new accounting system implemented during the period. If accruals were included in creditors turnover the turnover remained consistent with the prior years. It should also be noted that a large payment due for bulk water purchases early in July each year, skews the year-end result. Without this creditor the turnover levels would be in line with the benchmark.

Capital expenditure to depreciation ratio remained low at 58%, which was 14% less than 2005-06 due to lower capital expenditure during 2007-08. Council's higher depreciation expense was based on more recent valuation of its assets indicating that it may need to invest more heavily in capital expenditure programs. A focus on maintenance expenditure ahead of capital within the organisation contributed to the result.

Since asset valuations were undertaken in 2004-05, we are advised that Council committed significant resources to addressing the future infrastructure expenditure which led to the development of an asset management framework and improved financial policies. Council's financial policies acknowledge depreciation as a good long-term indication of asset deterioration, but management is focused on actual information provided by software modelling, condition assessments, physical inspections and other tests to determine year-to-year expenditure. The policies aim to ensure more effective long-term planning and a more efficient use of resources.

Employee costs as a percentage of operating expenses, staff numbers and average leave balances per employee were fairly consistent for all four years. Average staff costs increased mainly due to additional maintenance work, EBA increases and staffing movements.

HOBART CITY COUNCIL

INTRODUCTION

The Hobart area was granted City status in 1842 and services a population of approximately 49 700 people. Hobart City covers an area of 78 square kilometres.

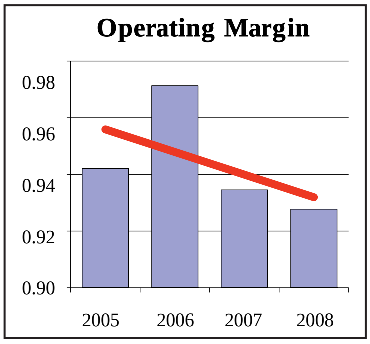
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 10 September 2008, and an unqualified audit report was issued on 16 October 2008.

The audit was completed satisfactorily with no major issues outstanding.

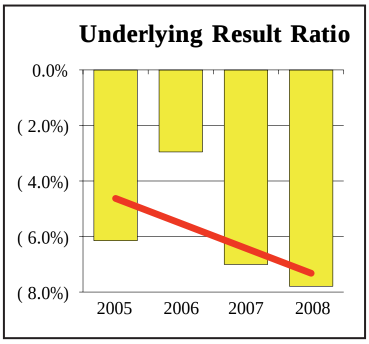
FINANCIAL RESULTS

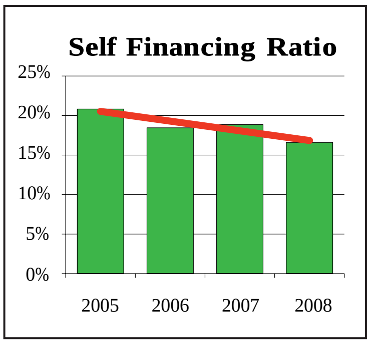
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was below the expected benchmark of one in all four years and is slowly declining, which represents increasing operating deficits before capital grants. An operating margin below the benchmark indicates Council might not be generating sufficient revenue to fulfil its operating requirements. The 2005-06 operating margin was unusually high due to a one-off gain on disposal of assets.

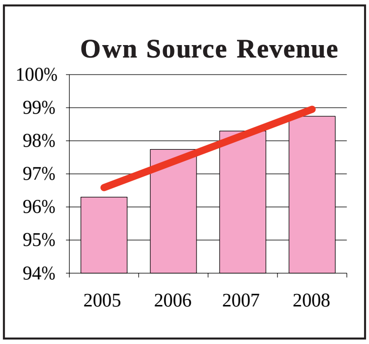
The negative Underlying results ratio increased over the period indicating that operating deficits before capital grants are increasing when compared with total operating revenues. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

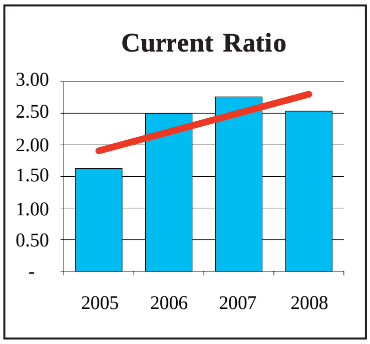




The Self financing ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. The ratio has been generally declining over the period under review, although remaining positive. The positive ratio indicates that Council is generating operating cash flows that are contributing towards its capital expenditure programs.

The Own source revenue percentage shows Council is increasingly generating most of its operating revenue from its own sources. In 2007-08 Council was reliant on recurrent grant funding only to the extent of 1.2% (2004-05, 3.7%).





The Current ratio is above the benchmark of 1.0 in all four years indicating that Council is able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	**2007-08** Actual $'000s	**2006-07** Actual $'000s	**2005-06** Actual $'000s	**2004-05** Actual $'000s
Rates and charges	64 609	64 951	61 903	59 336	57 200
Grants and donations	2 392	1 202	1 563	2 066	3 134
Fees and charges	22 594	22 453	21 973	21 218	19 695
Other operating revenue	5 454	6 868	6 274	8 757	4 621
Total Revenue	**95 049**	**95 474**	**91 713**	**91 377**	**84 650**
Employee costs	36 997	37 049	34 612	31 602	31 661
Depreciation	19 679	20 475	22 025	20 732	20 655
Finance costs	1 409	1 435	1 386	1 121	1 144
Other operating expenses	39 369	43 954	40 115	40 621	36 395
Total Expenses	**97 454**	**102 913**	**98 138**	**94 076**	**89 855**
(Deficit) before:	**(2 405)**	**(7 439)**	**(6 425)**	**(2 699)**	**(5 205)**
Capital grants	2 572	2 236	2 342	3 670	1 941
Contributed property plant and equipment	0	2 252	1 963	708	610
Revaluation increments (decrements)	0	3 540	6 152	0	(23)
Surplus (Deficit)	**167**	**589**	**4 032**	**1 679**	**(2 677)**

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

Comment

Council's Net surpluses for the four years under review total $3.623m. However the Operating deficits before Capital grants, Contributed property, plant and equipment and Revaluation increments (decrements) in each of the four years under review indicates that Council may not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges.

Council's operating deficits increased each year under review, after eliminating the 2005-06 Gain on disposal of assets, $3.274m and in 2007-08 the deficit was well above budget primarily due to Other operating expenses exceeding budget.

Total Revenue increased over the period under review by 12.8% and Total Expenses increased by 14.5% resulting in a growing Deficit.

Revenue from Rates and charges increased $7.751m (13.5%) in the four year period under review. The additional rates income was attributable to an increase in the rate base (higher population and increase in business activity) and increases in the rate charged. Rates continue to represent the major portion of Council's revenue, 68.0% in 2007-08.

Grants and donations received were high in 2004-05 due to the inclusion of the final distribution of Wapping area development funds, $1.143m.

Fees and charges revenue of $22.453m in 2007-08 consisted largely of fees and charges (mainly from waste management, The Hobart Aquatic Centre and off-street parking), $10.875m, parking meter fees, $3.411m, parking fines, $3.035m, and sale of goods (mainly from café and merchandise sales at The Hobart Aquatic Centre and sale of wine and glasses during the Taste of Tasmania), $1.778m.

Interest revenue (included in other operating revenue) increased over the period by $1.962m (160.2%) due to increasing cash balances and interest rates.

Employee costs represented 38.8% of Total Revenue and 36.0% of Total Expenses in 2007-08. The increase of $5.388m (17.0%) during the four years to 2007-08 was primarily due to annual pay rises. The expense in 2007-08 included additional leave costs resulting from the Enterprise Bargain Agreement (EBA) which increased sick leave payouts from 10% to 15% and pro rata long service leave after seven years. Staff numbers have remained static over the period. The extent to which Employee costs were capitalised into fixed assets remained reasonably constant over the period.

Finance costs represented 1.5% of Total operating revenue in 2007-08. The increase of $0.291m (25.4%) over the period is mainly due to an increase in borrowings of $4.980m, which is a 46.6% increase.

Depreciation represented 21.0% of Total operating revenue in 2007-08, and remained relatively constant over the period under review. The revaluation of Property, plant and equipment has been the primary reason for slight variations in the depreciation expense.

Other operating expenses increased in 2005-06 principally due to a change in accounting policy to write-off planning schemes and management plans, rather than capitalising them as Council assets. The increase in 2007-08 included an increase of $0.763m (13.4%) in State Fire Commission Levies, which are collected as part of rates and paid to the State Fire Commission. Other significant increases were materials and services, $1.699m (7.3%), and write-off of assets, $0.522m.

Capital grants were higher in 2005-06 due to increased Australian Government Roads to Recovery grants, $0.927m, and a grant from the Australian Government for the acquisition of Porter Hill, $1.000m. Capital grants in 2007-08 included Roads to Recovery Program, $0.236m, Other road grants, $1.403m, and Community Water grants, $0.210m.

Contributed property, plant and equipment comprises infrastructure assets required to be constructed for Council by property developers resulting from property sub-divisions. The amounts were higher in 2006-07, due to $1.713m received from Stage 16 of the Tolmans Hill subdivision, and in 2007-08, due to $1.232m received from Stage 1 of the Aotea Road subdivision.

The Revaluation increment of $3.540m in 2007-08 and $6.152m in 2006-07 represents, in the main, the reversal of a previous decrement for Council's wastewater treatment plants.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash and equivalents	45 595	39 462	32 506	20 303
Inventories	305	326	327	284
Receivables	3 741	3 480	3 398	3 378
Assets held for sale	0	0	0	1 144
Other	47	10	45	252
Total Current Assets	**49 688**	**43 278**	**36 276**	**25 361**
Payables	7 853	5 300	4 657	5 558
Trust, deposits, retention	1 814	1 865	1 850	1 499
Borrowings	1 756	899	870	1 051
Provisions - employee benefits	7 948	7 241	6 851	7 172
Other	237	376	319	305
Total Current Liabilities	**19 608**	**15 681**	**14 547**	**15 585**
Working Capital	**30 080**	**27 597**	**21 729**	**9 776**
Property, plant and equipment	906 695	726 258	681 926	647 775
Investments in associates	64 966	63 329	40 783	40 139
Investment property	11 550	11 550	11 550	9 788
Superannuation asset	0	5 168	4 041	0
Other	285	291	300	251
Total Non-Current Assets	**983 496**	**806 596**	**738 600**	**697 953**
Borrowings	13 913	14 668	14 568	9 638
Provisions - employee benefits	1 256	1 136	1 042	931
Superannuation liability	4 686	806	772	1 974
Other	7 045	6 945	6 938	6 556
Total Non-Current Liabilities	**26 900**	**23 555**	**23 320**	**19 099**
Net Assets	**986 676**	**810 638**	**737 009**	**688 630**
Reserves	722 827	532 607	459 492	409 548
Accumulated surpluses	263 849	278 031	277 517	279 082
Total Equity	**986 676**	**810 638**	**737 009**	**688 630**

Comment

Total Equity rose by $298.046m over the period under review principally due to increases in Reserves, $313.279m, offset by decreases in Accumulated surpluses, $15.233m. Significant changes in Reserve items have been:

- asset revaluation reserve, $271.055m, to account for asset revaluation increments
- equity in Hobart Water, $25.052m, to account for Council's proportionate interest in Hobart Water
- parking fund, $10.069m, to account for fees, penalties and other monies received from the operation of parking meters and voucher machines, and payment of establishment, maintenance and supervision of on-street parking. Any surplus is applied to the provision and operation of off-street parking facilities
- increase in the Asset replacement reserve, $4.804m, maintained for the replacement of Council assets.

This was offset by a decrease in Accumulated surpluses of $15.233m comprising:

- net surpluses in the three years to 30 June 2008, $6.300m, less
- defined benefit superannuation plan actuarial losses of $4.830m
- transfers to specific reserve accounts, $16.703m.

Council's Cash balances increased by $25.292m over the period. Cash increased significantly in 2005-06 as the result of property sales, capital grants, unspent capital works and a net surplus. The increase in 2006-07 was due to unspent capital funds and timing issues around the utilisation of funds generally. Council had $45.595m as at 30 June 2008, of which $43.676m was committed for various purposes including car park developments, $17m, asset replacement, $5m, and construction of a seawall at Long Beach Sandy Bay, $3m.

The cash balance of $45.595 at 30 June 2008 comprised term deposits, $39m, and cash at call and at bank.

Total Receivables at 30 June 2008 including Other non-current assets, comprised:

	$'000m
Rates Receivables	1.003
Parking Receivables	6.404
Other Receivables	2.940
Less Impairments	6.321
Net Balance	**4.026**

The allowance for impairment exceeds 50% every year, and is related almost entirely to the recovery of parking fines. Parking fine cash flows received amount to approximately 75% of parking fine revenue. The remainder is not collected and has to be written off over time. As noted in Council's financial statements, outstanding accounts for parking offences are regarded as doubtful when legal proceedings are commenced for recovery.

Assets held for sale at 30 June 2005 consisted of two car parks which were sold in 2005-06.

Property, plant and equipment increased by $180.437m from 2006-07 to 2007-08 principally due to asset revaluations, $187.077m, and additions, $16.593m, offset by depreciation, $20.475m. The net revaluation increment for buildings was $65.491m and pipes, drains and rivulets, $73.118m.

Investments in associates represented Council's interest in Hobart Water. The investment is based on Council equity accounting its share of the financial position of Hobart Water at 30 June each year.

The carrying value of the investment increased significantly in 2006-07 due mainly to an upward revaluation by Hobart Water of its assets effective 1 July 2006.

Payables increased $2.553m from 2006-07 to 2007-08 due to accrued charges for capital projects, including the construction of a seawall at Long Beach, Sandy Bay, $0.912m, and road condition assessments, $0.080m.

Trust, deposits and retentions increased in 2005-06 due to an increase in the number of infrastructure bonds.

Council's Borrowings increased by $4.749m (44.3%) in 2005-06, primarily to fund capital expenditure in that year.

A Superannuation asset, $4.041m, was recognised in 2005-06 as the result of an actuarial review of the defined benefits superannuation plan. This asset meant that Council's superannuation fund had surplus assets and represented an asset for Council. Decisions on levels of future contributions are determined through a triennial review. The asset, $5.168m, was de-recognised in 2007-08 as the result of an actuarial review of the defined benefits superannuation plan. This now means that Council no longer has surplus assets, but a liability.

Other non-current liabilities largely consist of the present obligation for landfill restoration to rehabilitate the McRobies Gully refuse site. The provision increased by a further $0.100m during 2007-08 to $7.045m as at 30 June 2008.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	93 360	89 811	85 993	83 132
Cash flows from government	1 260	1 630	2 199	2 062
Interest received	2 898	2 356	1 637	1 213
Payments to suppliers and employees	(80 671)	(75 463)	(72 228)	(67 985)
Borrowing costs	(999)	(1 044)	(741)	(797)
Cash from operations	**15 848**	**17 290**	**16 860**	**17 625**
Capital grants and contributions	2 082	2 224	3 641	1 736
Dividends received	963	1 151	988	824
Proceeds from sale of property, plant and equipment	916	747	5 120	1 540
Payments for property, plant and equipment	(13 778)	(14 585)	(19 155)	(15 755)
Cash (used in) investing activities	**(9 817)**	**(10 463)**	**(9 406)**	**(11 655)**
Proceeds from borrowings	1 000	4 900	5 800	1 000
Repayment of borrowings	(898)	(4 771)	(1 051)	(1 940)
Cash from (used in) financing activities	**102**	**129**	**4 749**	**(940)**
Net increase in cash	**6 133**	**6 956**	**12 203**	**5 030**
Cash at the beginning of the year	39 462	32 506	20 303	15 273
Cash at end of the year	**45 595**	**39 462**	**32 506**	**20 303**

Comment

Cash from operations declined from 2006-07 to 2007-08 by $1.452m primarily due to increased expenditure relating to materials and services across all Council's functions and activities.

Whilst Council made operating deficits in each of the four years under review (see Income Statement section), it generated positive operating cash flows greater than $15m in each year. The difference primarily related to depreciation charges, which exceeded $20m each year, having no cash impact. The operating cash surpluses, along with dividends received from Hobart Water and capital grants received from Commonwealth and State Governments, enabled Council to invest in infrastructure assets.

Council invested $63.273m in capital expenditure over the period funded in part by Capital grants of $9.683m.

Other reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(7 439)	(6 425)	(2 699)	(5 205)
Operating margin	>1.0	0.93	0.93	0.97	0.94
Underlying result ratio		(7.8%)	(7.0%)	(3.0%)	(6.1%)
Self financing ratio		16.6%	18.9%	18.5%	20.8%
Own source revenue ($'000s)		94 272	90 150	89 311	81 516
Financial Management					
Current ratio	>1	2.53	2.76	2.49	1.63
Indebtedness ratio		28.5%	26.1%	26.1%	23.4%
Cost of debt	7.5%	6.4%	6.1%	5.7%	7.3%
Debt service ratio		2.0%	6.2%	2.0%	3.2%
Debt collection	30 days	21	21	21	22
Creditor turnover	30 days	6	6	2	9
Capital expenditure/depreciation	>100%	67%	66%	92%	76%
Capital expenditure on existing assets/depreciation	100%	54%	54%	n/a	n/a
Other Information					
Employee costs expensed ($'000s)		37 049	34 612	31 602	31 661
Employee costs capitalised ($'000s)		2 397	2 567	2 499	2 458
Total employee costs ($'000s)		**39 446**	**37 179**	**34 101**	**34 119**
Employee costs as a % of operating expenses		38%	38%	36%	38%
Staff numbers (FTEs)		581	581	584	584
Average staff costs ($'000s)		68	64	58	58
Average leave balance per FTE ($'000s)		16	14	14	14

Comment

The Operating margin is below the expected benchmark of one in all four years and is slowly declining, which represents increasing operating deficits before capital grants. An operating margin below the benchmark indicates Council might not be generating sufficient revenue to fulfil its operating requirements. The 2005-06 operating margin is unusually high due to a one off gain on disposal of assets.

Negative Underlying results ratio increased over the period indicating that operating deficits before capital grants are increasing when compared with total operating revenues. To ensure long term financial sustainability, I would expect a council to, as a minimum, budget for a break-even operating result.

Self financing ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. The ratio has been generally declining over the period under review, although remaining positive. The positive ratio indicates that Council is generating operating cash flows that are contributing towards its capital expenditure programs.

Own source revenue percentage shows Council is increasingly generating most of its operating revenue from its own sources. In 2007-08 Council was reliant on recurrent grant funding only to the extent of 1.2% (2004-05, 3.7%).

Current ratio is above the benchmark of one in all four years indicating that Council is able to meet all short term liabilities. Council continues to be in a strong cash position with the Current ratio showing improvement most years.

The Debt service ratio decreased in 2005-06 as a result of lower repayments of borrowings.

Statistics for Debt collection indicates a satisfactory situation well below the 30 day benchmark.

Capital expenditure to depreciation ratio averaged around 75% over the four years, suggesting that, despite investing around $16.000m on average per annum in infrastructure, further investment is needed to maintain Council's asset base.

Employee costs as a percentage of total operating expenses and Average staff costs have remained fairly constant.

Average leave per FTE increased in 2007-08 resulting from the EBA which increased sick leave payouts from 10% to 15% and introduced pro-rata long service leave after seven years.

LAUNCESTON CITY COUNCIL

INTRODUCTION

The Launceston City Council originated from the Launceston Municipality, which was established in 1852. The municipality was proclaimed a City in 1888. The current Council boundaries were reorganised in 1985 to include the municipalities of St Leonards and Lilydale. The Council remained substantially unchanged during the amalgamation of councils in 1993.

The municipal area covers approximately 1 410 square kilometres and encompasses the majority of the City of Launceston. The Council services a population of approximately 65 000 people.

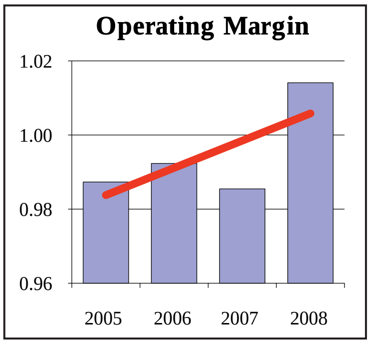
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2008 and an unqualified audit report was issued on 13 October 2008.

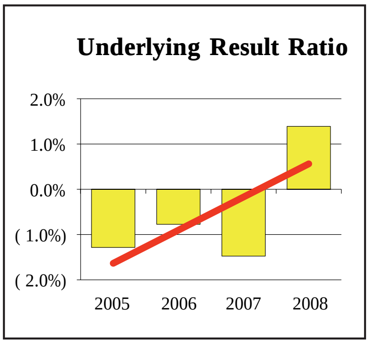
The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

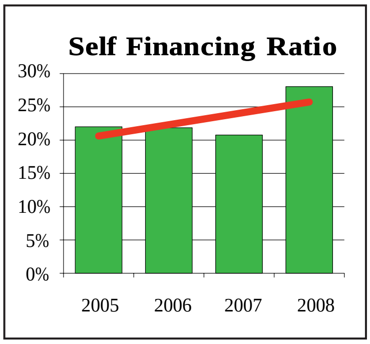
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was slightly below the expected benchmark of one in the first three years, but above the benchmark in 2007-08. On average, the Operating margin was only slightly below benchmark, however an Operating margin below one indicates a council may not be generating sufficient revenue to fulfil its operating requirements.

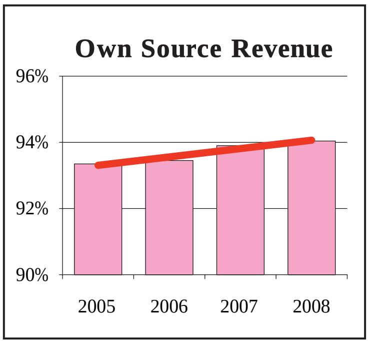


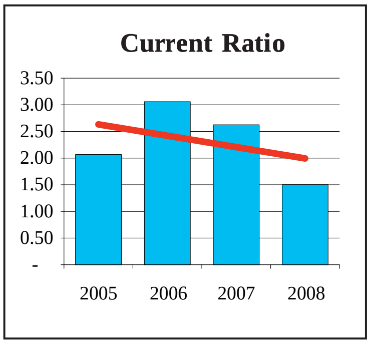
The negative Underlying result ratio in the first three years reflected operating deficits before capital grants and infrastructure take-up adjustments. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for an operating deficit in 2007-08. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.



Other than in 2007-08, the Self financing ratio, was consistent at around 22% over the period under review. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that Council is generating operating cash flows which are contributing towards its capital expenditure programs,

The Own source revenue percentage shows Council is generating the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of only 6% (2004-05, 7%).





The Current ratio is above the benchmark in all four years indicating that Council is able to meet all short-term liabilities. The ratio dropped from 2.6 at 30 June 2007 to 1.5 at 30 June 2008 due to Council accruing in payables an amount for the acquisition of properties for the Invermay flood protection project.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	61 341	62 144	58 624	57 073	54 366
Fees and charges	16 858	18 368	16 571	15 122	14 863
Grants	5 118	5 552	5 326	5 557	5 342
Other operating revenue	5 753	7 109	6 800	7 109	5 747
Total Revenue	**89 070**	**93 173**	**87 321**	**84 861**	**80 318**
Employee costs	27 461	28 450	29 806	28 838	26 896
Borrowing costs	1 279	991	780	814	814
Depreciation	21 447	21 512	21 289	20 449	20 026
Other operating expenses	39 651	40 925	36 735	35 417	33 614
Total Expenses	**89 838**	**91 878**	**88 610**	**85 518**	**81 350**
Surplus (Deficit) before:	**(768)**	**1 295**	**(1 289)**	**(657)**	**(1 032)**
Capital grants	2 395	2 417	3 215	13 939	12 347
Infrastructure take-up adjustments	0	5 905	2 940	4 929	3 908
Surplus	**1 627**	**9 617**	**4 866**	**18 211**	**15 223**

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

Comment

Council recorded a surplus from operating activities in 2007-08 of $1.295m (before bringing to account capital grants and infrastructure take-up adjustments) compared with deficits in the first three years under review. Deficits indicate that a council might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. Council's operating budget for the period under review was as follows:

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Budgeted net surplus (deficit)	1 627	(1 312)	11 074	9 873
Budgeted capital grants	(2 395)	(3 113)	(13 761)	(12 438)
Budgeted surplus (deficit) less capital grants	**(768)**	**(4 425)**	**(2 687)**	**(2 565)**

Council's budgeted deficit after excluding capital grants reduced significantly in 2007-08. Council subsequently achieved a stronger actual operating result compared to prior years, as noted above.

Rates, as expected, continues to represent the majority of total revenue, being 66.7% in 2007-08, with the preceding three years averaging 67.4%. Revenue from Rates increased by $7.778m, (or 14.3%), from 2004 05 to 2007-08. The increases in each year were in accordance with Council's Estimates.

Fees and charges represented 19.7% of total operating revenues in 2007-08, with the preceding three years averaging 18.4%. The primary revenue sources were:

- waste disposal fees, (2007-08 $4.412m, 2006-07 $3. 736m)
- domestic and commercial water usage charges, (2007-08 $4.418m, 2006-07 $3.279m)
- parking fees, (2007-08 $3.841m, 2006-07 $3.153m)
- parking fines, (2007-08 $1.183m, 2006-07 $1.255m).

Water usage charges increased by $1.139m or 34.7% in 2007-08 due to an increase in the charge levied. For water supplied from 1 July 2007 to 30 June 2008, Council charged seventy cents per kilolitre in respect of all land that received a metered water supply, compared with fifty-five cents per kilolitre for water supplied from 1 July 2006 to 30 June 2007. The new water usage charge applied from the first complete water meter reading subsequent to 1 July in each year.

Operating Grant income has been stable over the period under review, with approximately 65% represented by Commonwealth tax sharing grants. In 2007-08, Council received $3.523m, compared to $3.491m in 2004-05. This represented an increase of only 0.9% during the period under review.

Other operating revenue increased by $1.362m (or 23.7%) over the period under review. The increase mainly related to interest income, which increased from $2.013m in 2004 05 to $3.588m in 2007-08 (an increase of $1.575m). The increased interest income was primarily due to the higher investment balances held, which included committed grant funds. The movement in investment balances is further explained in the Balance Sheet section of this Chapter.

During the period under review, Employee costs increased by $1.554m (or 5.8%). From 2004 05 to 2006-07, Employee costs increased by $2.910m (or 10.8%), however, expenses decreased by $1.356m in 2007-08. The increase in the first three years was primarily due to pay rises under Council's Enterprise Agreement. Council also increased its contribution to its defined benefit superannuation scheme during the period under review in accordance with recommendations by the Fund's actuary. Staff numbers remained reasonably constant over the first three years under review as did the extent to which Employee costs were capitalised.

The decrease in Employee costs in 2007-08 was principally due to a reduction in FTEs and the impact of increased capitalised wages. The average number of FTEs decreased from 499 in 2006 2007 to 471 in 2007-08, due mostly to an organisational restructure, commencing from January 2006 that resulted in a number of redundancies. The amount of capitalised wages increased from $1.443m in 2006-07 to $2.312m in 2007-08. The impact was to decrease employee expenses by $0.869m.

Depreciation charges increased by $1.486m (or 7.4%) in the period under review primarily due to Council's growing asset values.

Other operating expenses represented 43.9% of Total Revenue in 2007-08 (2004 05, 41.9%) and increased by $7.311m (or 21.7%) in the period under review. The increase reflected a general increase in costs across all of Council's activities. The material items included in Other operating expenses were:

- water purchases, (2007-08 $6.128m, 2006-07 $6.107m)
- administration and overheads, (2007-08 $3.209m, 2006-07 $3.130m)
- garbage collection costs, (2007-08 $2.622m, 2006-07 $2.329m)
- street lighting charges, (2007-08 $1.047m, 2006-07 $0.976m).

Council has two controlling authorities set up under section 29 of the *Local Government Act 1993*, being the Upper Tamar River Improvement Authority and the York Park and Inveresk Precinct Authority. The revenue and expenses of the two authorities, as disclosed in Council's financial statements were:

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Upper Tamar River Improvement Authority				
Revenues	573	586	579	487
Expenses	(1 011)	(524)	(195)	(301)
Net Result	**(438)**	**62**	**384**	**186**
York Park and Inveresk Precinct Authority				
Revenues	609	434	417	278
Expenses	(1 756)	(1 638)	(1 401)	(1 209)
Net Result	**(1 147)**	**(1 204)**	**(984)**	**(931)**

The above table illustrates that the York Park and Inveresk Precinct Authority incurred a net cost to Council totalling $4.072m in the past four financial years.

Council received $31.918m in Capital grants during the period under review, which included the following major items:

- funding for the construction of a grandstand extension and video replay scoreboard at Aurora Stadium of $9.542m in 2004-05
- State and Federal funding for the Regional Aquatic Centre of $7.000m
- funding under the Roads to Recovery and Auslink programs totalling $4.282m
- funding for the Museum redevelopment of $3.000m in 2005-06.

The Infrastructure take-up adjustments primarily represented assets identified by Council and brought to account for the first time and subdivision assets taken over by Council during the year.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	970	339	3 433	662
Receivables	5 723	6 557	6 845	4 875
Investments	63 526	61 574	42 292	39 887
Inventories	940	927	899	865
Other	789	790	888	788
Total Current Assets	**71 948**	**70 187**	**54 357**	**47 077**
Payables	26 632	5 872	7 834	5 528
Borrowings	2 610	2 892	2 631	2 209
Provisions - employee benefits	6 468	6 502	6 372	5 927
Other	12 191	11 467	934	9 110
Total Current Liabilities	**47 901**	**26 733**	**17 771**	**22 774**
Working Capital	**24 047**	**43 454**	**36 586**	**24 303**
Property, plant and equipment	1 061 111	854 964	858 355	765 706
Investments in associates	76 893	71 080	67 579	70 203
Superannuation asset	514	6 100	5 264	3 006
Other	258	320	378	434
Total Non-Current Assets	**1 138 776**	**932 464**	**931 576**	**839 349**
Borrowings	10 684	8 983	8 475	8 102
Provisions - employee benefits	691	1 055	870	933
Other	9 717	5 054	4 875	4 632
Total Non-Current Liabilities	**21 092**	**15 092**	**14 220**	**13 667**
Net Assets	**1 141 731**	**960 826**	**953 942**	**849 985**
Reserves	503 619	324 212	319 662	216 850
Accumulated surpluses	638 112	636 614	634 280	633 135
Total Equity	**1 141 731**	**960 826**	**953 942**	**849 985**

Comment

Total Equity rose by $291.746m over the period under review due to:

- Council surpluses of $32.694m (2007-08, $9.617m; 2006-07, $4.866m and 2005-06, $18.211m)
- Asset revaluation increments of $256.916m (2007-08, increment of $171.656m; 2006-07, decrement of $1.677m; 2005-06, increment of $86.937m)
- Actuarial movements resulting in a reduction in the employee benefit asset relating to the City of Launceston Employees Superannuation Fund of $2.325m
- A net increase in Council's investment in Esk Water of $4.461m. This increase arose from Council recognising its share of the increase in the Authority's asset revaluation reserve.

Significant movements in assets and liabilities over the period were:

- Council's Cash and Investment balances increased by $23.947m. One of the main reasons for the increase was the receipt of $10.000m from the State Government in June 2007 for

Invermay flood protection enhancement. A more detailed explanation of the movement in Cash and Investments is provided in the Cash Position section following.

- Property, plant and equipment increased by $295.405m in the period under review due primarily to the revaluation of infrastructure assets in 2005-06, $86.937m, and 2007-08, $256.916m.

- Investment in associates represents Council's interest in Esk Water. The investment is based on Council equity accounting its share of the financial position of Esk Water at 30 June each year.

- Superannuation asset relates to the City of Launceston Employees Superannuation Fund. The decrease in the asset in 2007-08 of $5.586m resulted from the decrease in the fair value of the plan assets during the year. The amount recorded by Council is based on independent actuarial advice and represents a surplus of assets over liabilities.

- Payables at 30 June 2008, $26.632m, included an estimated liability for compensation of landowners for the compulsory acquisition of properties relating to the flood protection project.

- Other current liabilities at 30 June 2005, $9.110m, included grant funds in advance received in June 2005, of $8.000m. The grants received related to the upgrade of the Regional Aquatic Centre, the maintenance and upgrade of the Silverdome and Elphin Sports Centre. Council subsequently repaid the funds to the State Government and new grant arrangements were put in place in later years for the Regional Aquatic Centre. The balance of Other current liabilities at 30 June 2007, $11.467m, included $10.000m funding for Invermay flood protection enhancement which was treated as grant funds received in advance. The Council recognised a liability in relation to these funds, as the conditions precedent to using them had not yet been met. The balance of Other current liabilities at 30 June 2008, $12.191m, included the original $10.000m funding for the Invermay flood protection enhancement plus interest earned on the funds as the conditions had still not been met.

- Borrowings increased by $2.983m over the four years which represented new loans of $10.700m less principal repayments of $7.717m.

- Other non-current liabilities represents a provision for rehabilitation of the Council's refuse disposal area. The provision was reassessed in 2007-08 resulting in an increase in estimated future costs of $4.384m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	86 430	82 934	77 398	75 499
Cash flows from government	6 276	5 140	5 504	5 493
Payments to suppliers and employees	(69 005)	(72 401)	(65 652)	(64 334)
Interest received	3 161	3 040	2 140	1 556
Borrowing costs	(731)	(576)	(835)	(538)
Cash from operations	**26 131**	**18 137**	**18 555**	**17 676**
Capital grants and contributions	2 806	2 715	13 688	12 347
Grants received in advance	0	10 000	(8 000)	8 000
Dividends received - Esk Water	1 230	1 210	1 120	1 151
Tamar Region NRM receipts	0	973	540	368
Tamar Region NRM payments	0	(875)	(554)	(293)
Payments for property, plant and equipment	(29 895)	(17 166)	(25 592)	(26 704)
Proceeds from sale of property, plant and equipment	834	370	4 572	1 082
Loans repaid by debtors	59	55	52	267
Cash (used in) investing activities	**(24 966)**	**(2 718)**	**(14 174)**	**(3 782)**
Proceeds from borrowings	4 300	3 400	3 000	2 000
Repayment of borrowings	(2 882)	(2 631)	(2 205)	(1 824)
Cash from financing activities	**1 418**	**769**	**795**	**176**
Net increase in cash	**2 583**	**16 188**	**5 176**	**14 070**
Cash at the beginning of the year	61 913	45 725	40 549	26 479
Cash at end of the year	**64 496**	**61 913**	**45 725**	**40 549**

Comment

Council's total cash balance at 30 June 2008, $64.496m, comprised cash at bank and on hand, $0.853m, special committees, $0.117m, bank guaranteed bills and deposits, $42.529m, and managed investments, $20.997m. The bills and deposits and managed investments are included within the definition of cash as they all have short-term maturities. The managed investments are held with Tascorp.

At 30 June 2008, Council reported that $15.431m (2006-07, $22.314m) of the investment balance was restricted (being held for specific purposes or recorded as prepaid funds). The restricted funds included the $10.000m received for Invermay flood protection enhancement plus interest of $0.740m. The unrestricted cash and investment balance of $49.065m included funds held for capital works commitments, including completion of the Regional Aquatic Centre, commencement of the Invermay flood levee project and a new waste transfer station at Remount Road.

Council generated positive cash inflows from operations in all years under review. The strong cash flows from operations, $80.499m over the four years, were used to generate funding for capital works. Payments for property, plant and equipment totalled $99.357m for the period under review. These payments were funded from operations and capital grants, $31.566m, with only $3.158m in net borrowings.

Major capital expenditure projects during the period included the:

- Regional Aquatic Centre development
- Town Point Piling project
- Remount Road transfer station
- Cataract Gorge redevelopment
- grandstand extensions at Aurora Stadium
- road reconstructions
- upgrades of the Museum
- Margaret Street detention basin.

Council received $8.000m in funding from the State Government in June 2005 and repaid this early in the 2005-06 financial year. The Balance Sheet section contains further details regarding this funding.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 295	(1 289)	(657)	(1 032)
Operating margin	>1.0	1.01	0.99	0.99	0.99
Underlying result ratio		1.4%	-1.5%	-0.8%	-1.3%
Self financing ratio		28.0%	20.8%	21.9%	22.0%
Own source revenue ($'000s)		87 621	81 995	79 304	74 976
Financial Management					
Current ratio	>1	1.50	2.63	3.06	2.07
Indebtedness Ratio		24.1%	18.4%	17.9%	18.2%
Cost of debt	7.5%	5.7%	5.2%	5.3%	5.2%
Debt service ratio		3.9%	3.7%	3.6%	2.9%
Debt collection	30 days	26	32	35	26
Creditor turnover	30 days	36	31	34	28
Capital expenditure/depreciation	>100%	139%	81%	125%	133%
Capital expenditure on existing assets/depreciation	100%	53%	65%	86%	89%
Other Information					
Employee costs expensed ($'000s)		28 450	29 806	28 838	26 896
Employee costs capitalised ($'000s)		2 312	1 443	1 361	1 310
Total employee costs ($'000s)		**30 762**	**31 249**	**30 199**	**28 206**
Employee costs as a % of operating expenses		31%	34%	34%	33%
Staff numbers (FTEs)		471	499	512	502
Average staff costs ($'000s)		65	63	59	56
Average leave balance per FTE ($'000s)		15	14	13	12

Comment

An operating surplus of $1.295m was recorded in 2007-08 resulting in a positive Operating margin and Underlying result ratio. For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits (before accounting for capital grants) in the first three years under review resulting in Operating margins slightly below the benchmark and negative Underlying result ratios.

Self financing ratio was higher in 2007-08 due to the higher Net operating cash flows in that year. Council's Own source revenue gradually increased over the period which is due to the increase in rates revenue and user charges noted in the Income Statement section.

Council's Current ratio was above the benchmark in all years under review, which indicates an ability to meet short term commitments. However, the ratio is calculated before taking into account that a significant portion of Council's cash balances are restricted or held to meet capital expenditure commitments. If the Invermay flood protection funds are excluded from both the Cash balance and Current other liabilities, the Current ratio at 30 June 2007 and 2008 would have been 3.60 and 1.65 respectively. This compares to the ratios reported in the above table of 2.63 and 1.50.

Council's Indebtedness ratio was higher in 2007-08 due to the increase in Non current borrowings and Other non current liabilities. The increase in non current Borrowings was due to new loans of $4.300m received during the year. The increase in Other non current liabilities was due to the reassessment of the provision for rehabilitation referred to previously in the Balance Sheet section.

Cost of debt and Debt service ratios were consistent for the four years under review.

Debt collection ratio was slightly above the benchmark in 2005-06 and 2006-07 due to a debtor of $1.650m raised in respect to Regional Aquatic Centre grants.

Creditor turnover ratios were slightly above benchmark in all years except 2004 05. Council's policy is to pay outstanding creditors within a 30 day period, however, the creditor balances at 30 June have historically included invoices for large capital projects. The balance at 30 June 2008 included a claim for the Regional Aquatic Centre of $1.550m. The balance at 30 June 2006 included claims in relation to the Aurora Stadium grandstand extension totalling $0.574m.

Total capital expenditure to depreciation ratio was well above 100% in 2004 05, 2005-06 and 2007-08, which reflected Council's significant payments for property, plant and equipment in those years. The ratio was below the benchmark in 2006-07, due in part to the:

- high level of capital works undertaken in prior years
- deferral of significant capital expenditure planned and funded, but not commenced at year end.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio was below the benchmark in all four years, indicating that Council might not have invested sufficiently in maintaining existing assets in those years. The relatively low ratio in 2007-08, 53%, is due in part to the major capital expenditure on the Regional Aquatic Centre. The Centre has been classified as a new asset as it will be significantly different from the existing aquatic centre. If the capital expenditure is treated as expenditure on an existing asset, the ratio would have been 95% in 2007-08.

Employee costs as a percentage of operating expenses decreased in 2007-08, as detailed in the Income Statement section. Average staff costs and average employee entitlements have gradually increased over the four years which is mainly due to pay rises under Council's Enterprise Agreement.

LARGER URBAN/ RURAL COUNCILS

CENTRAL COAST COUNCIL

INTRODUCTION

Central Coast Council was created in 1993 when the former municipalities of Penguin and Ulverstone were merged. The municipality serves the Forth/Leith, Ulverstone and Penguin areas on the North West coast. The population of the area is approximately 21 000 people and covers an area of 932 square kilometres.

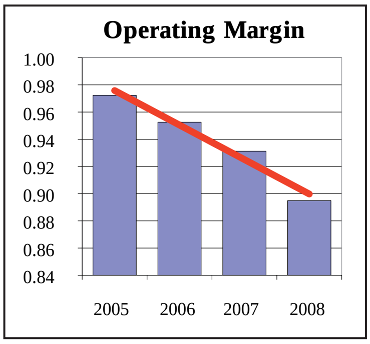
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Initial signed financial statements were received on 15 August 2008, with amended statements received on 28 August 2008. An unqualified audit report was issued on 9 September 2008.

The audit was completed satisfactorily with no major issues outstanding.

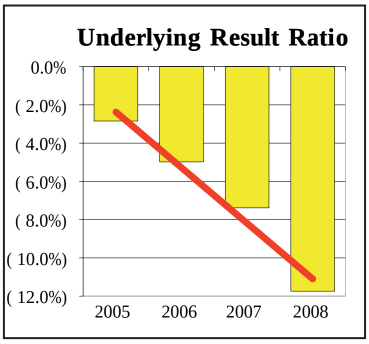
FINANCIAL RESULTS

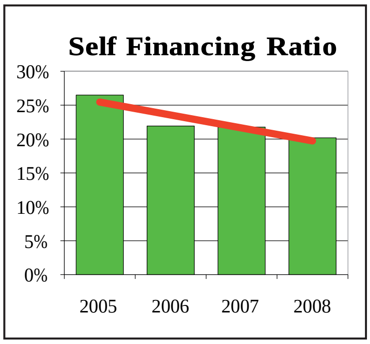
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin is below the expected benchmark of one in all four years and is declining, which represents increasing operating deficits before capital grants. An operating margin below the benchmark indicates Council might not be generating sufficient revenue to fulfil its operating requirements.

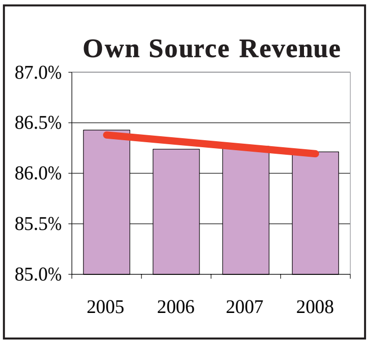
The negative Underlying results ratio increased over the period indicating that operating deficits before capital grants are increasing when compared with total operating revenues. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a deficit. To ensure long term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

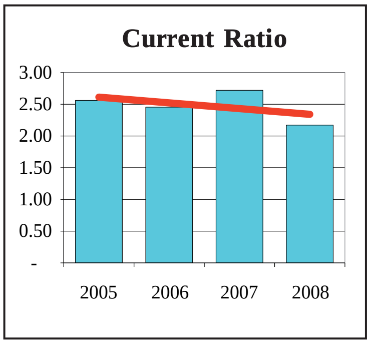




Other than in 2004-05, the Self financing ratio, was consistent at around 20% . The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that Council is generating operating cash flows which are contributing towards its capital expenditure programs.

The Own source revenue percentage shows Council is generating the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 14% (2004-05, 15%).





The Current ratio is above the benchmark in all four years indicating that Council is able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	14 194	14 179	13 480	12 750	12 102
User charges	4 235	4 261	3 882	3 759	3 715
Grants	3 306	3 272	3 048	2 937	2 763
Other operating revenue	1 723	2 019	1 785	1 896	1 747
Total Revenue	**23 458**	**23 731**	**22 195**	**21 342**	**20 358**
Employee costs	8 300	8 366	7 986	7 636	7 267
Borrowing costs	24	20	31	61	102
Depreciation	5 944	7 095	6 183	5 632	5 402
Other operating expenses	10 582	11 036	9 634	9 076	8 028
Total Expenses	**24 850**	**26 517**	**23 834**	**22 405**	**20 937**
(Deficit) before:	**(1 392)**	**(2 786)**	**(1 639)**	**(1 063)**	**(579)**
Capital grants	2 693	2 838	1 349	1 564	890
Surplus (Deficit)	**1 301**	**52**	**(290)**	**501**	**311**

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

Comment

Council recorded Deficits before Capital grants in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. After including Capital grants, Council recorded small surpluses for three of the four years. However, the surplus in 2007-08 was well below Estimate. The main movements in revenue and expense items are discussed below.

Rates increased by $2.077m (or 17.16%) in the period under review and in 2007-08 was in line with Council's estimated rates income. The increase was mainly due to increases in general rate revenue during the period. Prior to discounts and remissions, general rates raised was $7.756m in 2004-05 compared with $8.948m in 2007-08. The general rate levied per dollar of AAV increased from 12.36 cents in 2004-05 to 13.09 cents in 2006-07 (an increase of 5.91%). In 2007-08, the general rate levied per dollar of AAV decreased to 7.82 cents due to the significant increase in the AAV following a municipal revaluation effective 1 July 2007. Total AAV increased from $67.239m in August 2006 (date of raising rates for 2006-07) to $118.859m in August 2007, which represented an increase of 76.77%.

User charges include special user charges for water and sewerage, child care fees, excess water charges, aged person housing rental income and resource recovery centre entry fees.

Grant revenue, $3.272m (2006-07, $3.048m), represents the Commonwealth tax sharing grant which increased by 18.42% over the period under review.

During the period 2004-05 to 2007-08 Employee costs increased by $1.099m (15.12%). The amount of capitalised wages and on-costs decreased from $0.876m in 2004-05 to $0.749m in 2007-08. As a result, the increase in total Employee costs (including capitalised amounts) over the period was $0.972m (11.94%). Pay rises due under Council's Enterprise Agreement partly contributed to this increase.

During the period under review, depreciation expense increased by $1.693m (31.34%). The increase in 2006-07, $0.551m, was predominantly due to the impact of indexation of 11.61% applied to road asset values effective 30 June 2006. The increase in gross asset values resulted in an increase in depreciation of $0.300m. The increase in Depreciation expense in 2007-08, $0.912m, was predominantly due to the impact of a revaluation of building assets effective 30 June 2007. The increase in gross asset values resulted in an increase in depreciation charges from $0.677m in 2006-07 to $1.169m in 2007-08.

Other operating costs increased by $3.008m (or 37.5%) during the period under review. Major items included in Other operating costs were:

- water purchases (2007-08 $2.770m, 2006-07 $2.614m)
- waste management costs, including garbage collection, recycling and disposal charges (2007-08 $1.137m, 2006-07 $0.983m)
- sealed and unsealed road maintenance costs (2007-08 $1.244m, 2006-07 $1.309m)
- maintenance and operation of sewerage schemes (2007-08 $0.710m, 2006-07 $0.772m)
- fire service levy and land tax (2007-08 $0.735m, 2006-07 $0.590m).

Borrowing costs decreased from $0.102m to $0.020m due to a reduction in the balance of loans outstanding. A new loan of $0.400m was drawn down in June 2008, however, there was minimal interest incurred in 2007-08.

Capital grants totalling $6.641m over the period under review, included the following major items:

- Roads to Recovery and Auslink funding $3.253m
- a $0.225m contribution, in 2004-05, from the State Government towards the upgrade of the Ulverstone Recreation Ground
- contributions from the State Government, in 2007-08, totalling $0.566m for the redevelopment of the Ulverstone Showground
- contributions from private industry, in 2006-07, totalling $0.308m towards the capital sewerage program
- contributions from the State Government in 2006-07 and 2007-08, totalling $0.250m, for the Penguin Main Street makeover
- black spot funding over the four year period totalling $0.214m
- an insurance settlement, in 2007-08, of $0.373m.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	1 013	1 693	1 401	2 481
Receivables	1 069	1 313	1 197	682
Investments	6 716	6 404	6 514	6 151
Other	668	682	867	479
Total Current Assets	**9 466**	**10 092**	**9 979**	**9 793**
Payables	1 674	1 117	985	1 015
Borrowings	76	112	291	511
Provisions - employee benefits	2 231	2 009	2 042	1 915
Provisions - aged person units	101	107	86	80
Other	277	365	661	303
Total Current Liabilities	**4 359**	**3 710**	**4 065**	**3 824**
Working Capital	**5 107**	**6 382**	**5 914**	**5 969**
Property, plant and equipment	286 123	261 510	233 702	207 641
Investment in associates	19 694	18 072	12 162	12 008
Other	237	265	461	479
Total Non-Current Assets	**306 054**	**279 847**	**246 325**	**220 128**
Borrowings	575	251	363	628
Provisions - employee benefits	188	253	211	193
Provisions - aged person units	1 401	1 481	1 151	979
Total Non-Current Liabilities	**2 164**	**1 985**	**1 725**	**1 800**
Net Assets	**308 997**	**284 244**	**250 514**	**224 297**
Reserves	161 958	137 751	104 669	80 915
Acumulated surpluses	147 039	146 493	145 845	143 382
Total Equity	**308 997**	**284 244**	**250 514**	**224 297**

Comment

Total equity rose by $84.700m over the period under review due to:

- Council surpluses of $0.263m (2007-08, surplus of $0.052m; 2006-07, deficit of $0.290m; 2005-06, surplus of $0.501m)
- increases in Council's investments in Cradle Coast Water (CCW) and Dulverton Regional Waste Management Authority (DRWMA) of $7.228m. This increase arose from Council recognising its share of the increases in the Authorities' asset revaluation reserves
- asset revaluation increments of $76.950m
- a prior period adjustment to Accumulated surpluses of $0.259m relating to the elimination of the liability for prepaid rate revenue in 2006-07.

Council's Cash balance at 30 June 2008 comprised cash at bank and on hand of $0.465m and short term investments of $0.548m. Council also held current investments of $6.716m, comprising managed investment funds. Council has maintained a strong cash and investment position over the period with an average balance of $8.093m. However, some of these funds are committed as Council expects to commence work on a major upgrade of its Recreation Centre in 2008-09, with costs estimated at $7.000m. Grant funding towards the project is expected to total $4.230m, with the remaining balance coming from cash balance and borrowings.

Receivables increased significantly in 2005-06, $0.515m, due mainly to the following:

- an increase in the amount outstanding by a major customer ($0.324m was due at 30 June 2006). A large payment was received after 30 June 2006, reducing the balance outstanding by this customer
- a change in the recording of rate receivables. Previously, rate debtors were recorded net of any balances in credit. In 2005-06, rate balances in credit were reclassified as an Other Current liability, which resulted in a corresponding increase in Receivables of $0.259m. In 2007-08, the accounting treatment was amended to recognise rates as revenue when received. Therefore, no liability for rates paid in advance was recognised at 30 June 2008. The 2006-07 comparative year was also amended with an adjustment made against accumulated surpluses for the rates in advance at 30 June 2006 of $0.259m.

The balance of Receivables increased by $0.116m in 2006-07 due to:

- a debt owing in relation to the Penguin Main Road makeover grant of $0.091m
- an increase in excess water debts outstanding.

Council applies a revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value based on depreciated replacement cost. To maintain accurate valuations, Council undertakes a revaluation of these assets on a regular basis. From 30 June 2005 to 30 June 2008, the balance of Property, plant and equipment increased by $78.482m. The increase was primarily due to the revaluation of a number of asset classes, resulting in asset revaluation increments of $25.687m in 2005-06, $28.232m in 2006-07 and $23.031m in 2007-08. This also resulted in a corresponding increase to the asset revaluation reserve, accounting for the upward movement in Reserves. The major revaluation increment in 2005-06 related to Roads and streets, $11.238m, which was the result of applying an index of 11.61% to the asset valuation. The revaluation increment in 2006-07 comprised Land, $15.906m, Sewerage, $5.874m, Buildings, $5.374m and Water, $1.078m. In 2007-08 the entire revaluation increment of $23.031m related to a formal revaluation of road assets.

At 30 June 2008 Non-current investments comprised Council's investment in its associates, CCW, $18.804m, and DRWMA, $0.892m. Council's investment in CCW increased by $6.796m since 30 June 2005 due to Council's share of profits of the Authority, $0.765m, less dividends received, $0.532m, plus the share of the Authority's asset revaluation increments, $6.563m. Council's initial contribution to DRWMA of $0.349m was converted from a loan to an investment on 30 June 2007.

The increase of $0.557m in Payables at 30 June 2008 was predominately due to additional accrued expenses for capital expenditure purposes.

Total borrowings decreased from $1.139m at 30 June 2005 to $0.651m at 30 June 2008, due to principal loan repayments of $0.888m during the period and new borrowings of $0.400m in June 2008.

The Provision for aged person unit contributions comprised contributions received from tenants upon entry to units owned by Council. Amortisation revenue is recognised in relation to each tenant's annual accommodation cost for a unit. The contributions are amortised over a specified term. The total liability increased from $1.059m at 30 June 2005 to $1.502m at 30 June 2008 due to:

- contributions received, $1.170m,
- refunds paid, $0.445m,
- amortisation revenue recognised, $0.282m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	21 790	19 859	18 561	17 923
Cash flows from government	3 272	3 048	2 937	2 763
Payments to suppliers and employees	(20 857)	(18 737)	(17 371)	(15 871)
Interest received	605	698	622	688
Borrowing costs	(20)	(37)	(69)	(110)
Cash from operations	**4 790**	**4 831**	**4 680**	**5 393**
Capital grants	2 838	1 206	1 564	890
Proceeds from investments	0	110	0	56
Payments for investments	(312)	0	(364)	0
Payments for property, plant and equipment	(9 089)	(6 349)	(6 896)	(6 867)
Proceeds from sale of property, plant and equipment	805	785	421	492
Cash (used in) investing activities	**(5 758)**	**(4 248)**	**(5 275)**	**(5 429)**
Proceeds from borrowings	400	0	0	0
Repayment of borrowings	(112)	(291)	(485)	(524)
Cash from (used in) financing activities	**288**	**(291)**	**(485)**	**(524)**
Net increase (decrease) in cash	**(680)**	**292**	**(1 080)**	**(560)**
Cash at the beginning of the year	1 693	1 401	2 481	3 041
Cash at end of the year	**1 013**	**1 693**	**1 401**	**2 481**

Comment

Council generated positive Cash from operations in all years under review. However, whilst Receipts from customers, as previously noted, increased by $3.867m (22%), Payments to suppliers and employees more than offset this increasing $4.986m (31%). The fact that the inflationary trend in expenditure is greater than the growth in operating cash revenues confirms our earlier concern that this may be leading to difficulties in Council meeting its operating commitments, places pressure on Council's ability to fund its capital expenditure requirements and to service its debt.

Payments for Property, plant and equipment over the period totalled $22.334m, which was in accordance with Council's capital expenditure plan. Capital expenditure was on major works and upgrades including Forth Village Sewerage, the Resource Recovery Centre, Ulverstone Showground, Heybridge Sewerage, urban and rural roads and other plant purchases.

Council's Cash balance decreased by $2.028m over the period of review. The decrease is primarily due to the significant capital expenditure undertaken in the period. Although Council received specific funding for works, it has used an amount in excess of its operating cash flow to fund a wide range of capital projects. In 2007-08 additional funds were acquired through new Borrowings of $0.400m. In consideration of the general trend in operating cash flows and consistently high levels of capital expenditure, Council may find itself in the very real position whereby it may need to draw on investments or make additional Borrowings.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(2 786)	(1 639)	(1 063)	(579)
Operating margin	>1.0	0.89	0.93	0.95	0.97
Underlying result ratio		(11.7%)	(7.4%)	(5.0%)	(2.8%)
Self financing ratio		20.2%	21.8%	21.9%	26.5%
Own source revenue ($'000s)		20 459	19 147	18 405	17 595
Financial Management					
Current ratio	>1	2.17	2.72	2.45	2.56
Indebtedness ratio		10.6%	10.4%	9.4%	10.2%
Cost of debt	7.5%	3.9%	6.1%	6.8%	7.3%
Debt service ratio		0.6%	1.5%	2.6%	3.1%
Debt collection	30 days	21	28	26	16
Creditor turnover	30 days	25	22	23	25
Capital expenditure/depreciation	>100%	128%	103%	122%	127%
Capital expenditure on existing assets/depreciation	100%	58%	87%	76%	82%
Other Information					
Employee costs expensed ($'000s)		8 366	7 986	7 636	7 267
Employee costs capitalised ($'000s)		749	725	888	876
Total employee costs ($'000s)		**9 115**	**8 711**	**8 524**	**8 143**
Employee costs as % of operating expenses		32%	34%	34%	35%
Staff numbers (FTEs)		176	181	186	178
Average staff costs ($'000s)		52	48	46	46
Average leave balance per FTE ($'000s)		14	13	12	12

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits in all years under review resulting in Operating margins below benchmark and negative Underlying result ratios. The Self financing ratio was higher in 2004-05 due to the higher Net operating cash flows in that year. Council's Own source revenue gradually increased over the period which is due to higher reliance on rates revenue and user charges rather than on grants.

The Current ratio is above the benchmark in all four years indicating that Council is able to meet all short-term liabilities.

Council's indebtedness ratio was fairly consistent for all four years under review.

The Cost of debt decreased from 7.3% in 2004-05 to 3.9% in 2007-08 due to Council repaying loans resulting in reduced interest charges. The relatively low Cost of debt in 2007-08 is due to a new loan of $0.400m which was drawn down in June. As a result, there was minimal interest incurred in relation to the loan but it increased the average borrowings outstanding.

The Debt collection and Creditor turnover ratios were both under the benchmark of 30 days for the period under review. The ratios reflect Council's good debt recovery procedures and its policy to pay outstanding creditors within a 30-day period. The Debt collection ratio increased from 16 to 26 days in 2005-06 due to the higher level of Receivables previously explained.

The Capital expenditure to depreciation ratio was above 100% for all years reported, which reflects Council's significant payments for Property, plant and equipment in those years.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio was below the benchmark of 100% in all years under review indicating that Council might not be investing sufficiently in maintaining existing assets.

Employee costs as a percentage of operating expenses, Average staff costs and Average leave balance per FTE are fairly consistent for all four years. The number of FTEs decreased slightly in 2006-07 and again in 2007-08 due to staff resignations.

CIRCULAR HEAD COUNCIL

INTRODUCTION

Circular Head Council originated in 1993 and was formerly the Municipality of Circular Head, which was established in 1907. The Council services a population of approximately 8 200 people and covers 4 891 square kilometres including the townships of Smithton and Stanley.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 15 October 2008. Amended financial statements were received on 27 March 2009 and an unqualified audit report was issued on the same day.

The delay in completing the audit was the result of Council's initial financial statements submitted for audit recognising all Property, plant and equipment on a cost basis. In Report No. 1 Local Government Authorities, Superannuation Funds and Other Public Bodies tabled in June 2008, we noted concerns regarding Council continuing to adopt the cost methodology for its property, plant and infrastructure. At that time Council agreed that its infrastructure assets should be on a fair value basis, but revaluations had not occurred because of staff resourcing difficulties.

In previous reports to Parliament we expressed my view that, despite being permitted by accounting standards, the cost basis is not appropriate for recognising long-lived infrastructure assets in the public sector, we also flagged that at some point we would consider the impact of application of the cost basis on my audit opinion. Council was made aware of this. To resolve this, Council agreed that it would undertake a revaluation of transport infrastructure, water and sewerage as at 30 June 2008 and resubmit its financial report. We note the revaluation resulted in an increase of $25.810m in the asset values recorded by Council. This represented an increase of 35.19% in the value of property, plant and equipment. Revaluations were effective 30 June 2008 and did not, therefore, impact the depreciation charges in the Income Statement.

The delay caused by the revaluation of infrastructure asset resulted in Council failing to comply with Section 84 of the *Local Government Act 1993* in that the financial report was not prepared and certified by the General Manager within 90 days after the end of the financial year. I accept there were issues, primarily the matter described above, which worked against Council meeting this legislative financial reporting requirement. However, Council needs to ensure it has a timetable in place to enable certified accounts for the year ending 30 June 2009 to be submitted within the 90 day period.

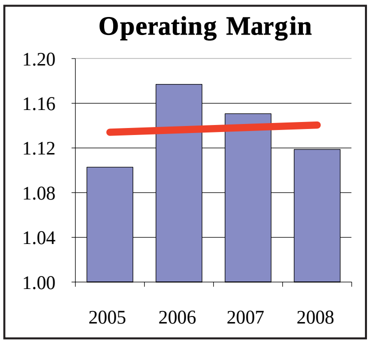
Council invested in a number of Collateralised Debt Obligations (CDOs) financial instruments, which cost $4.500m. As a result of current financial market conditions, the market value of these instruments declined significantly, with Council incurring unrealised losses of $2.205m at 30 June 2008 and $3.357m at 30 September 2008.

Australian Accounting Standard AASB 110 *Events after the Balance Date* requires Council to recognise these post balance date unrealised losses in its financial report at 30 June. The delay in finalising the financial report resulted in the market value of the instruments being determined at 28 February 2009 and recognised in the financial report. The unrealised loss on investments recognised in Council's Income Statement increased to $4.383m. All of the unrealised losses related to the CDOs.

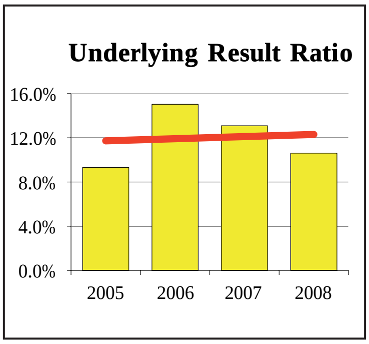
Apart from the matters noted above, the audit was completed satisfactorily.

FINANCIAL RESULTS

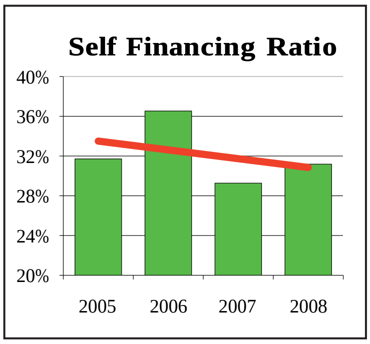
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



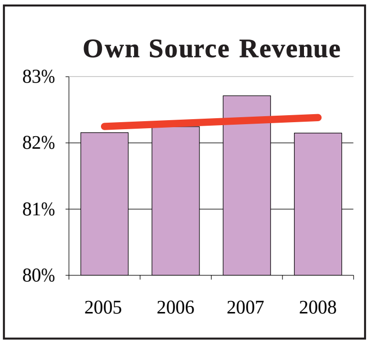
The Operating margin was above the expected benchmark in all four years. Based on the ratio, it would appear Council is generating sufficient revenue to fulfil its operating requirement. However, as Council's depreciation expense was determined using asset values carried at cost, I believe the results would not have been as good if a fair value valuation basis had been adopted. Following the revaluation effective 30 June 2008, I anticipate an increase in the depreciation expense in 2008-09.



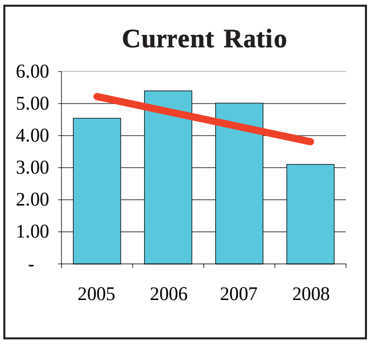
The positive Underlying results ratio reflects the operating surpluses generated by Council over the four year period. As noted under the Operating margin ratio, Council's surpluses will be impacted by higher depreciation charges in future years which will reduce the Underlying result ratio. Recording material infrastructure assets on the basis of fair value will provide a better indication of Council's long-term financial sustainability.



This ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. The positive ratios indicate that Council is generating operating cash flows which are contributing towards its capital expenditure programs.



The Own source revenue percentage shows Council is generating the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 18% (2004-05, 18%).



The Current ratio was above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	7 235	7 313	6 991	6 708	6 447
User charges	2 852	3 044	3 435	3 180	2 739
Grants	2 692	2 532	2 387	2 291	2 144
Other operating revenue	1 236	1 295	995	725	685
Total Revenue	**14 015**	**14 184**	**13 808**	**12 904**	**12 015**
Employee costs	3 284	3 132	3 008	2 598	2 467
Borrowing costs	48	52	57	72	66
Depreciation	3 470	2 711	2 506	2 403	2 296
Other operating expenses	7 580	6 784	6 429	5 891	6 066
Total Expenses	**14 382**	**12 679**	**12 000**	**10 964**	**10 895**
Surplus (Deficit) before:	**(367)**	**1 505**	**1 808**	**1 940**	**1 120**
Capital grants and contributions	479	119	552	915	501
Recognition of assets	0	25	655	0	0
Unrealised loss on investments	0	(4 383)	0	0	0
Surplus (Deficit)	**112**	**(2 734)**	**3 015**	**2 855**	**1 621**

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

Comment

Council recorded Surpluses (before Capital grants and contributions, recognition of assets and unrealised losses on investments) in all years under review indicating that it is generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. However, as previously noted, up until 30 June 2008, all of Council's Property, plant and equipment asset classes, apart from land and buildings, were measured on the cost basis. Therefore, Depreciation charges were based on cost and are likely to increase in future reducing the surplus. It is however pleasing to note that Council, in anticipation of moving to a fair value basis, increased its budgeted Depreciation charges and, despite this, the 2007-08 budget, before Capital grants and contributions, was almost for a break-even result.

After including Capital grants and contributions, Council recorded surpluses for three of the four years. The only deficit occurred in 2007-08 due to Unrealised loss on investments. Had the unrealised losses not occurred, Council would have recorded a surplus in 2007-08 well above Estimate.

The main movements in revenue and expense items are discussed below.

Rates increased by $0.866m (or 13.43%) in the period under review. The increase was mainly due to increases in general rate revenue during the period including 3.0% in 2007-08 (2006-07, 3.5%; 2005-06, 2.8%).

User charges increased by $0.305m (or 11.14%) in the period under review due mainly to an increase in:

- trade waste revenue charges following the negotiation of new agreements with major users. The 2004-05 trade waste revenue was also affected by a negative adjustment to write-off a debt of $0.105m

- waste disposal revenue due to a combination of an increase in the fees charged to customers of the Port Latta landfill and the negotiation of a new agreement with a major user.

User charges in 2007-08 were down due to a decrease in private works income. Private works were $0.097 in 2008 compared with $0.537m in 2007 and $0.237m in 2006. In 2007 three large projects contributed $0.394m to private works, with no similar sized projects in the 2007-08 year.

The majority of Grant revenue represented Commonwealth tax sharing grant, $2.531m (2006-07, $2.373m; 2005-06, $2.189m; 2004-05, $2.052m) which increased by 23.34% during the period under review.

Other operating revenue included interest income, Council's share of Cradle Coast Water's (CCW) profit (under equity accounting) and contributions and subsidies. Other operating revenue increased by $0.610m (89.05%) primarily due to an increase in interest revenue of $0.545m over the four year period due to an increase in investment funds held combined with an increase in interest rates.

During the period 2004-05 to 2007-08 Employee costs increased by $0.665m (26.96%). This increase was due to a combination of factors, including pay rises under Council's Enterprise Agreement, additional staff employed and payments upon termination.

Depreciation expense increased by $0.415m (or 18.07%) from 2004-05 to 2007-08. The main increases were found in transport infrastructure which increased by $0.210m due to depreciation of capital additions and plant increasing by $0.109m due primarily to the depreciation of motor vehicles from 2005-06 onwards. As noted previously, the depreciation expense is based upon property, plant and equipment values recorded on a cost basis. Council revalued several infrastructure asset classes as at 30 June 2008, but the impact on depreciation will not occur until 2008-09.

The net increase in Other operating expenses of $0.718m (or 11.84%) over the four year period was due to a combination of factors, including increases in:

- contributions, donations and grants, $0.561m, which included a partial donation of land to enable the construction of the Emmerton Park Nursing Home. The donation was made over two years with $0.504m in 2007-08 and $0.226m in 2006-07
- water purchases, $0.202m
- electricity charges, $0.113m.

Capital grant funding varies from year to year. The amounts received in 2005-06, 2006-07 and 2007-08 included Federal Government funding under the Roads to Recovery initiative of $0.915m, $0.465m and $0.035m, respectively. Capital revenue received in 2004-05 represented grants and contributions towards the construction of the Circular Head Community Recreation Centre.

Council recorded Unrealised losses on investments in a number of CDO financial instruments, which cost $4.500m. As a result of the financial market conditions, the market value of the CDO declined significantly, with Council incurring unrealised losses of $4.383m at 30 June 2008 (based upon a value of the instruments being determined at 28 February 2009).

The future impact of the unrealised losses is uncertain, with $0.500m of the investment maturing in December 2010 and $4.000m maturing in 2014. The nature of CDOs is that counterparty defaults will result in a direct loss of the capital invested. With the investments currently not having a significant market value, Council has indicated that it will hold the instruments to maturity and that defaults do not significantly reduce its capital.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	3 118	4 077	5 484	5 044
Receivables	859	1 139	773	870
Investments	1 117	5 000	3 000	1 000
Other	292	782	198	250
Total Current Assets	**5 386**	**10 998**	**9 455**	**7 164**
Payables	1 017	1 415	944	730
Borrowings	124	118	180	220
Provisions - employee benefits	583	583	546	556
Other	11	77	82	71
Total Current Liabilities	**1 735**	**2 193**	**1 752**	**1 577**
Working Capital	**3 651**	**8 805**	**7 703**	**5 587**
Property, plant and equipment	99 149	71 046	63 386	62 870
Investments in associates	8 633	7 750	4 997	4 933
Other	68	95	0	0
Total Non-Current Assets	**107 850**	**78 891**	**68 383**	**67 803**
Payables	3	2	2	2
Borrowings	589	713	831	1 011
Provisions - employee benefits	56	39	32	23
Total Non-Current Liabilities	**648**	**754**	**865**	**1 036**
Net Assets	**110 853**	**86 942**	**75 221**	**72 354**
Reserves	38 781	12 132	3 426	3 934
Accumulated surpluses	72 072	74 810	71 795	68 420
Total Equity	**110 853**	**86 942**	**75 221**	**72 354**

Comment

Total Equity rose by $38.499m over the period under review due to:

- Council surpluses and deficit totalling $3.136m (2007-08 $3.734m deficit; 2006-07, $3.015m surplus; 2005-06, $2.855m surplus)
- asset revaluation increments of $31.810m (land and buildings 2006-07 $6.000m and transport infrastructure, sewage disposal and water reticulation 2007-08 $25.810m)
- increases in Council's investment in Cradle Coast Water (CCW) of $3.553m. This increase mainly arose from Council recognising its share of the increase in the Authority's asset revaluation reserve.

Council's Cash balance at 30 June 2008 comprised cash at bank and on hand of $0.291m and short-term investments of $2.826m. Council also held investments of $1.117m, comprising CDOs and accrual notes. Council has maintained a sound cash balance, although its investments incurred significant unrealised losses (refer Income Statement analysis previously). We note that Council's cash balance is not committed to specific purposes.

The increase in Receivables in 2006-07 of $0.366m was primarily due to a large debtor outstanding in relation to private works undertaken by Council and an increase in the amounts owed by two major debtors relating to trade waste charges.

The balance of Other current assets at 30 June 2007 included a prepayment of $0.560m under an agreement relating to the development of an aged care facility in Smithton.

Until 30 June 2008 Council recognised the majority of its Property, plant and equipment asset classes at cost although land and buildings were revalued effective 30 June 2007, resulting in revaluation increments of $6.000m. Transport infrastructure, sewage disposal and water reticulation assets were valued at fair value effective 30 June 2008, with revaluation increments totalling $25.810m. This means that at 30 June 2008, five classes of Council's non-current assets, representing 85% of all non-current assets, are now recognised at fair value.

Non-current investments comprised Council's investment in CCW. This investment increased by $3.700m since 2004-05 principally as a result of revaluation increments within CCW.

The increase in Current payables in 2006-07 of $0.471m was predominantly due to landscaping and infrastructure bonds held at 30 June, $0.231m, and a major creditor outstanding relating to bridge construction, $0.136m.

Total borrowings decreased from $1.231m at 30 June 2005 to $0.713m at 30 June 2008, due to principal loan repayments of $0.518m during the period with no new borrowings.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 761	11 247	10 943	10 559
Cash flows from Government	2 651	2 300	2 291	1 843
Payments to suppliers and employees	(10 801)	(10 217)	(8 928)	(8 835)
Interest received	865	772	484	319
Borrowing costs	(53)	(60)	(76)	(76)
Cash from operations	**4 423**	**4 042**	**4 714**	**3 810**
Capital grants and contributions	119	552	915	501
Payments for property, plant and equipment	(5 167)	(4 157)	(3 196)	(2 569)
Payments for investments	(500)	(2 000)	(2 000)	0
Proceeds from sale of property, plant and equipment	284	336	227	190
Cash (used in) investing activities	**(5 264)**	**(5 269)**	**(4 054)**	**(1 878)**
Proceeds from borrowings	0	0	0	450
Repayment of borrowings	(118)	(180)	(220)	(390)
Cash from (used in) financing activities	**(118)**	**(180)**	**(220)**	**60**
Net increase (decrease) in cash	**(959)**	**(1 407)**	**440**	**1 992**
Cash at the beginning of the year	4 077	5 484	5 044	3 052
Cash at end of the year	**3 118**	**4 077**	**5 484**	**5 044**

Comment

Council generated positive Cash from operations, totalling $16.989m over the four years under review. The cash flows from operations were used to generate funding for capital works. Payments for property, plant and equipment over the period totalled $15.089m, which was in accordance with Council's capital expenditure plan. Capital expenditure on major works and upgrades included payments for transport infrastructure, $2.531m (2006-07 $2.214m; 2005-06, $2.240m) and plant and equipment additions, $0.722m (2006-07, $0.800m; 2005-06, $0.535m).

Council's Cash balance increased by $0.066m over the four year period under review. The small increase was primarily due to Cash from operations offsetting Payments for property, plant and equipment, Investments and Repayment of borrowings.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 505	1 808	1 940	1 120
Operating margin	>1.0	1.12	1.15	1.18	1.10
Underlying result ratio		10.6%	13.1%	15.0%	9.3%
Self financing ratio		31.2%	29.3%	36.5%	31.7%
Own source revenue ($'000s)		11 652	11 421	10 613	9 871
Financial Management					
Current ratio	>1	3.10	5.02	5.40	4.54
Indebtedness ratio		5.6%	6.6%	8.2%	10.5%
Cost of debt	7.5%	6.7%	6.2%	6.4%	5.5%
Debt service ratio		1.2%	1.7%	2.3%	3.9%
Debt collection	30 days	30	40	29	35
Creditor turnover	30 days	31	33	29	19
Capital expenditure/depreciation	>100%	191%	166%	133%	112%
Capital expenditure on exisiting assets/depreciation	100%	116%	88%	53%	78%
Other Information					
Employee costs expensed ($'000s)		3 132	3 008	2 598	2 467
Employee costs capitalised ($'000s)		112	119	107	90
Total employee costs ($'000s)		**3 244**	**3 127**	**2 705**	**2 557**
Employee costs as a % of operating expenses		25%	25%	24%	23%
Staff numbers (FTEs)		57	58	50	51
Average staff costs ($'000s)		57	54	54	50
Average leave balance per FTE ($'000s)		11	11	12	11

Comment

For the reasons noted previously, the financial performance ratios show that Council recorded operating surpluses in all years under review resulting in Operating margins above benchmark and positive Underlying result ratios. However, it is important to note that all of Council's Property, plant and equipment asset classes, apart from land and buildings, were measured at cost until 30 June 2008. Therefore, Depreciation charges are likely to increase in future thus reducing operating surpluses.

Self financing ratio was higher in 2005-06 due to the higher net operating cash flows in that year. Council's Own source revenue gradually increased over the period which was due to greater reliance on rates revenue and user charges rather than on grants.

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

Council's indebtedness ratio decreased gradually over the four years under review due to borrowing decreasing, with no new borrowings.

Council’s Cost of debt was consistent across the period under review and better than the benchmark in all years. The debt service ratio decreased from 3.9% in 2004-05 to 1.2% in 2007-08 reflecting loan repayments made by Council.

Debt collection was around the 30 day benchmark in all years under review. It was high at 30 June 2007 due principally to amounts outstanding for trade waste and private works. Council has policies in place to pursue all outstanding debts on a timely basis.

Capital expenditure to depreciation ratio was above 100% for all years reported reflecting Council’s significant payments for property, plant and equipment. After removing the effect of expenditure on new assets, Council’s Capital expenditure on existing assets to depreciation ratio decreased significantly in the first three years under review. This indicates that Council might not have invested sufficiently in maintaining existing assets. This ratio has increased from 78% in 2004-05 to 116% in 2007-08. Council continues to develop its asset management policies and practices, which may result in an increase in this ratio into the future. This ratio is further impacted by the fact that all Property, plant and equipment asset classes were measured on the cost basis, apart from land and buildings. It is therefore likely that Council’s depreciation expense should increase as a result of the revaluation of its infrastructure. An increase in depreciation expense should result in lower capital expenditure to depreciation ratios in future years.

Employee costs as a percentage of operating expenses and Average staff costs and Average staff entitlements were fairly consistent throughout the period under review.

HUON VALLEY COUNCIL

INTRODUCTION

The Huon Valley Council is the Southern-most council in Australia. It includes the major centres of Huonville, Ranelagh, Cygnet, Geeveston, Dover and Franklin, and has an approximate population of 14 620 people covering an area of 5 498 square kilometres.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2008. Amended financial statements were received on 30 October 2008 and an unqualified audit report was issued the next day.

The audit was completed satisfactorily with no major issues outstanding.

Compared to many other councils, Council's financial results were generally strong over the four-year period under review.

At 30 June 2008 Council held investments in Collaterised Debt Obligations (CDOs). As the value of CDOs tell significantly with the US Sub-prime market downturn, these investments were required to be written down or impaired at year end. As the market continued to decline post 30 June 2008, the more recent valuations as at 30 September 2008 were adopted by Council and treated as an adjusting event after balance date in line with AASB 110 *Events Occurring after Balance Sheet Date*. The unrealised impairment recognised by Council totalled $3.218m. This had a significant effect on the surplus for 2007-08 and the Financial Position at the end of that year.

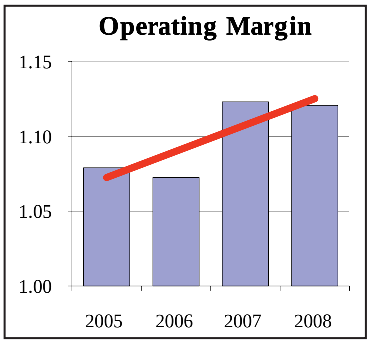
FINANCIAL RESULTS

In our last report we recommended that Council undertake a full revaluation of its major asset classes. This occurred in 2007-08 and contributed $41.277m to the increase in Property, plant and equipment and Reserves, comprising:

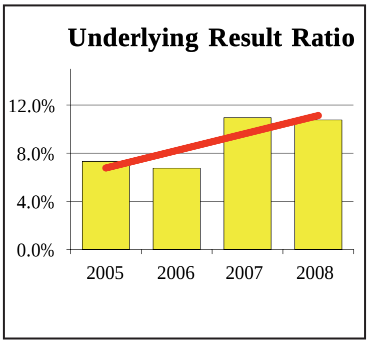
- Roads, $30.138m
- Water, $8.741m
- Bridges, $1.659m
- Sewerage, $0.465m
- Stormwater, $0.274m.

Of the remaining assets reported at fair value, Land and buildings are scheduled for revaluation in 2008-09.

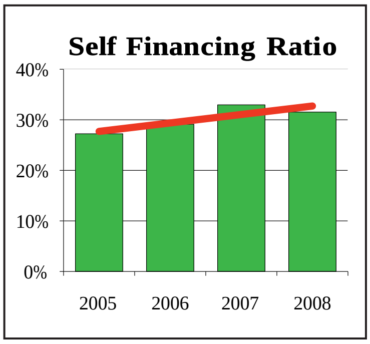
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



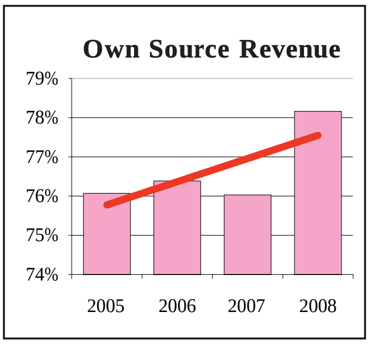
The Operating margin was above the expected benchmark of one in each year, indicating that Council generated sufficient revenue to fulfil its operating requirements.



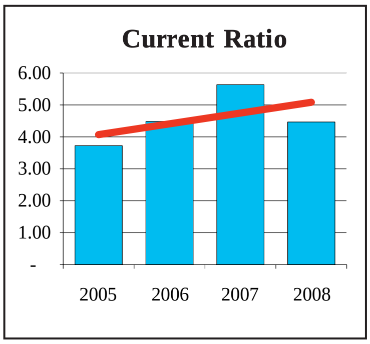
The Underlying results ratio was positive in all years.



The Self financing ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. The ratio generally increased over the period under review. The positive ratio indicates that Council is generating operating cash flows that are contributing towards its capital expenditure programs.



The Own source revenue percentage shows Council is increasingly generating most of its operating revenue from its own sources. In 2008 Council was reliant on recurrent grant funding to the extent of 21.8% (2004-05, 23.9%).



The Current ratio was above the benchmark of one and generally decreased in each of the four years, indicating that Council is able to meet all short-term liabilities. The decline in 2008 was due to the unrealised Impairment of cash investments noted previously.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates		9 896	9 321	8 870	8 463
Interest		881	685	440	361
User charges		3 235	2 610	2 261	2 015
Grants		4 349	4 433	4 150	3 817
Other operating revenue		1 555	1 446	1 853	1 295
Total Revenue	**0**	**19 916**	**18 495**	**17 573**	**15 950**
Employee costs		7 521	6 767	6 336	5 670
Borrowing costs		38	31	57	143
Depreciation		3 510	3 329	3 238	3 049
Other operating expenses		6 704	6 343	6 756	5 921
Total Expenses	**0**	**17 773**	**16 470**	**16 386**	**14 783**
Surplus before:	**0**	**2 143**	**2 025**	**1 187**	**1 167**
Impairment of cash investments		(3 218)	0	0	0
Capital grants		2 254	1 307	1 100	1 345
Surplus	**0**	**1 179**	**3 332**	**2 287**	**2 512**

** Budget figures were not available in this format.*

Comment

Council recorded Surpluses before Capital grants in each of the years under review, indicating that Council has sufficient revenue to fulfil its operating requirements including coverage of its depreciation charges. Council's overall Surpluses for the four years of $9.144m included Capital grants of $6.006m.

Rates increased by $1.433m (16.93%) in the period primarily due to rises in the general rate and charges levied. Commencing with the rates for 2007-08, Council adopted variations to the general rates on order to alleviate an unfair shift in the rate burden to vacant and primary production land.

User charges increased by $1.220m (60.54%) in the period of review, predominantly due to an increasing number of building and planning approvals and refuse disposal fees in 2007-08. Also, income from the Esperance Multi Purpose Health Centre (EMPHC) increased in 2007-08, resulting from deficit funding from the Department of Health and Human Services to cover service costs.

Employee costs increased by $1.851m (32.64%) in the period of review principally due to award wage increases for Council's staff and nurses at the EMPHC, an expansion of Children Services and Rural Health Services and a growth in staff numbers by 21 FTE.

Borrowing costs decreased from 2004-05 to 2006-07 in line with reductions in loans outstanding and increased in 2007-08 because of additional loans totalling $0.800m drawn in that year.

Depreciation expense increased by $0.460m or 15.10% over the period predominantly due to asset additions and in 2007-08 from the revaluation of assets, as noted in the Financial Analysis section.

Other operating expenses increased by $0.783m (13.22%), over the period mainly due to increased activity in the municipality.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash investments	8 017	10 106	7 775	6 106
Receivables	533	632	430	1 238
Inventories	6	5	5	2
Total Current Assets	**8 556**	**10 744**	**8 210**	**7 346**
Payables	1 052	1 008	882	1 064
Provisions - employee benefits	845	723	660	557
Borrowings	19	176	289	351
Total Current Liabilities	**1 916**	**1 907**	**1 832**	**1 972**
Working Capital	**6 640**	**8 837**	**6 379**	**5 374**
Property, plant and equipment	142 422	95 867	94 576	89 385
Total Non-Current Assets	**142 422**	**95 867**	**94 576**	**89 385**
Provisions - employee benefits	108	120	146	142
Provisions - other	584	431	448	358
Borrowings	803	30	160	449
Total Non-Current Liabilities	**1 495**	**581**	**753**	**949**
Net Assets	**147 567**	**104 123**	**100 202**	**93 811**
Reserves	66 309	23 657	20 759	15 470
Accumulated surpluses	81 257	80 466	79 443	78 340
Total Equity	**147 567**	**104 123**	**100 202**	**93 811**

Comment

The increase in Reserves of $42.652m in 2007-08 was mainly due to asset revaluation increments of $41.277m comprising:

- Roads, $30.138m
- Water, $8.741m
- Bridges, $1.659m
- Sewerage, $0.465m
- Stormwater, $0.274m.

Council's Cash and investment balances had generally increased over the period under review due to net cash from operating activities exceeding net investments in Property, plant and equipment. That trend would have continued in 2007-08 such that the balance would have been $11.235m, had it not been necessary to impair Council's investments in CDOs. As the value of CDOs fell significantly with the US Sub-prime market downturn, these investments were required to be written down or impaired at year end. Because the market continued to decline post 30 June 2008, the more recent valuations as at 30 September 2008 were adopted by Council and treated as an adjusting event after balance date in line with AASB110 *Events Occurring after Balance Sheet Date*. The unrealised impairment recognised by Council totalled $3.218m.

Council regards all of its Cash and investments as liquid assets even though maturity dates extend beyond 90 days because they are redeemable at any point in time.

The significant balance in Receivables at 30 June 2005 was due to a debt relating to the loss incurred by the EMPHC of $0.682m. Council has an agreement in place with the State Government that it will fund any deficit incurred by the Centre. Receivables in 2006-07 included an invoice for a trade-in of an excavator for $0.110m and an increase in rate debtors from new properties in the municipality.

Property, plant and equipment balance increased by $53.037m. The increase is attributable largely to the revaluation of assets noted previously, $41.277m, and additions, $8.188m.

Total Borrowings generally decreased over the period in line with Council's repayment program until 2007-08 when Council raised new borrowings totalling $0.800m for sewerage and water infrastructure.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	15 678	14 016	14 225	11 659
Cash flows from Government	4 349	5 065	4 122	4 317
Payments to suppliers and employees	(14 592)	(13 635)	(13 603)	(11 840)
Interest received	881	685	440	360
Borrowing costs	(35)	(35)	(63)	(151)
Cash from operations	**6 281**	**6 096**	**5 119**	**4 345**
Capital grants	2 254	675	971	845
Payments for property, plant and equipment	(8 188)	(4 470)	(4 535)	(5 244)
Proceeds from sale of property, plant and equipment	165	273	464	267
Cash (used in) investing activities	**(5 768)**	**(3 523)**	**(3 101)**	**(4 132)**
Proceeds from borrowings	800	0	0	0
Repayment of borrowings	(184)	(243)	(351)	(542)
Impairment of investments	(3 218)	0	0	0
Cash (used in) financing activities	**(2 602)**	**(243)**	**(351)**	**(542)**
Net increase (decrease) in cash	**(2 089)**	**2 331**	**1 668**	**(329)**
Cash at the beginning of the year	10 106	7 775	6 107	6 436
Cash at end of the year	**8 017**	**10 106**	**7 775**	**6 107**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this Chapter. Cash includes cash and investments as reported by Council.

Cash from operations increased steadily over the four years under review. Receipts from customers increased during 2005-06 due to a rise in Rates, noted previously. This was offset by increased Payments to suppliers and employees due to general increases in employee costs and materials and contracts.

Capital grants in 2007-08 included $1.552m for the Esperance Coast Road.

Payments for property, plant and equipment in 2007-08, $8.188m, consisted mainly of:

- roads, $3.871m, including the Esperance Coast Road, $2.555m,
- buildings, $1.582m, including Doctors Surgery, Arve Road, Geeveston, $0.284m, and the Geeveston Medical centre improvements, $0.198m,
- land, $0.965m, including Lovell Land, $0.535m,
- water infrastructure, $0.737m,
- sewerage infrastructure, $0.684m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		2 143	2 025	1 187	1 167
Operating margin	>1.0	1.12	1.12	1.07	1.08
Underlying result ratio		10.8%	10.9%	6.8%	7.3%
Self financing ratio		31.5%	33.0%	29.1%	27.2%
Own source revenue ($'000s)		15 567	14 061	13 424	12 134
Financial Management					
Current ratio	>1	4.47	5.63	4.48	3.73
Indebtedness ratio		9.6%	4.1%	5.6%	7.8%
Cost of debt	7.5%	7.4%	9.4%	9.1%	17.9%
Debt service ratio		1.1%	1.5%	2.4%	4.3%
Debt collection	30 days	13	17	12	38
Creditor turnover	30 days	29	15	16	19
Capital expenditure/depreciation	>100%	233%	134%	140%	172%
Capital expenditure on existing assets/depreciation	100%	208%	134%	102%	172%
Other Information					
Employee costs expensed ($'000s)		7 521	6 767	6 336	5 670
Employee costs capitalised ($'000s)		784	664	578	489
Total employee costs ($'000s)		**8 305**	**7 431**	**6 914**	**6 159**
Employee costs as a % of operating expenses		42%	41%	39%	38%
Staff numbers (FTEs)		143	135	130	122
Average staff costs ($'000s)		58	55	53	50
Average leave balance per FTE ($'000s)		7	6	6	6

Comment

Council recorded operating surpluses in all years under review resulting in Operating margins above the benchmark and positive Underlying result ratios. The increase in these items in 2006-07 and 2007-08 over the prior years, was primarily due to increases in revenues from Rates, Interest and User charges out-weighing movements in expenditure, as noted previously. The increase in these revenue items was also the reason for the $3.433m increase in Own source revenue over the period.

Council maintained a Current ratio well above the benchmark during all four years under review, with the majority of its current assets comprising cash, short term investments and receivables. This indicated that Council was able to meet all short-term liabilities.

Cost of debt ratio was above the benchmark for the years 2004-05 to 2006-07, as Council was locked into borrowing agreements that had interest rates higher than current market rates. Several of those loans were repaid during 2007-08, but Council borrowed a further $0.800m during that year for water and sewerage infrastructure.

Debt service ratio fell during the period mainly due to increases in operating revenue and a general reduction in borrowings.

Debt collection remained under the benchmark of 30 days for the last three years. The high Debt collection ratio in 2004-05 was due to a debt relating to EMPHC.

Capital expenditure to depreciation ratio was above 100% for all years reported, confirming that Council invested sufficiently in the replacement of existing infrastructure.

Staff numbers increased over the period due to greater activity, particularly building and planning. The increase in 2007-08 resulted partly from Council's operation of the Medical Practice at Geeveston.

Employee costs as a percentage of operating expenses and Average leave balances per employee were fairly consistent for all years. Average staff costs increased mainly due to EBA increases and staffing movements.

KINGBOROUGH COUNCIL

INTRODUCTION

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

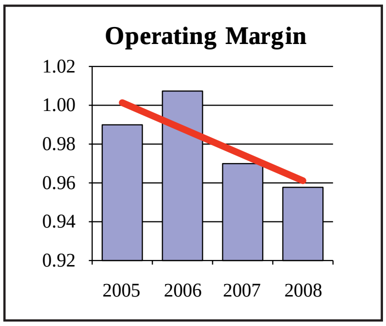
The population serviced by the Kingborough Council is in excess of 32 200 people with a municipal area covering 719 square kilometres.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 25 August 2008. The statements were amended on 29 September 2008 and an unqualified audit report was issued on 20 October 2008.

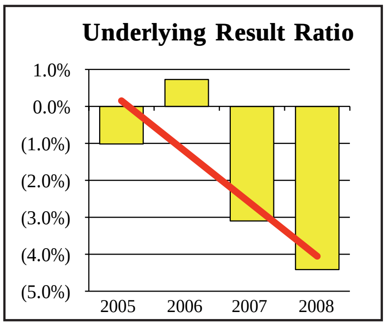
The audit was completed satisfactorily with no major matters outstanding.

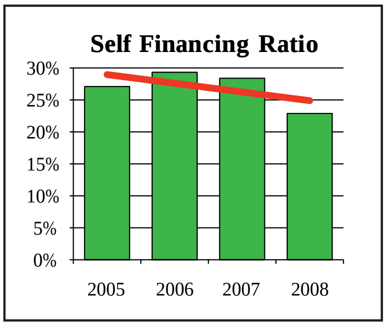
FINANCIAL RESULTS



Whilst the Operating margin has fluctuated close to the expected benchmark of one over the four year period, the decline is due to increasing operating deficits before capital grants. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements including its depreciation charges.

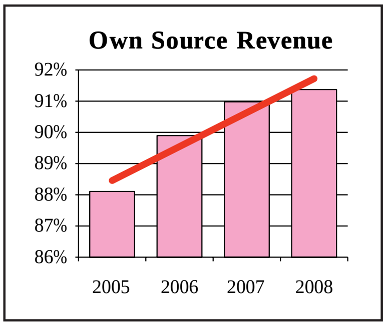
The Underlying results ratio generally decreased over the period and in most years was negative, indicating that operating deficits before capital grants increased when compared with Total Revenue.

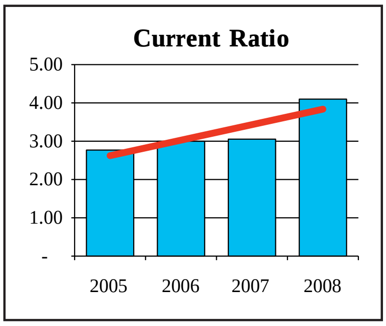




The Self financing ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. While remaining positive, the ratio generally declined over the period under review. The positive ratio indicated that Council generated operating cash flows that contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council increasingly generated most of its operating revenue from its own sources. In 2007-08 Council was reliant on recurrent grant funding to the extent of 8.6% (2004-05, 11.9%).





The Current ratio was above the benchmark of one and increased, indicating that Council is able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates and levies		24 206	22 096	20 055	18 456
User charges		2 945	2 970	2 649	2 229
Grants		3 023	2 908	3 025	3 288
Other operating revenue		4 859	4 263	4 212	3 671
Total Revenue		**35 033**	**32 237**	**29 941**	**27 644**
Employee costs		9 823	9 058	8 149	7 572
Borrowing costs		44	51	59	70
Depreciation		10 901	10 221	8 280	7 798
Other operating expenses		15 812	13 906	13 235	12 485
Total Expenses		**36 580**	**33 236**	**29 723**	**27 925**
Surplus (Deficit) before:		**(1 547)**	**(999)**	**218**	**(281)**
Capital grants		2 890	738	785	919
Contributions of non-current assets		10 657	7 703	4 977	6 243
Net Surplus		**12 000**	**7 442**	**5 980**	**6 881**

* *Budget figures were not available in this format.*

Comment

Council recorded operating Deficits in three of the four years under review. This indicated that Council may not have generated sufficient revenue to fulfil its operating requirements including coverage of its Depreciation charges in those years.

Council's overall surpluses were the result of Capital grants and Contributions of infrastructure assets by developers through sub-division works within the municipality.

Revenue from rates increased by $5.750m (31.1%) in the four year period under review. The additional rates income was attributable to an increase in the rate base (higher population and increase in business activity) and an increase in the rate charged. Rates continued to represent the major portion of Council's revenue, 63.8% in 2007-08.

As in prior years, a significant proportion of the Grant revenue for 2007-08 represented Commonwealth tax sharing grant funding of $1.738m. Grant funding as a percentage of total revenue decreased over the period from 11.9% in 2004-05 to 8.6% in 2007-08.

Employee costs increased by $2.251m (or 29.7%) over the four year period under review. The additional employee costs can be attributed to pay increases under Council's enterprise bargaining agreement, the engagement of additional staff (FTE numbers increased from 167 in 2004-05, to 181 in 2007-08) and a general restructure of Council positions. Over the period, Council moved from an organisational structure of five managers to employing three Directors with eleven managers. The change in organisational structure resulted in additional staffing costs, but was deemed necessary by Council due to increased demand for services in the municipality.

Depreciation expenses increased by $3.103m (or 39.7%) over the four year period. The primary cause of the increased depreciation charges was asset revaluations, especially road and water assets, capital additions and contributed assets, all of which increased the depreciable asset base.

Other operating expenses consisted mainly of purchase of materials and contract work payments. Other operating expenses amounted to $15.812m in the current year, an increase of 26.6% over the period.

Capital grant funding in 2007-08 included Roads to Recovery, $0.442m, and black spot funding, $0.100m. In addition, an amount of $2.000m was received from the State government for the redevelopment of the State Gymnastic Centre.

Contributions of non-current assets increased by $4.414m or 70.7% in the four year period to $10.657m. The increase in non-cash contributions of infrastructure assets by developers reflected the growth and activity in the municipality over the period.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	1 055	255	578	1 076
Investments	20 082	16 555	14 288	11 212
Receivables	2 086	1 027	1 018	1 331
Inventories and other	25	25	190	108
Total Current Assets	**23 248**	**17 861**	**16 075**	**13 726**
Payables	1 875	2 010	2 137	2 424
Borrowings	200	106	52	74
Provisions	1 516	2 156	1 759	1 461
Other	2 080	1 577	1 414	998
Total Current Liabilities	**5 672**	**5 849**	**5 362**	**4 957**
Working Capital	**17 576**	**12 012**	**10 713**	**8 769**
Infrastructure, property, plant and equipment	411 045	387 096	303 750	281 754
Intangible and other assets	59	29	40	13
Investment in Hobart Water	21 732	20 356	12 626	12 444
Total Non-Current Assets	**432 835**	**407 481**	**316 416**	**294 211**
Borrowings	150	350	456	508
Provisions	1 477	1 036	1 293	1 442
Total Non-Current Liabilities	**1 627**	**1 386**	**1 749**	**1 950**
Net Assets	**448 784**	**418 107**	**325 381**	**301 030**
Capital	191 257	183 394	170 441	166 397
Asset revaluation reserves	238 236	220 438	142 560	124 325
Other reserves	16 405	10 924	11 070	9 019
Accumulated surpluses	2 887	3 350	1 310	1 290
Total Equity	**448 784**	**418 107**	**325 381**	**301 030**

Comment

Increased Total Equity of $147.754m over the four year period under review was principally due to:

- Asset revaluation reserves, $113.911m, to account for asset revaluation increments and decrements
- Capital, $20.860m, mainly due to Contributed assets and changes in Council's interest in Hobart Water.

Investments increased by $8.870m over the four year period. Investments, totalling $20.082m at 30 June 2008, consisted solely of managed trusts and a small deposit at call. The investments were in accordance with Council's Investment Policy, which requires that fund managers have a high credit rating or are guaranteed by the Commonwealth or State Governments or are a high rated financial institution. The security and appropriateness of investments is regularly reviewed by an external advisor.

These Investments were mainly held to back Other reserves. The amount of Other Reserves at 30 June 2008, $16.405m, comprised the following:

- Specific Purpose Reserves, $4.879m,
- Unexpended Capital Reserves, $9.796m,
- Asset Replacement Reserves, $1.730m.

Specific Purpose Reserves included:

- Unexpended Specific Purpose Grants, $2.329m, including State Gymnastics Centre, $2.000m,
- acquisition of Public Open Space, $1.172m,
- Bulk Water Cost Increases and Water Capital Works, $0.969m.

Unexpended Capital Reserves are those amounts that have been allocated to various capital works projects, but at the reporting date had not yet been expended, comprised the following:

- sewerage, $4.823m,
- water, $1.962m,
- roads, $1.032m,
- recreation, $0.321m,
- stormwater, $0.281m,
- bridges, $0.276m,
- other, $1.101m.

Major projects were:

- Lewan Avenue Replacement, $0.350m,
- Blackmans Bay Treatment Plant Outfall Replacement, $1.500m,
- Ewing Avenue Pump Station Replacement, $0.250m,
- Howden Water Main Replacement, $0.300m,
- White Water Creek Stormwater Upgrade, $0.180m,
- Dennes Point Hall Upgrade, $0.100m,
- Bradley Road Bridge Replacement, $0.100m,
- Baretta Waste Transfer Station Development, $0.600m.

Asset Replacement Reserves were established to provide for the replacement of plant, vehicles, furniture and equipment.

The increased amount of Receivables in 2007-08 was due to the inclusion of $1.000m invoiced to the Commonwealth Government at the end of the financial year for its contribution to the Kingborough Sports Centre. Payment was received on 17 July 2008.

Current employee entitlement provisions fell in the current year due to action taken to reduce accumulated leave and retirements. Council's total Provisions balance at 30 June 2008 was $2.993m (2006-07, $3.192m), which remained fairly stable over the period under review. The balance comprised employee entitlements of $1.688m ($1.956m) and provision for the remediation of tip and quarries of $1.305m ($1.236m).

Other current liabilities primarily represented refundable deposits, accrued expenses and GST payable. The increase in the current year of $0.503m was due to outstanding purchase orders for materials, a reclassification of employee expenses and GST payable on a new grant. The increase in 2005-06, of $0.416m, was mainly due to increases in refundable deposits associated with increased Council development activity.

Council had strong Working Capital for each year under review. At 30 June 2008 Working capital was $17.576m, (2006-07, $12.012m; 2005-06, $10.713m; 2004-05, $8.769m), which indicated a strong capacity to meet short-term commitments.

Property, plant and equipment increased by $129.291m, (or 45.8%) over the period under review. The increase is summarised as follows:

Asset Movement Summary	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Opening written down value	387 125	303 789	283 032	267 244
Acquisitions from Council resources	6 893	8 433	7 453	9 450
Contributions from developers	10 657	7 703	4 977	6 243
Asset revaluations	17 797	77 879	18 926	8 443
Prior year adjustments	0	0	(2 134)	0
Depreciation expense	(10 831)	(10 151)	(8 041)	(7 563)
Book value of disposals	(538)	(528)	(424)	(785)
Closing written down value	**411 104**	**387 125**	**303 789**	**283 032**

Non-current Investment reflected Council's investment in its associate, Hobart Water. Council equity accounts its investment in its associate, with the investment balance increasing by $9.106m, (or 73.2%), over the four year period. The increase was primarily the result of Hobart Water undertaking an asset revaluation with Council reflecting the increase in both its investment and equity balances.

Borrowings decreased by $0.232m (or 39.8%) over the period. Council's loan debt of $0.456m represented only 3.2% of its total liabilities and less than one percent of equity.

CASH POSITION

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Receipts from customers	29 428	28 037	26 078	22 944
Cash flows from Government	4 643	4 556	4 508	4 895
Interest received	1 220	1 146	884	824
Dividends received	309	360	303	247
Payments to suppliers and employees	(27 541)	(24 895)	(22 913)	(21 346)
Borrowing costs	(44)	(51)	(80)	(74)
Cash from operations	**8 016**	**9 153**	**8 780**	**7 490**
Capital grants and contributions	2 890	738	785	919
Proceeds from sale of property, plant and equipment	421	537	536	1 099
Payments for property, plant and equipment	(6 893)	(8 433)	(7 453)	(9 450)
Cash (used in) investing activities	**(3 583)**	**(7 159)**	**(6 131)**	**(7 432)**
Recovery of loans from outside bodies	0	1	5	5
Repayment of borrowings	(106)	(52)	(74)	(86)
Cash (used in) financing activities	**(106)**	**(51)**	**(70)**	**(82)**
Net increase (decrease) in cash	**4 327**	**1 943**	**2 579**	**(24)**
Cash at the beginning of the year	16 810	14 867	12 288	12 312
Cash at end of the year	**21 137**	**16 810**	**14 867**	**12 288**

Comment

Council generated positive Cash from operations in all four years under review. Cash from operations increased by $0.526m, (or 7.02%), over the period due to increased Receipts from customers of $6.484m, (or 28.26%), while Payments to suppliers and employees increased by $6.195m, (or 29.02%). The decline in Cash from operations in 2007-08 was mainly due to larger payments to suppliers for purchases of materials and services.

Over the four year period investments in Property, plant and equipment totalled $32.229m, which were in accordance with Council's capital expenditure plan and of which $5.332m was funded from Capital grants and other external sources. Cash payments in 2007-08 amounted to $6.893m which included plant and equipment, $1.285m, computers and furniture, $0.157m, sewerage infrastructure, $0.674m, roads, $3.437m, water infrastructure, $0.506m and other infrastructure, $0.831m.

Council's Cash increased by $8.825m since 30 June 2004. The increase was due to the cash from operations, which totalled $33.439m for the four years under review, of which net $24.305m was used for investing activities and only $0.309m applied to financing activities.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(1 547)	(999)	218	(281)
Operating margin	>1.0	0.96	0.97	1.01	0.99
Underlying result ratio		(4.4%)	(3.1%)	0.7%	(1.0%)
Self financing ratio		0.23	0.28	0.29	0.27
Own source revenue ($'000s)		32 010	29 329	26 916	24 356
Financial Management					
Current ratio	>1	4.10	3.05	3.00	2.77
Indebtedness ratio		5.1%	4.7%	6.5%	8.0%
Cost of debt	7.5%	10.8%	10.6%	10.8%	11.1%
Debt service ratio		0.4%	0.3%	0.5%	0.6%
Debt collection	30 days	28	15	16	23
Creditor turnover	30 days	32	33	38	40
Capital expenditure/depreciation	>100%	63%	83%	90%	121%
Capital expenditure on existing assets/depreciation	100%	36%	61%	60%	93%
Other Information					
Employee costs expensed ($'000s)		9 823	9 058	8 149	7 572
Employee costs capitalised ($'000s)		334	485	520	391
Total employee costs ($'000s)		**10 157**	**9 543**	**8 669**	**7 963**
Employee costs as a % of operating expenses		27%	27%	27%	27%
Staff numbers (FTEs)		181	176	169	167
Average staff costs ($'000s)		54	51	48	45
Average leave balance per FTE ($'000s)		9	11	11	11

Comment

Council recorded varied Results from operations in the four years under review, resulting in the Operating margin being above and below the benchmark. This has been commented upon in the Income Statement section of this Chapter.

The Underlying results ratio generally decreased over the period and in most years was negative, indicating that operating deficits before capital grants increased when compared to Total revenue.

Council's Self financing ratio was consistent over the first three years, however, increased payments to suppliers and employees during 2007-08 caused a drop in the ratio. The ratio measures Council's ability to fund replacement of assets from cash from operations with the positive ratio indicating that Council was generating operating cash flows that are contributing towards its capital expenditure programs.

As noted previously in the Balance Sheet section, the Current ratio was above the benchmark in all years indicating that Council was able to meet all short-term liabilities as they fell due.

Council's Cost of debt was above the benchmark in each of the years under review. This was the result of several interest only loans with interest rates well above current market rates. Council has investigated the early settlement of these loans, and to do so would incur costs equal to interest charges over the remaining loan terms. The final interest only loan will be settled in 2010-11. However, the Debt service ratio indicates that the cost of debt (interest and principal repayments) is insignificant compared to operating revenue.

The Debt collection of 28 days in 2007-08 was higher than previous years because of the inclusion of $1.000m invoiced to the Commonwealth Government at the end of the year for its contribution to the Kingborough Sports Centre, noted previously. The Debt collection would have been only 15 days had that amount not been included.

Creditor turnover was above the benchmark in each of the years under review. It is Council policy to pay its suppliers at the end of each month following the date of invoice. Therefore, payment can be made from 30 days (for an invoice dated at the end of the month) to 60 days (for an invoice dated early in a month).

Capital expenditure/depreciation ratio was above 100% in 2004-05, with the ratio falling to below benchmark in the past three years. The ratio for the current year fell to 63%. A low ratio may indicate that Council has not invested sufficiently in maintaining its asset base. This is further illustrated in the Capital expenditure on existing assets to depreciation ratio. This ratio, for the current year, indicated Council invested only 36% of Depreciation charges in maintaining existing assets. This ratio fell from 93% in 2004-05. It is acknowledged that this ratio is only one indicator used to assess the adequateness of a council's capital expenditure programs and it does not take into account other strategies that Council may have to maintain its existing asset base, such as its long term asset management plans and expenditure on operating maintenance.

Staff numbers and average staff costs increased reflecting the general wage rises, changes in the staff mix and changes to the organisational structure (as noted previously in the Income Statement section of this Chapter).

Average leave balances per FTE fell in the current year as a result of retirements and efforts to reduce leave balances.

MEANDER VALLEY COUNCIL

INTRODUCTION

Meander Valley Council was created in 1993 when the former municipalities of Deloraine and Westbury were merged. The municipality covers an area of approximately 3 821 square kilometres, extending from Parramatta Creek in the west to Prospect Vale in the east, and from Birralee in the north to Liena in the south. The Council services a population of approximately 19 100 people.

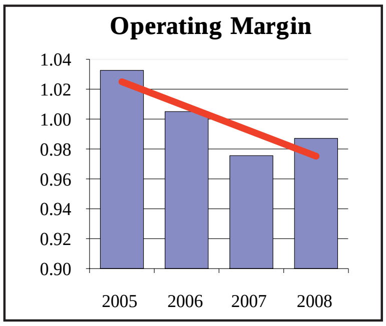
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 25 September 2008, amended financial statements were received on 12 November 2008 and an unqualified audit report was issued on 17 November 2008.

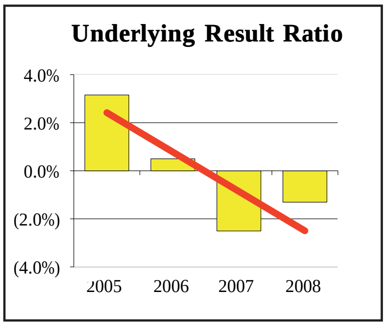
The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

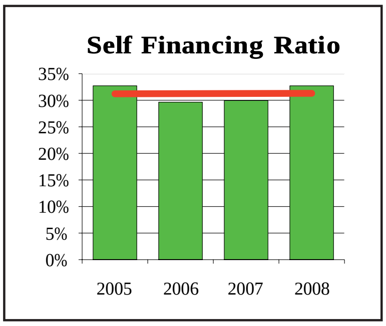
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was above the expected benchmark of one in the first two years under review decreasing to slightly below the benchmark in 2006-07 and 2007-08. An Operating margin below the benchmark indicated a council might not be generating sufficient revenue to fulfil its operating requirements.

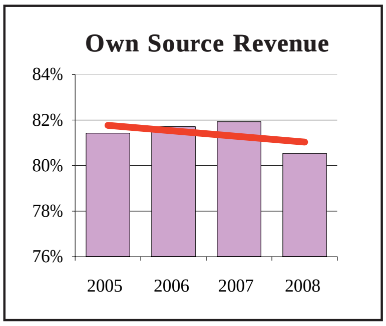


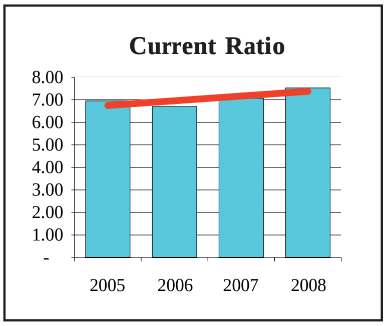
The Underlying result ratio decreased over the period indicating that operating deficits before capital grants increased when compared with total operating revenues.



The Self financing ratio was consistent at around 30% over the period under review. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that Council generated operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 19% (2004-05, 19%).





The Current ratio was well above the benchmark of one in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	10 495	10 560	10 169	9 613	9 142
User charges	1 867	1 934	2 006	1 799	1 702
Grants	3 330	3 501	2 972	2 782	2 678
Other operating revenue	1 198	1 993	1 299	1 018	895
Total Revenue	**16 890**	**17 988**	**16 446**	**15 212**	**14 417**
Employee costs	4 632	4 630	4 266	3 783	3 290
Depreciation	5 063	5 249	4 882	4 134	3 868
Other operating expenses	6 703	7 423	7 710	7 219	6 804
Loss on disposal of assets	0	921	0	0	0
Total Expenses	**16 398**	**18 223**	**16 858**	**15 136**	**13 962**
Surplus (Deficit) before:	**492**	**(235)**	**(412)**	**76**	**455**
Capital grants	485	496	933	1 301	626
Contributions of non-current assets	1 393	1 983	0	1 907	0
Surplus	**2 370**	**2 244**	**521**	**3 284**	**1 081**

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

Comment

Council recorded a deficit from operating activities in 2007-08 of $0.235m (before bringing to account Capital grants and Contributions of non-current assets) compared with a deficit in 2006-07 and surpluses in 2005-06 and 2004-05. A deficit result indicates that Council may not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. After including Capital grants and Contributions, Council recorded surpluses totalling $7.130m in the four years under review.

Rates increased by $1.418m, (or 15.51%), in the period under review. The additional revenue was due to a combination of increases in:

- general rate income, 3.6% in 2007-08 (2006-07, 5.53%; 2005-06, 4.44%)
- assessed annual valuations (AAV) of properties
- growth due to new subdivisions established within the municipality.

User charges include user-pays levies for water and sewerage, excess water, rentals and leases, waste disposal charges and planning development approval and certificate fees.

The majority of Grant revenue represented the Commonwealth tax sharing grant, $3.127m, (2006-07, $2.928m; 2005-06, $2.767m; 2004-05, $2.585m), which increased by 20.97% during the period under review.

Other operating revenue includes reimbursements, contributions, donations, interest and share of profit in associates. The spike noted in 2007-08 was largely due to one-off recognition of newly identified assets following revaluations and takeover of the Deloraine Racecourse.

During the period under review, Employee costs increased by $1.340m, (or 40.73%), predominantly as a result of:

- pay rises under Council's enterprise agreement of 3.0% in July 2005, 4.0% in July 2006 and 4.0% in July 2007, combined with the flow-on effect to employee provisions
- increased full-time equivalent (FTEs) staff numbers to 73 in 2007-08 from 66 in 2004-05.

Depreciation expense increased by $1.381m, (or 35.70%), from 2004-05 to 2007-08. The main increase was in 2006-07, $0.748m, due to the impact of revaluations.

Other operating expenses increased by $0.619m (9.10%) during the period under review. Major items included in Other operating expenses were:

- road and bridge maintenance (2007-08, $1.096m; 2006-07, $0.921m)
- bulk water purchases ($0.811m; $0.812m)
- State fire levy ($0.844m; $0.735m)
- garbage collection costs ($0.925m; $1.085m)
- a one-off reassessment of Council's provision for tip rehabilitation in 2006-07, $0.649m, as investigations during 2006-07 indicated that Council's landfill sites would be closed and rehabilitated earlier than previously anticipated.

Loss on disposal of assets in 2007-08 of $0.921m related predominantly to the replacement of infrastructure assets which resulted in disposal of the existing infrastructure assets being replaced.

Capital grants totalling $3.356m over the period under review included:

- Roads to Recovery and Auslink funding totalling $2.639m
- funding received in 2005-06 and 2006-07 totalling $0.458m for the redevelopment and upgrade of facilities at Prospect Vale Park to enable multi-purpose sport and community recreational use.

Contributions of non-current assets consisted of subdivision assets taken over by Council.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	5 438	6 874	9 257	11 361
Receivables	706	915	710	660
Financial assets	8 808	5 600	3 612	0
Other	241	302	314	148
Total Current Assets	**15 193**	**13 691**	**13 893**	**12 169**
Payables	968	755	874	809
Provisions - employee benefits	836	772	757	768
Other	215	411	443	174
Total Current Liabilities	**2 019**	**1 938**	**2 074**	**1 751**
Working Capital	**13 174**	**11 753**	**11 819**	**10 418**
Property, plant and equipment	214 795	202 111	136 871	123 167
Investments	10 116	9 126	8 782	9 663
Total Non-Current Assets	**224 911**	**211 237**	**145 653**	**132 830**
Provisions - employee benefits	165	83	29	76
Provisions - rehabilitation	2 244	2 201	1 463	1 463
Total Non-Current Liabilities	**2 409**	**2 284**	**1 492**	**1 539**
Net Assets	**235 676**	**220 706**	**155 980**	**141 709**
Reserves	105 028	92 302	28 097	17 110
Accumulated surpluses	130 648	128 404	127 883	124 599
Total Equity	**235 676**	**220 706**	**155 980**	**141 709**

Comment

Total Equity rose by $93.967m over the period under review due to:

- Council surpluses of $6.049m (2007-08, $2.244m; 2006-07, $0.521m; and 2005-06, $3.284m)
- asset revaluation increments of $87.239m
- a net increase in Council's investment in Esk Water of $0.679m. This increase arose from Council recognising its share of the increase in the Authority's asset revaluation reserve combined with the impact of a change in ownership interest.

Council's cash balance at 30 June 2008 was $5.438m. This balance comprised cash at bank and on hand of $0.315m and short term deposits of $5.123m. Council also held current financial assets of $8.808m, comprising term deposits. Council maintained a strong cash and investment position over the period with an average balance of $12.738m. The cash balance grew over the years and is expected to assist in upcoming projects such as the closure and rehabilitation of the Westbury and Deloraine tips as well as significant ongoing capital expenditure for stormwater assets.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets. From 30 June 2005 to 30 June 2008, the balance of Property, plant and equipment increased by $91.628m. The increase was primarily due to the revaluation of a number of asset classes, resulting in asset revaluation increments of $11.607m in 2005-06,

$63.829m in 2006-07 and $11.803m in 2007-08. This also resulted in a corresponding increase to the asset revaluation reserve. The revaluation increment in 2005-06 mainly consisted of water assets, $4.540m, and sewerage assets, $7.098m. The revaluation increment in 2006-07 comprised roads and streets, $59.992m and stormwater assets, $3.837m. In 2007-08 the revaluation increment related to.

- land, $3.444m,
- buildings, $2.578m,
- bridges, $2.704m,
- stormwater, $3.077m.

Non-current Investments comprised Council's interest in Esk Water. The investment was based on Council equity accounting its share of the financial position of Esk Water at 30 June each year.

Non-current Provisions - rehabilitation related to costs associated with Council's refuse sites. The increase during 2006-07 represented a reassessment of the timing of future payments due to downward revisions to the remaining lives of the sites.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	15 085	13 478	12 778	12 079
Cash flows from Government	3 501	2 972	2 782	2 678
Payments to suppliers and employees	(13 658)	(12 324)	(11 778)	(10 700)
Interest received	958	799	727	661
Cash from operations	**5 886**	**4 925**	**4 509**	**4 718**
Capital grants and contributions	496	933	1 301	626
Payments for investments	(3 208)	(1 987)	(3 612)	0
Payments for property, plant and equipment	(4 774)	(6 421)	(4 464)	(3 575)
Proceeds from sale of property, plant and equipment	164	167	162	396
Cash (used in) investing activities	**(7 322)**	**(7 308)**	**(6 613)**	**(2 553)**
Net increase (decrease) in cash	**(1 436)**	**(2 383)**	**(2 104)**	**2 165**
Cash at the beginning of the year	6 874	9 257	11 361	9 196
Cash at the end of the year	**5 438**	**6 874**	**9 257**	**11 361**

Comment

Cash included cash on hand and short term deposits. Whilst the cash balance shown above steadily declined, there was a corresponding increase in the balance of Financial assets, which at 30 June 2008 totalled $8.808m. This is represented in the above statement by the Payments for investments totalling $8.807m. Council's overall cash position, including term deposits, increased from $11.361m at 30 June 2005 to $14.246m at 30 June 2008.

Council generated positive Cash from operations in all years under review. These operating cash flows, $20.038m, were used to fund Payments for property, plant and equipment totalling $19.234m. Council also received $3.356m in capital grants and contributions to fund specific capital works.

Major capital expenditure projects during the period under review included:

- Prospect Vale Park redevelopment
- Westbury Waste Water Treatment Plant
- Deloraine West Pump Station
- Blackstone Park development
- council chambers and office redevelopment
- mobile garbage bins.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(235)	(412)	76	455
Operating margin	>1.0	0.99	0.98	1.01	1.03
Underlying result ratio		(1.3%)	(2.5%)	0.5%	3.2%
Self financing ratio		32.7%	29.9%	29.6%	32.7%
Own source revenue ($'000s)		14 487	13 474	12 430	11 739
Financial Management					
Current ratio	>1	7.53	7.06	6.70	6.95
Indebtedness ratio		16.6%	17.0%	12.0%	13.1%
Cost of debt	7.5%	0.0%	0.0%	0.0%	0.0%
Debt service ratio		0.0%	0.0%	0.0%	0.0%
Debt collection	30 days	17	21	14	17
Creditor turnover	30 days	29	20	27	28
Capital expenditure/depreciation	>100%	91%	132%	108%	92%
Capital expenditure on existing assets/depreciation	100%	70%	89%	63%	n/a
Other Information					
Employee costs expensed ($'000s)		4 630	4 266	3 783	3 290
Employee costs capitalised ($'000s)		200	240	182	189
Total employee costs ($'000s)		**4 830**	**4 506**	**3 965**	**3 479**
Employee costs as % of operating expenses		25%	25%	25%	24%
Staff numbers (FTEs)		73	75	75	66
Average staff costs ($'000s)		66	60	53	53
Average leave balance per FTE ($'000s)		14	11	10	13

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating surpluses (before Capital grants and assets contributed) in the first two years under review resulting in positive Operating margins and Underlying result ratios. Operating deficits in 2006-07 and 2007-08 resulted in Operating margins slightly below the benchmark and negative Underlying result ratios.

The Self financing ratio was consistent at around 30% over the period under review. Increased receipts from customers and Government grants during 2007-08 caused this ratio to increase. Own source revenue increased in line with the increase in Rates, User charges and Other revenue.

Current ratio was well above the benchmark in all years indicating that Council was able to meet all short-term liabilities when they fell due.

Council had no borrowings, therefore the debt ratios do not apply.

Capital expenditure to depreciation ratio was above 100% in 2005-06 and 2006-07 being a reflection of Council's significant investments in property, plant and equipment in those years. The ratio was below benchmark in 2007-08 due in part to the high level of capital works undertaken in the prior year.

After removing the effect of expenditure on new assets, Capital expenditure on existing assets to depreciation was below benchmark in all years reported, indicating that Council might not have invested sufficiently in maintaining existing assets. Comparative information was not available for 2004-05.

Employee costs as a % of operating expenses and Average staff entitlements were fairly consistent throughout the period under review.

Average staff costs grew over the period due to increased Employee costs, as explained in the Income Statement section.

WARATAH-WYNYARD COUNCIL

INTRODUCTION

The Waratah-Wynyard area was proclaimed a municipality under the *Local Government Act 1993* and combined the former Municipalities of Waratah and Wynyard. The Waratah-Wynyard local government area covers 3 526 square kilometres and the population serviced is in the order of 13 900 people.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Initial signed financial statements were received on 2 September 2008, with amended statements received on 5 September 2008. An unqualified audit report was issued on 17 September 2008.

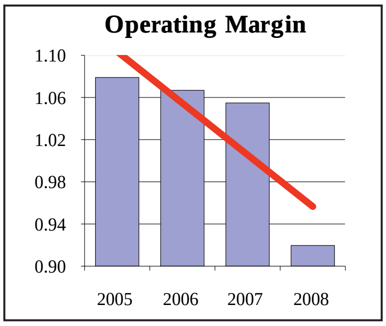
In our Report No 2 tabled in November 2007 (page 195), we recommended that Council adopt a fair value basis for measuring the carrying value of all property, equipment and infrastructure assets (excluding roads which were included at fair value) and update the road valuation which was last performed at 30 June 2005.

It is pleasing that Council adopted a fair value basis for measuring its material infrastructure assets in 2007-08 and is in the process of revaluing road assets. As expected, the use of current asset values increased the depreciation expense in 2007-08 and affected Council's ability to generate sufficient operating revenue to meet its operating expenses.

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

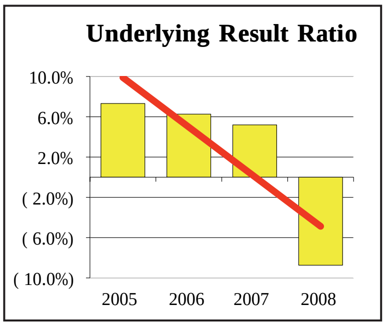
FINANCIAL RESULTS

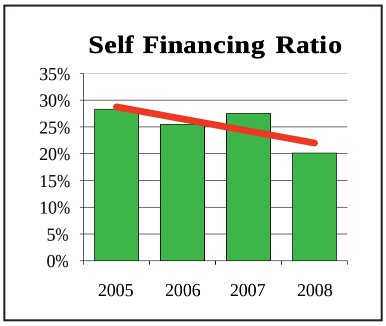
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was above the expected benchmark of one in the first three years, but below the benchmark in 2007-08 due to an operating deficit in that year. The operating deficit was mainly due to remedial works and earthworks at the Wynyard Sewerage Treatment Plant and sludge lagoon, as noted later in the Income Statement section. On average, the Operating margin was 1.02, which indicated Council generated sufficient revenue throughout the period to fulfil its operating requirements.

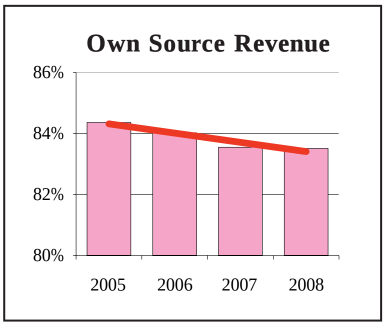
Council's Underlying result ratio was positive in the first three years under review, but was negative in 2007-08 due to the operating deficit in that year. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a deficit. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

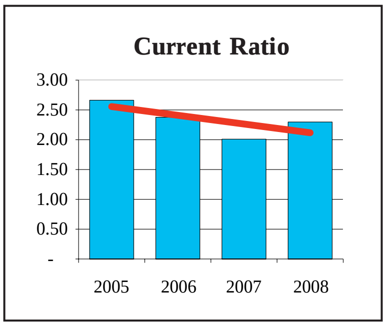




The Self financing ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. The ratio decreased in 2007-08 due to a combination of increased operating revenue and decreased net operating cash flows. A positive ratio indicates that a council is generating operating cash flows which are contributing towards its capital expenditure programs.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was marginally more reliant on recurrent grant funding to the extent of 16.5% (2004-05, 15.6%).





The Current ratio was above the benchmark of one in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	9 468	9 589	9 173	8 910	8 550
User charges	2 152	2 227	2 306	2 147	1 979
Grants	2 334	2 523	2 429	2 316	2 214
Other operating revenue	546	961	857	1 124	1 413
Total Revenue	**14 500**	**15 300**	**14 765**	**14 497**	**14 156**
Employee costs	4 260	3 974	3 947	3 616	3 488
Borrowing costs	152	153	189	230	242
Depreciation	3 065	3 257	2 767	2 624	2 446
Loss on disposal of assets	153	703	332	134	814
Other operating expenses	7 161	8 550	6 763	6 985	6 130
Total Expenses	**14 791**	**16 637**	**13 998**	**13 589**	**13 120**
Surplus (Deficit) before:	**(291)**	**(1 337)**	**767**	**908**	**1 036**
Capital grants	558	595	583	1 005	2 113
Asset recognitions	0	2 060	0	0	0
Contributions of non-current assets	250	0	647	1 694	0
Surplus	**517**	**1 318**	**1 997**	**3 607**	**3 149**

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

Comment

In 2007-08 Council recorded a deficit before Capital grants, Asset recognitions and Contributions of non-current assets of $1.337m, compared to surpluses in the first three years under review. A deficit indicates that Council may not be generating sufficient revenue to fulfil its operating requirements including coverage of its depreciation charges. The deficit recorded in 2007-08 was mainly due to increased Other operating expenses, explained below, and increased Depreciation charges following the revaluation of the majority of Council's asset classes. After including Capital grants, Asset recognitions and Contributions of non-current assets, Council recorded surpluses totalling $10.071m in the four years under review. The main movements in revenue and expense items are discussed below.

Revenue from Rates increased by $1.039m (12.2%) in the period under review. The increase was due to a combination of factors, including:

- increases in the general rate levied
- new sewerage rates introduced during 2005-06 following completion of the Sisters Beach sewerage scheme (420 rateable titles affected).

Major items included in User charges were:

- child care centre fees (2007-08, $0.742m; 2006-07, $0.741m)
- water by measure charges ($0.502m; $0.570m)
- waste transfer station fees ($0.139m; $0.131m)
- sewerage special user charges ($0.122m; $0.105m).

The majority of Grant revenue represented the Commonwealth tax sharing grant, $2.383m for 2007-08 (2006-07, $2.233m; 2005-06, $2.167m; 2004-05, $1.994m) which increased by 19.5% during the period under review.

Employee costs increased by $0.486m (13.93%), from 2004-05 to 2007-08. This was mainly due to pay rises under Council's Enterprise Agreement (EBA) of 3.5% in 2005-06, 4.0% in 2006-07 and 3.0% in 2007-08, combined with the flow-on effect to employee provisions and other staff movements.

Borrowing costs decreased each year in line with reductions in loans outstanding.

Depreciation expense increased steadily from 2004-05 to 2006-07. During this period, all Property, plant and equipment except for road assets were recorded at cost. In 2007-08, Council undertook revaluations of land, buildings, bridges, water, sewerage and drainage asset classes. The revaluation of building assets was effective 30 June 2008 and had no impact on the 2007-08 depreciation expense. The revaluation of bridges, water, sewerage and drainage assets was effective 1 July 2007 and resulted in increased depreciation expense of $0.490m or 17.7% from 2006-07 to 2007-08.

Loss on disposal of assets in 2007-08 of $0.703m included $0.386m for the write-off of sewerage assets. The majority related to the write-off of earthworks at the Wynyard Sewerage Treatment Plant that were previously capitalised.

In 2004-05, Council's engineers reviewed the capitalised costs associated with the Boat Harbour sewerage scheme. The review indicated that some expenditure relating to initial planning and construction should have been expensed and not recognised as an asset. Consequently, Council wrote-off $0.567m relating to the sewerage scheme which was included in the Loss on disposal of assets in 2004-05 of $0.814m.

Other operating expenses include materials, contracts, remissions, discounts and state levies. The significant increase in Other operating expenses in 2007-08 was mainly due to remedial works at the Wynyard Sewerage Treatment Plant and works on the sludge lagoon totalling $0.911m. Other operating expenses in 2005-06, $6.985m, included a write-off of design costs of $0.417m for the Sisters Beach sewerage scheme.

Capital grants totalling $4.296m over the period under review included the following major items:

- Federal Government funding under the Roads to Recovery initiative of $1.840m
- Sisters Beach Sewerage/Drainage Scheme Development funding in 2005-06 and 2006-07 totalling $0.298m
- Federal and State funding in 2004-05 to construct a sewerage scheme at Sisters Beach, $0.692m
- funding for the Wonders of Wynyard Exhibition Centre in 2004-05, $0.500m.

As part of the revaluation process in 2007-08, Council identified a number of assets that were previously not recorded. In total, these assets were valued at $2.060m and comprised land assets of $1.914m and bridge assets of $0.146m. Recognition of these assets resulted in income of $2.060m in 2007-08.

In 2005-06, Council received $1.694m in developer contributions. These assets related to three new subdivisions (Fossil Bluff, Seaspray Estate and Beaufort Street subdivisions), which were finalised in 2005-06. Developers were required to install infrastructure when preparing land for sale. On completion, the sites transferred to Council, which was then responsible for ongoing maintenance. Further contributions of $0.647m were received from developers during 2006-07 relating to the York Street and York Court subdivisions.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	5 583	4 851	5 524	6 055
Receivables	391	571	532	512
Other	1 360	479	449	287
Total Current Assets	**7 334**	**5 901**	**6 505**	**6 854**
Payables	1 552	1 159	1 105	867
Borrowings	620	628	680	725
Provisions - employee benefits	711	844	843	882
Other	309	305	109	100
Total Current Liabilities	**3 192**	**2 936**	**2 737**	**2 574**
Working Capital	**4 142**	**2 965**	**3 768**	**4 280**
Property, plant and equipment	114 627	83 427	81 238	77 826
Investments	10 606	9 521	6 139	6 067
Other	37	51	64	76
Total Non-Current Assets	**125 270**	**92 999**	**87 441**	**83 969**
Borrowings	2 519	2 140	2 768	3 448
Provisions - employee benefits	285	229	166	142
Total Non-Current Liabilities	**2 804**	**2 369**	**2 934**	**3 590**
Net Assets	**126 608**	**93 595**	**88 275**	**84 659**
Reserves	84 551	10 361	7 038	6 724
Accumulated surpluses	42 057	83 234	81 237	77 935
Total Equity	**126 608**	**93 595**	**88 275**	**84 659**

Comment

Total Equity rose by $41.949m over the period of review due to:

- Council surpluses of $6.922m (2007-08, $1.318m; 2006-07, $1.997m and 2005-06, $3.607m)
- asset revaluation increments of $30.658m
- increases in Council's investment in Cradle Coast Water (CCW) of $4.369m. This increase arose from Council recognising its share of the increase in the Authority's asset revaluation reserve.

Cash at 30 June 2008 comprised cash at bank and on hand of $1.532m and short-term deposits of $4.051m. Council maintained a strong cash position over the period with an average balance of $5.503m. These funds were not committed to any major capital projects in the near future.

The balance of Other current assets at 30 June 2008, $1.360m, included $0.745m relating to land held for resale.

The nature of Payables makes it difficult to compare the balance from year to year. The main items in the 30 June 2008 balance of $1.552m included capital road works and the purchase of motor vehicles. The 30 June 2007 balance included capital road works and ongoing operating expenses and the 30 June 2006 balance included bridge work on the Maldon Creek Back Cam Link Road.

Prior to 2007-08, Council recorded all of its assets, except for roads, at cost. As noted in the Income Statement section, Council undertook revaluations of the majority of its asset classes in 2007-08, with the exception of road assets. The total revaluation increment for the year was $30.658m which accounts for the majority of the increase in the Property, plant and equipment balance of $31.200m.

Non-current investments represented Council's investment in CCW which increased by $4.539m during the period under review. The increase in this balance comprised Council's share of the profits of the Authority, $0.439m, less dividends received, $0.269m, plus the share of the Authority's asset revaluation increments, $4.369m.

Total Borrowings decreased by $1.034m over the period under review due to principal loan repayments of $2.034m and new borrowings in 2007-08 totalling $1.000m.

Total employee benefit provisions decreased slightly over the period from $1.024m at 30 June 2005 to $0.996m at 30 June 2008. The decrease was mainly due to the termination of a number of long-serving employees during 2007-08.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	13 074	12 408	12 440	11 998
Cash flows from government	2 523	2 429	2 316	2 214
Payments to suppliers and employees	(12 935)	(11 083)	(11 304)	(10 408)
Interest received	571	503	474	449
Borrowing costs	(153)	(191)	(232)	(245)
Cash from operations	**3 080**	**4 066**	**3 694**	**4 008**
Capital grants and contributions	595	583	1 005	2 113
Payments for property, plant and equipment	(3 790)	(5 061)	(4 819)	(5 217)
Proceeds from sale of property, plant and equipment	475	419	314	350
Cash (used in) investing activities	**(2 720)**	**(4 059)**	**(3 500)**	**(2 754)**
Proceeds from borrowings	1 000	0	0	500
Repayment of borrowings	(628)	(680)	(725)	(733)
Cash from (used in) financing activities	**372**	**(680)**	**(725)**	**(233)**
Net increase (decrease) in cash	**732**	**(673)**	**(531)**	**1 021**
Cash at the beginning of the year	4 851	5 524	6 055	5 034
Cash at end of the year	**5 583**	**4 851**	**5 524**	**6 055**

Comment

Council generated positive Cash from operations in all years under review. However, while Receipts from customers increased by $1.076m, 8.97%, Payments to suppliers and employees more than offset this, increasing $2.527m, 24.28%. The increase in payments was mainly due to the increase in Other operating expenses in 2007-08 noted previously in the Income Statement section.

Cash from operations over the period totalled $14.848m and was used to fund the majority of Council's investment in Property, plant and equipment throughout the period with Payments for property, plant and equipment totalling $18.887m. Additional capital funding was obtained from Government grants and contributions of $4.296m and new borrowings of $1.500m.

Overall, Council maintained a steady cash position, with cash increasing by $0.549m in the period under review.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(1 337)	767	908	1 036
Operating margin	>1.0	0.92	1.05	1.07	1.08
Underlying result ratio		(8.7%)	5.2%	6.3%	7.3%
Self financing ratio		20.1%	27.5%	25.5%	28.3%
Own source revenue ($'000s)		12 777	12 336	12 181	11 942
Financial Management					
Current ratio	>1	2.30	2.01	2.38	2.66
Indebtedness ratio		21.9%	19.2%	24.1%	30.1%
Cost of debt	7.5%	5.2%	6.1%	6.0%	5.6%
Debt service ratio		5.1%	5.9%	6.6%	6.9%
Debt collection	30 days	12	18	18	18
Creditor turnover	30 days	53	42	40	32
Capital expenditure/depreciation	>100%	116.4%	182.9%	183.7%	213.3%
Capital expenditure on existing assets/depreciation	100%	87.5%	146.7%	97.2%	110.7%
Other Information					
Employee costs expensed ($'000s)		3 974	3 947	3 616	3 488
Employee costs capitalised ($'000s)		400	472	310	340
Total employee costs ($'000s)		**4 374**	**4 419**	**3 926**	**3 828**
Employee costs as % of operating expenses		24%	28%	27%	27%
Staff numbers (FTEs)		82	81	83	83
Average staff costs ($'000s)		53	55	48	45
Average leave balance per FTE ($'000s)		12	12	11	11

Comment

Financial Performance ratios show that Council recorded operating surpluses in the first three years under review and an operating deficit of $1.337m in 2007-08, resulting in an operating margin below benchmark and a negative underlying result ratio for that year. As noted previously, the deficit included additional depreciation charges of $0.490m relating to infrastructure assets revaluated at 1 July 2007. With road assets currently being revalued, it is anticipated the depreciation expense will increase further in 2008-09. Council, in future, should ensure it generates sufficient revenue to fulfil its operating requirements including coverage of its depreciation charges.

Self financing ratio decreased in 2007-08 due to a combination of an increase in operating revenue and a decrease in net operating cash flows, as noted in the Cash Position section. Own source revenues gradually increased during the period under review, as it comprises Rates, User charges and Other operating revenues. However, in percentage terms Own source revenues decreased as a percentage of total revenues with tax sharing grants increasing slightly over the period in percentage terms.

Current ratio was above the benchmark in all years indicating that Council was able to meet all short-term liabilities when they fell due.

Indebtedness ratio decreased in 2005-06 and 2006-07 due to principal loan repayments and no new borrowings drawn down. The ratio increased slightly in 2007-08 due to a new loan of $1.000m.

Cost of debt was fairly consistent for the period under review. The ratio decreased from 6.1% to 5.2% in 2007-08 due to the draw down of the new loan for $1.000m in June 2008. As a result, minimal interest was incurred in relation to the new loan.

Creditor turnover was above the benchmark of 30 days in all years under review. This reflected large capital creditors at year-end, as noted in the Balance Sheet section.

Capital expenditure to depreciation ratio was well above 100% for the first three years due to the impact of new asset projects such as the Sisters Beach sewerage scheme and the Wonders of Wynyard Exhibition Centre. The ratio was also relatively high in those years due to depreciation charges being based on assets recorded at cost, except for road infrastructure. The increase in depreciation expense in 2007-08 followed the revaluation of assets resulting in a lower Capital expenditure to depreciation ratio.

Council's capital expenditure on existing assets to depreciation ratio was above or only slightly below the benchmark for the first three years under review. Although this indicated Council invested sufficiently in the replacement of existing infrastructure in that period, the results were affected by the lower depreciation expense for those years. The ratio dropped slightly in 2007-08 to 87.5% due to the higher depreciation in that year. A ratio below the benchmark of 100% indicates that Council may not be investing sufficiently in the replacement of existing assets.

Employee costs as a percentage of operating expenses decreased in 2007-08 due to the impact of increased depreciation expense as a result of the revaluation of bridges, water, sewerage and drainage assets and increase other operating expenses noted in the Income Statement section. Average staff costs and average leave balances per employee were fairly consistent for all years under review.

WEST TAMAR COUNCIL

INTRODUCTION

West Tamar Council was created in 1993 and was formerly the Municipality of Beaconsfield, which was established in 1907. The municipality includes the townships of Beaconsfield, Exeter, Legana, Beauty Point and Bridgenorth as well as Launceston suburbs of Riverside and Trevallyn. The Council services a population of approximately 21 800 people and covers an area of 690 square kilometres.

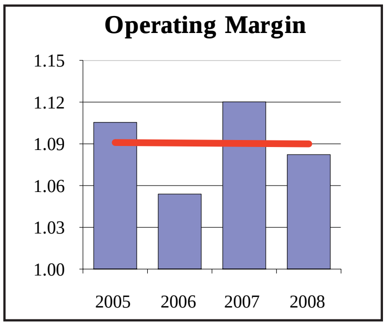
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Initial signed financial statements were received on 19 August 2008, with amended statements received on 28 August 2008. An unqualified audit report was issued on 9 September 2008.

The audit was completed satisfactorily with no major issues outstanding.

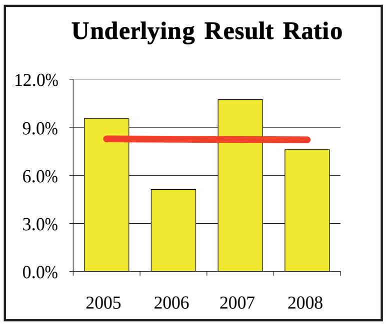
FINANCIAL RESULTS

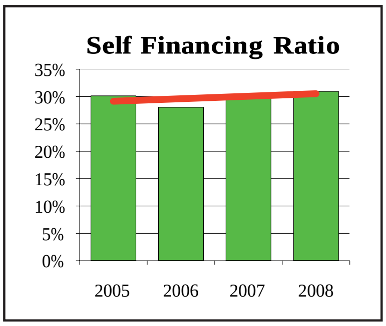
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was above the expected benchmark of one in all years under review. An Operating margin above the benchmark indicates a council is generating sufficient revenue to fulfil its operating requirements.

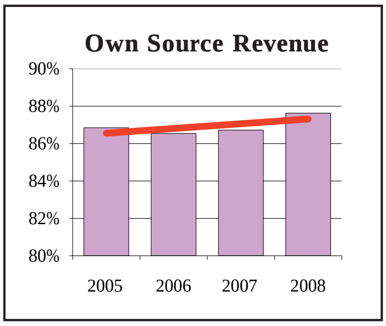
Council had positive underlying result ratios in all years under review, indicating Council recorded operating surpluses throughout the period. However, we note in its Estimates that Council budgeted for a small operating deficit in 2007-08. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

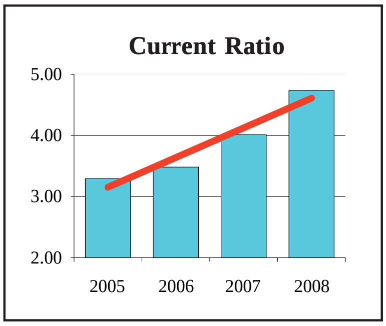




The Self financing ratio was consistent at around 30% over the period under review. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicated that Council generated operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 12% (2004-05, 13%).





The Current ratio was well above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	12 971	13 097	12 300	11 218	10 684
User charges	2 751	3 261	3 176	2 362	2 260
Grants	2 487	2 532	2 604	2 278	2 180
Other operating revenue	1 004	1 577	1 532	1 068	1 451
Total Revenue	**19 213**	**20 467**	**19 612**	**16 926**	**16 575**
Employee costs	6 051	5 698	5 378	5 067	4 603
Borrowing costs	125	128	130	135	160
Depreciation	4 814	4 879	4 207	3 731	3 583
Other operating expenses	8 321	8 206	7 793	7 127	6 648
Total Expenses	**19 311**	**18 911**	**17 508**	**16 060**	**14 994**
Surplus (Deficit) before:	**(98)**	**1 556**	**2 104**	**866**	**1 581**
Capital grants	853	1 266	1 112	735	112
Revaluation decrements	0	0	0	0	(2 947)
Write-off of non-current assets	0	(2 263)	0	0	0
Contributions of non-current assets	0	3 520	2 265	2 257	1 804
Surplus	**755**	**4 079**	**5 481**	**3 858**	**550**

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

Comment

Council recorded Surpluses before non-operating items in all years under review indicating that it generated sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. The operating surplus in 2007-08 was well above Estimate due mainly to higher investment revenue and share of profit of associates. After including Capital grants, Revaluation decrements and Write-offs and Contributions of non-current assets, Council recorded surpluses totalling $13.968m in the four years under review. The main movements in revenue and expense items are discussed below.

Rates increased by $2.413m (or 22.59%), in the period under review. The increase was due to a combination of increases in the general rate levied, the waste management charge, and the AAV of properties. The waste management charge was increased to cover rising operating costs.

The majority of Grant revenue represented the Commonwealth tax sharing grant, $2.473m for 2007-08 (2006-07, $2.294m; 2005-06, $2.179m; 2004-05, $2.004m) which increased by 23.40% during the period under review. Grant revenue for 2006-07 also included $0.150m received from the State government towards maintenance costs for the Grubb Shaft Museum and $0.064m reimbursement for storm damage.

The increase in User charges from 2004-05 to 2007-08 of $1.001m (or 44.29%) was primarily due to:

- increased water consumption charges resulting from a combination of an increase in water usage and a rise in the water charge (2007-08, $1.299m; 2004-05, $1.107m)
- increased revenue from entrance charges and the sale of merchandise at the Grubb Shaft Museum which was due to a rise in visitor numbers following the mine disaster in April 2006 ($0.522m; $0.153m)
- increased revenue from rate certificates issued ($0.180m; $0.065m).

Employee costs increased by $1.095m (23.79%) from 2004-05 to 2007-08. This included:

- pay rises under Council's Enterprise Agreement of 3.50% in 2007-08 and 4.00% in both 2005-06 and 2006-07, combined with the flow-on effect to employee provisions
- increased number of staff employed by Council, a total of sixteen FTEs over the period, which, at an average staff cost of $0.057m over the period indicated the extra staff cost approximately $0.919m in 2007-08.

Depreciation expense increased by $1.296m (36.17%) from 2004-05 to 2007-08.
The increase included:

- the impact of increased valuations following the revaluation of stormwater assets effective 1 July 2006 and the application of indices to the valuations of road, water, sewerage, building and bridge assets on 1 July 2006 and 1 July 2007
- a decrease in the estimated useful lives of road assets effective 30 June 2006.

Other operating expenses increased by $1.558m (23.44%) during the period under review. Major items included in Other operating costs were:

- bulk water purchases (2007-08, $1.487m; 2006-07, $1.527m)
- road maintenance expenditure ($0.825m; $0.793m)
- state fire levy ($0.800m; $0.710m).

Capital grants, $3.225m, over the period under review included the following major items:

- Roads to Recovery and Auslink funding totalling $1.296m

- funding from the Commonwealth Government, in 2006-07 and 2007-08, totalled $1.280m for the expansion of the Grubb Shaft Museum and the construction of a mine rescue display. The funding formed part of the $8.000m Beaconsfield Community Fund (the Fund) which was administered by the Commonwealth Government through AusIndustry. The purpose of the Fund is to provide financial support for development initiatives for the benefit of the Beaconsfield community.

Revaluation decrement in 2004-05 of $2.947m related to water infrastructure and bridge assets.

Write-off of non-current assets in 2007-08 of $2.263m related to the Riverside Community Centre which was written off as a result of Council not renewing the lease over the property. The Centre was on Crown land and therefore reverted to the State.

Contributions of non-current assets principally consisted of subdivision assets taken over by Council.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	12 408	10 575	7 802	6 576
Receivables	736	676	588	600
Other	649	440	611	379
Total Current Assets	**13 793**	**11 691**	**9 001**	**7 555**
Payables	870	987	970	930
Borrowings	332	363	387	342
Provisions - employee benefits	1 299	1 176	1 116	945
Other	412	388	112	77
Total Current Liabilities	**2 913**	**2 914**	**2 585**	**2 294**
Working Capital	**10 880**	**8 777**	**6 416**	**5 261**
Property, plant and equipment	188 171	176 518	159 134	142 708
Investments	18 730	17 010	15 645	16 553
Other	8	16	36	51
Total Non-Current Assets	**206 909**	**193 544**	**174 815**	**159 312**
Borrowings	1 425	1 757	1 819	1 907
Provisions - employee benefits	119	133	128	146
Other	8	10	210	260
Total Non-Current Liabilities	**1 552**	**1 900**	**2 157**	**2 313**
Net Assets	**216 237**	**200 421**	**179 074**	**162 260**
Reserves	151 614	140 040	124 592	111 635
Accumulated surpluses	64 623	60 381	54 482	50 625
Total Equity	**216 237**	**200 421**	**179 074**	**162 260**

Comment

Total Equity increased by $53.977m over the period under review due to:

- Council surpluses of $13.418m (2007-08, $4.079m; 2006-07, $5.481m; 2005-06, $3.858m)
- asset revaluation increments of $38.693m and
- an increase in Council's investment in Esk Water of $1.866m. This increase arose from Council recognising its share of the increase in the Authority's asset revaluation reserve combined with the impact of a change in ownership interest taken directly to retained surpluses.

Cash at 30 June 2008 was $12.408m and comprised cash at bank and on hand of $1.143m and short-term deposits of $11.265m. The cash balance increased over the years from ongoing capital carry-overs, better than budgeted operational results and an intention to grow funds to assist the funding for some larger capital projects. Council's 2008-09 capital budget includes projects carried forward from prior years totalling $1.097m. The budget also notes that:

> *"The council has significant uncommitted cash, which represent working capital and funds built up from previous years. Council also generates cash from its operating activities, which is used as a funding source for the capital works program. It is forecast that sufficient funds will be available from operating / working capital to fund the balance of the 2008/09 capital works program."*

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets and applies indices in the intervening periods where movements are considered material. Construction indices issued by the Australian Bureau of Statistics are used for infrastructure assets and adjustment factors issued by the Valuer-General are used for land assets. Property, plant and equipment increased by $45.463m over the period under review. The increase was primarily due to the revaluation and indexation of land, buildings and infrastructure assets, $38.693m. This caused a corresponding increase to the asset revaluation reserve, accounting for the overall upward movement in Reserves.

Investments comprised Council's share of Esk Water's equity. The increase in this balance, $2.177m, comprised Council's share of the profits of the Authority, $1.174m, less dividends received, $0.864m, plus the share of the Authority's asset revaluation increments, $1.287m, plus the impact of a change in ownership interest, $0.580m.

Total borrowings decreased from $2.249m at 30 June 2005 to $1.757m at 30 June 2008, due to principal repayments of $1.092m during the period less new borrowings of $0.600m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	17 895	17 062	14 977	14 301
Cash flows from government	2 495	2 429	2 222	2 104
Payments to suppliers and employees	(14 817)	(14 107)	(12 783)	(11 664)
Interest received	888	672	465	415
Borrowing costs	(128)	(131)	(135)	(161)
Cash from operations	**6 333**	**5 925**	**4 746**	**4 995**
Capital grants and contributions	1 266	1 112	735	112
Payments for property, plant and equipment	(5 683)	(4 920)	(4 431)	(4 040)
Proceeds from sale of property, plant and equipment	260	722	204	359
Cash (used in) investing activities	**(4 157)**	**(3 086)**	**(3 492)**	**(3 569)**
Proceeds from borrowings	0	300	300	300
Repayment of borrowings	(363)	(387)	(342)	(808)
Repayment of loan receivables	20	21	14	0
Cash (used in) financing activities	**(343)**	**(66)**	**(28)**	**(508)**
Net increase in cash	**1 833**	**2 773**	**1 226**	**918**
Cash at the beginning of the year	10 575	7 802	6 576	5 658
Cash at the end of the year	**12 408**	**10 575**	**7 802**	**6 576**

Comment

Council generated positive Cash from operations in all years under review. Its ability to maintain positive Cash from operations was assisted by it keeping increases in Receipts from customers, $3.594m (or 25.13%) in line with the increase in Payments to suppliers and employees, $3.153m, or 27.03%.

The positive cash flows from operations, totalling $21.999m, allowed Council to incur Payments for property, plant and equipment over the period of $19.074m. Major capital additions during this period included the Beaconsfield Mine and Heritage Centre redevelopment, road reconstructions, development of a waste transfer station at Bowens Jetty Road, a new workshop facility at Exeter, improvements at the Riverside swimming pool and plant and fleet replacements. The Payments for property, plant and equipment were partially funded by capital grant funding of $3.225m.

Council's cash balance increased by $6.750m over the period under review and expects to use its cash balances for future capital works, as noted previously in the Balance Sheet section.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 556	2 104	866	1 581
Operating margin	>1.0	1.08	1.12	1.05	1.11
Underlying result ratio		7.6%	10.7%	5.1%	9.5%
Self financing ratio		30.9%	30.2%	28.0%	30.1%
Own source revenue ($'000s)		17 935	17 008	14 648	14 395
Financial Management					
Current ratio	>1	4.73	4.01	3.48	3.29
Indebtedness ratio		8.7%	11.2%	14.7%	16.1%
Cost of debt	7.5%	6.6%	6.0%	6.1%	6.4%
Debt service ratio		2.4%	2.6%	2.8%	5.8%
Debt collection	30 days	16	16	16	17
Creditor turnover	30 days	17	23	25	27
Capital expenditure/depreciation	>100%	116%	117%	119%	113%
Capital expenditure on existing assets/depreciation	100%	100%	103%	75%	n/a
Other Information					
Employee costs expensed ($'000s)		5 698	5 378	5 067	4 603
Employee costs capitalised ($'000s)		193	205	189	179
Total employee costs ($'000s)		**5 891**	**5 583**	**5 256**	**4 782**
Employee costs as a % of operating expenses		30%	31%	32%	31%
Staff numbers (FTEs)		97	93	91	87
Average staff costs ($'000s)		61	60	58	55
Average leave balance per FTE ($'000s)		15	14	14	13

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating surpluses in all years under review, resulting in Operating margins above benchmark and positive Underlying result ratios. The Self financing ratio was fairly consistent for the four years under review. Own source revenue increased by $3.540m during the period due mainly to increased Rates and User charges.

The Current ratio was well above the benchmark in all years indicating that Council was able to meet all short-term liabilities when they fell due.

Indebtedness ratio gradually reduced from 16.1% at 30 June 2005 to 8.7% at 30 June 2008. The decrease resulted from:

- a decrease in non-current liabilities over the period due mainly to a decrease in borrowings
- an increase in own source revenue.

Debt collection and Creditor turnover ratios were both under the benchmark of 30 days for the period under review. The ratios reflect Council's good debt recovery procedures and its policy to pay creditors within a 30-day period.

Capital expenditure to depreciation ratio was above 100% for all years reported, which reflected Council's significant Payments for property, plant and equipment in those years.

After removing the effect of expenditure on new assets, Capital expenditure on existing assets to depreciation ratio was equal to or above the benchmark in both 2007-08 and 2006-07, but below the benchmark in 2005-06. The lower ratio in 2005-06 was due to significant expenditure on new, as opposed to existing assets in that year, such as a new waste transfer station at Bowens Jetty Road and effluent irrigation projects at Beauty Point and Exeter.

Employee costs as a percentage of operating expenses, Average staff costs and Average staff entitlements were fairly consistent for all years under review.

MEDIUM RURAL COUNCILS

BRIGHTON COUNCIL

INTRODUCTION

Brighton Council was initially proclaimed a municipality in 1863. Its boundaries were subsequently altered in 1993. The population serviced by Council is approximately 14 800 people covering an area of 171 square kilometres.

Council's financial statements include the financial results of Microwise Australia Pty Ltd (Microwise), a 100% owned subsidiary formed by Council to own and manage the intellectual property of PropertyWise software. Details of the performance of this company are disclosed in the Notes to Council's audited financial statements. The financial transactions and balances of Microwise were immaterial in relation to Council's financial activities.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

The Acting General Manager signed the financial statements on 30 October 2008 and an unqualified audit report was issued on 26 November 2008.

Council did not comply with section 84 of the *Local Government Act 1993* in that the financial statements were not prepared and certified by the General Manager within 90 days after the end of the financial year. This means that carrying amounts of these significant Council assets may be out of date.

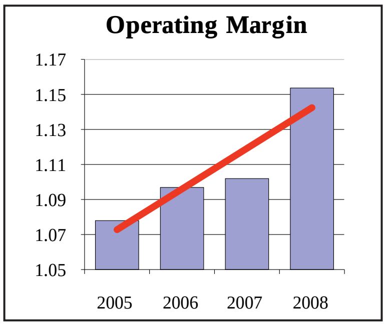
W noted anomalies in relation to the currency of valuations and the indexing of values for Sewerage, Water, Drainage and Bridge assets. These assets were indexed this year whereas formal revaluations by a qualified professional were not conducted for a number of years. Other classes of non current assets (Land and Buildings), were not indexed this year.

We recommended to Council that full revaluations of all material long-lived assets be performed on a more regular basis and that appropriate indices be obtained for use in intervening years between formal revaluations.

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

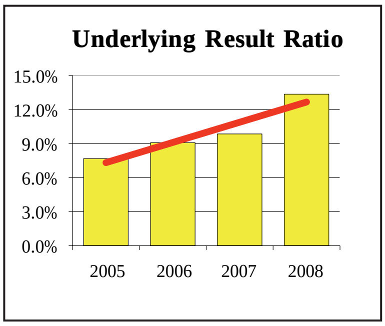
FINANCIAL RESULTS

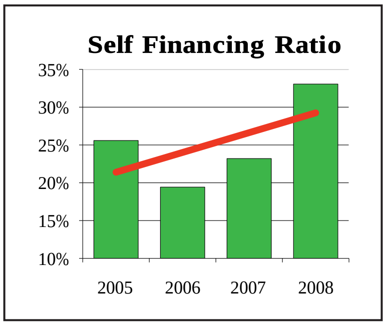
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin increased, and exceeded the benchmark of one over the four years under review. The positive Operating margin was a result of Council generating annual operating surpluses, before the inclusion of capital grant revenue and contributions of non-current assets.

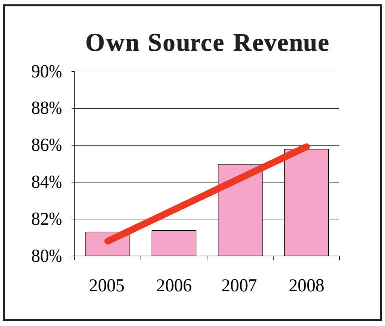
The Underlying results ratio was positive and improved for each year of the review period, indicating that Councpil operating results grew each year.

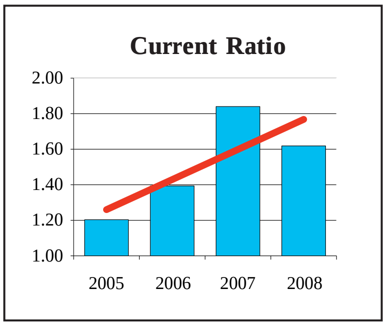




The Self financing ratio, whilst fluctuating over the period of review, was positive and showed a sound increase in 2007-08. The ratio is derived by dividing net operating cash flow by operating revenues and assists to measure a council's ability to fund the replacement of assets from operational cashflow. The improvement in the 2007-08 financial year was due to Council's net operating cash flow increasing quite markedly because operating cash inflows improved while operating cash payments declined.

This graph indicates that, over the period under review, Council reduced its reliance on external sources of funding such as Commonwealth tax sharing grants. For the year ended 30 June 2008 external operational funding represented 14% (2004-05, 19%).





The Current ratio was above the benchmark of greater than one in all years under review and indicated that Council was able to meet all its short-term obligations.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	8 195	8 202	7 653	7 172	6 662
User charges and fees	2 120	2 524	2 278	2 073	2 080
Grants	1 287	1 952	1 926	2 293	2 245
Other operating revenue	580	1 054	876	746	961
Gain on disposal of assets	0	5	84	33	57
Total Revenue	**12 182**	**13 737**	**12 817**	**12 317**	**12 005**
Employee costs	2 230	2 080	2 110	2 215	2 027
Borrowing costs	227	221	259	291	353
Depreciation	1 749	2 673	1 856	1 819	1 738
Other operating expenses	6 554	6 929	7 330	6 874	6 966
Total Expenses	**10 760**	**11 903**	**11 555**	**11 199**	**11 084**
Surplus before:	**1 422**	**1 834**	**1 262**	**1 118**	**921**
Capital grants	260	260	130	130	2 551
Contributions of non-current assets	920	922	2 282	1 841	1 924
Surplus	**2 602**	**3 016**	**3 674**	**3 089**	**5 396**

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

Comment

Council recorded a surplus before Capital grants and Contributions of non-current assets in all years under review indicating that it generated sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charge.

Rates increased by $1.540m (or 23.11%) in the period under review. In 2007-08 all components of the rate charge increased with general, sewerage and fire levy the major contributors. Factors such as the growth, and associated economic development within the municipality contributed to increased Rates over the period of review.

Grant revenue, $1.952m (2006-07, $1.926m), a major proportion of which was Commonwealth tax sharing grant, decreased by 13.05% over the period under review. As a percentage of operating income, Grant revenue decreased from 19% in 2004-05 to 14% in 2007-08. The improvement in Council's financial performance enabled it to absorb decreased Federal funding without the need to raise rates above inflation.

Other operating revenue consisted of interest, private works sales, and Council's share in the profit of its associate investment in Hobart Water. Other operating revenue grew by $0.178m, between 2006-07 and 2007-08 primarily due to increased interest income of $0.129m and its return from Microwise, $0.052m. Fluctuations over the period of review were due to the variability of the amount of interest received and the returns from Hobart Water and Microwise.

Employee costs remained relatively consistent during the period under review. Between 2004-05 and 2005-06 employee costs increased by $0.188m (or 9.3%) due mainly to pay rises under Council's Enterprise Agreement. However, in 2006-07 these costs decreased due to the cessation of Council's Family Services activities resulting in reduced staff numbers.

Depreciation over the period 2004-05 to 2007-08 increased by $0.935m (or 34.98%). The movement in 2007-08, $0.817m, was due to an increase in road asset depreciation charges, $0.811m, due to an upward revaluation of the asset by $9.660m.

Other operating expenses remained relatively consistent during the period under review. In 2007-08, $6.929m represented approximately 58% of total expenses and the major items were material and contracts, $4.588m, (including road, water, sewerage and other maintenance costs), purchase of water, $1.176m, contributions, $0.691m, (including State Fire Commission levy, valuation charges and Brighton Training Facility) and donations, $0.163m.

Capital grants and contributions represented Federal government funding under the Roads to Recovery initiative. The increase in 2004-05 comprised Road to Recovery funding and a one-off contribution, by TOTE Tasmania Pty Ltd, towards the Brighton Training Facility of $2.432m.

Contributions of non-current assets represented infrastructure assets contributed to Council due to the development of sub-divisions and fluctuate depending on activity in this area.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Cash	3 722	3 904	2 614	2 506
Receivables	500	539	549	1 138
Other	375	323	435	204
Total Current Assets	**4 597**	**4 766**	**3 598**	**3 848**
Payables	352	299	495	246
Borrowings	642	612	572	526
Provisions - employee benefits	609	675	691	542
Other	1 237	1 004	824	1 884
Total Current Liabilities	**2 840**	**2 590**	**2 582**	**3 198**
Working Capital	**1 757**	**2 176**	**1 016**	**650**
Property, plant and equipment	118 408	105 939	90 365	88 330
Investments	10 931	10 086	6 111	5 977
Other	20	24	27	31
Total Non-Current Assets	**129 359**	**116 049**	**96 503**	**94 338**
Borrowings	2 233	2 875	3 487	4 090
Provisions - employee benefits	64	52	45	66
Total Non-Current Liabilities	**2 297**	**2 927**	**3 532**	**4 156**
Net Assets	**128 819**	**115 298**	**93 987**	**90 832**
Reserves	59 559	49 054	31 518	31 419
Accumulated surpluses	69 260	66 244	62 469	59 413
Total Equity	**128 819**	**115 298**	**93 987**	**90 832**

Comment

Total Equity increased by $37.987m over the period under review primarily due to:

- Surpluses of $9.779m (2007-08, $3.089m; 2006-07, $3.674m; 2005-06, $3.016m)
- asset revaluation increments of $28.140m.

Cash at 30 June 2008 comprised cash at bank and on hand of, $0.307m and short term investments of $3.415m. Council maintained a relatively strong cash and investment position over the period with an average balance of $3.187m. The funds were not committed.

Other than at 30 June 2005, Receivables were relatively consistent over the period under review. The balance of $1.138m in 2004-05 included a one-off amount of $0.547m, relating to the Brighton Training Facility.

Payables were relatively consistent over the period under review and fluctuate marginally depending on the timing of payments at year end.

From 30 June 2005 to 30 June 2008, Property, plant and equipment increased by $30.078m primarily due to the revaluation of a number of asset classes, resulting in revaluation increments of $0.099m in 2005-06,$13.645m in 2006-07 and $9.660m in 2007-08. This also resulted in a corresponding increase to the asset revaluation reserve. The major revaluation increment in 2006-07 comprised land, $3.546m, and buildings, $2.658m. In 2007-08 the entire revaluation increment of $9.660m related to a formal revaluation of road assets. In addition, capital expenditure over the period totalled $11.407m.

Investments represented Council's interest in Hobart Water. Council equity accounts this investment, with the balance increasing by $4.954m (or 83%) over the period under review primarily due to asset revaluations at Hobart Water.

Borrowings, decreased over the period under review by $1.741m, (or 37.72%). Council monitors the level of its debt as a percentage of revenue, referred to as the Indebtedness ratio, as a key performance indicator.

Other liabilities were relatively consistent over the period under review The decrease of $1.060m in 2005-06 due to the repayment of a large subdivisional works deposit. The increase of $0.233m in 2007-08 was primarily due to an increase of $0.500m in accrued expenses, offset by a reduction in revenue received in advance of $0.217m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 705	11 064	10 842	9 661
Cash flows from Government	1 952	1 925	2 293	2 245
Payments to suppliers and employees	(9 315)	(10 047)	(10 585)	(8 748)
Interest received	420	291	159	180
Borrowing costs	(221)	(259)	(316)	(266)
Cash from operations	**4 541**	**2 974**	**2 393**	**3 072**
Capital grants and contributions	260	130	130	2 551
Payments for property, plant and equipment	(4 730)	(2 478)	(2 203)	(4 602)
Proceeds from sale of property, plant and equipment	176	1 058	196	343
Other	183	178	149	126
Cash (used in) investing activities	**(4 111)**	**(1 112)**	**(1 728)**	**(1 582)**
Repayment of borrowings	(612)	(572)	(557)	(581)
Cash (used in) financing activities	**(612)**	**(572)**	**(557)**	**(581)**
Net increase (decrease) in cash	**(182)**	**1 290**	**108**	**909**
Cash at the beginning of the year	3 904	2 614	2 506	1 597
Cash at end of the year	**3 722**	**3 904**	**2 614**	**2 506**

Comment

Council generated positive Cash from operations in all years under review. Receipts from customers increased by $2.044m (or 21.15%) and payments to suppliers and employees increased by $0.566m (or 6.47%). Therefore, Council generated sufficient revenue to fulfil its operating requirements and contributed to capital expenditure and debt management.

Payments for property, plant and equipment in 2007-08 were $4.730m, an increase of, $2.252m from 2006-07. Payments in 2007-08 included the purchase of a building, $3.015m, plant, vehicles and machinery, $0.280m, water reticulation assets, $0.708m, and purchase of sewerage assets, $0.129m. Capitalised salaries of $1.246m in 2007-08 were allocated to the building and capital works in all areas of infrastructure.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 834	1 262	1 118	921
Operating margin	>1.0	1.15	1.10	1.10	1.08
Underlying result ratio		13.4%	9.8%	9.1%	7.7%
Self financing ratio		33.1%	23.2%	19.4%	25.6%
Own source revenue ($'000s)		11 785	10 891	10 024	9 760
Financial Management					
Current ratio	>1	1.62	1.84	1.39	1.20
Indebtedness ratio		19.5%	26.9%	35.2%	42.6%
Cost of debt	7.5%	6.9%	6.9%	6.7%	7.2%
Debt service ratio		6.1%	6.5%	7.1%	7.1%
Debt collection	30 days	18	25	26	42
Creditor turnover	30 days	52	41	43	35
Capital expenditure/depreciation	>100%	177%	134%	121%	265%
Capital expenditure on existing assets/depreciation	100%	64%	97%	93%	76%
Other Information					
Employee costs expensed ($'000s)		2 080	2 110	2 215	2 027
Employee costs capitalised ($'000s)		1 246	1 023	777	416
Total employee costs ($'000s)		**3 326**	**3 133**	**2 992**	**2 443**
Employee costs as a % of operating expenses		17%	18%	20%	18%
Staff numbers (FTEs)		60	57	54	49
Average staff costs ($'000s)		55	55	55	50
Average leave balance per FTE ($'000s)		11	14	14	12

Comment

Council recorded a Surplus for each of the years under review resulting in positive Operating margins each year.

Council's Own source revenue gradually increased over the period due to higher reliance on Rates and User charges rather than on Grants.

Current ratio was above the benchmark in all four years indicating that Council was able to meet all short-term obligations.

The average number of days to collect receivables reduced over the period as Council took steps to improve collections from some large customers.

Creditor turnover was above the benchmark in each of the years under review. Council's policy was to maximise financial performance by paying suppliers on the last day within the terms requested by creditors. The increase in 2007-08 was due to Payables being higher at 30 June 2008.

Capital expenditure to depreciation ratio was above the benchmark in each of the years under review. This ratio assists to define whether Council maintaining its tangible capital by reinvesting, and/or renewing non-current assets.

However, after removing expenditure on new assets, Council's Capital expenditure on existing assets to depreciation was below the benchmark for all years indicating that Council may not have invested sufficiently to maintain existing assets. .

Total Employee costs increased over the period under review in line with staff changes and EBAs. Employee costs capitalised increased over all years under review because Council staff were used for capital projects including roads, water and sewerage and, in part, the new Civic Centre. Also, a large portion of staff salaries were costed to the Professional Services arm of Council to support other Councils as well as Microwise.

Employee costs as a percentage of operating expenses were reasonably consistent throughout the period under review, and was low compared to other councils.

DERWENT VALLEY COUNCIL

INTRODUCTION

The New Norfolk municipality was proclaimed in 1863. Under the *Local Government Act 1993* the former New Norfolk Council was proclaimed as the Derwent Valley Council. The population serviced by Council is in the order of 9 800 and the Municipality covers an area of 4 111 square kilometres.

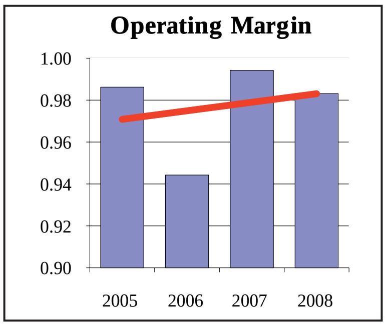
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Initial signed financial statements were received on 30 September 2008. Following the audit, amended statements were received on 21 November 2008 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major issues outstanding.

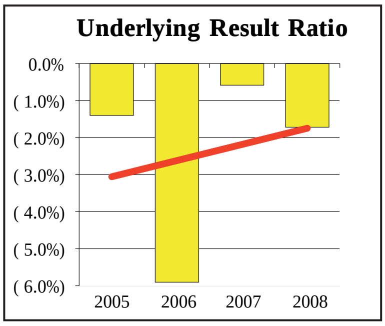
FINANCIAL RESULTS

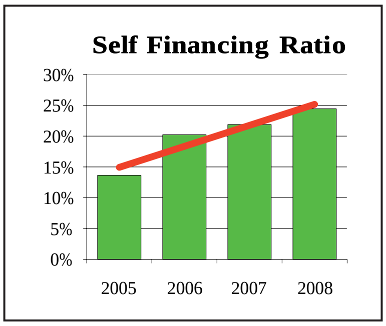
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was below, but very close to the expected benchmark of one in all four years. The operating margin improved as Council's operations almost broke even in the last two years. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

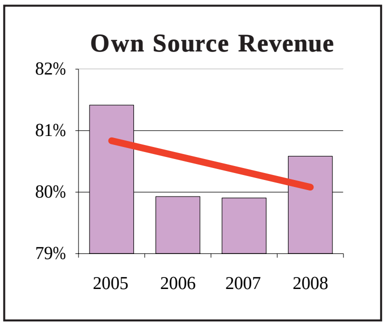
The Underlying results ratio remained negative over the period of four years, indicating Council's dependence on capital grants to fund its operations. Although it is not unusual for a council to incur operating deficits, we note from its Estimates that Council did not budget for depreciation and actual depreciation charges exceeded the budget surplus. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result with depreciation being an operating cost.

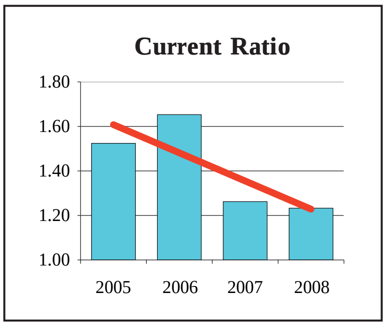




This ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that Council is generating operating cash flows which are contributing towards its capital expenditure programs. The Self financing ratio increased from 2004-05, indicating an improvement in Council's ability to generate cash from operations.

The Own source revenue percentage shows Council generated on average 80% of operating revenue from its own sources. Council was reliant on external funding to the extent of around 20%. The external funding was mainly provided for recurrent maintenance of roads infrastructure and the provision of child care and home and community care services.





The Current ratio was above the benchmark of one in all four years indicating that Council was able to meet all short-term liabilities. However, Council needs to monitor the steady decline.

INCOME STATEMENT

	2007-08 Estimate* $'000s	**2007-08** Actual $'000s	**2006-07** Actual $'000s	**2005-06** Actual $'000s	**2004-05** Actual $'000s
Rates	6 730	6 649	6 340	6 061	5 790
User charges	890	1 148	960	953	1 019
Grants	1 900	2 080	2 036	2 013	1 833
Other operating revenue	434	836	796	1 002	1 221
Total Revenue	**9 954**	**10 713**	**10 132**	**10 029**	**9 863**
Employee costs	2 825	2 496	2 379	2 540	2 912
Borrowing costs	128	134	139	149	154
Depreciation	0	2 508	2 344	2 262	2 107
Other operating expenses	5 559	5 759	5 329	5 670	4 828
Total Expenses	**8 512**	**10 897**	**10 191**	**10 621**	**10 001**
Surplus (Deficit) before:	**1 442**	**(184)**	**(59)**	**(592)**	**(138)**
Capital grants	316	316	104	740	993
Revaluation (decrement)	0	0	0	0	(203)
Sale of Willow Court	0	0	0	0	2 002
Surplus	**1 758**	**132**	**45**	**148**	**2 654**

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

Comment

Council recorded Deficits before capital items in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. On average, Council's operating expenses increased by 10% in the past four years, while operating revenue increased by only 7%. This indicated the significance of capital grants, such as funding under the Roads to Recovery Program, to maintain Council's sustainability. As shown in the Income Statement above, after accounting for capital items, Council recorded small surpluses for the last three years. The unusually high surplus in 2004-05 was due to the sale of Willow Court in New Norfolk, which resulted in net proceeds of $2.002m and additional capital funding of $0.775m for restoration works.

Rates, which is the major source of Council's income, increased on average by 5% each year from $5.790m in 2004-05 to $6.649m in the current year.

Apart from the increase in Rates, the increase in the current year's revenue was primarily due to:

- higher revenues from User charges, specifically private works, $0.126m, cemetery fees, $0.032m, and caravan park charges, $0.033m
- increased government funding. The majority of Grant revenue is represented by a general purpose Financial Assistance Grant distributed by the State ($1.433m in 2007-08). Other significant grants included Child care funding, $0.520m, and Home and Community Care funding ,$0.110m.

The strong decline in Employee costs between 2004-05 and 2005-06 was a result of Council contracting out its water and sewerage operations. Since 2005-06, Employee costs remained fairly stable, at around 23% of total operating expenses.

The movement in Depreciation charges reflected changes in the value of infrastructure assets as well as new additions (valuation of non-current assets is discussed in the Balance Sheet section of this Chapter).

The largest increase in operating expenses occurred in the current period (7%) and was caused mainly by higher costs of general supplies (included in Other operating expenses), followed by moderate increases in Depreciation and Employee costs.

The reason for the large variance between budget and actual Surplus was due mainly to Council not budgeting for depreciation charges. Consequently, it would be inappropriate to comment on Council's overall performance against budget, except that revenue slightly exceeded expectations. This was mainly due to additional funding received by Council from government in the form of grants as well as additional Regional Renewal funding (included in Other operating revenue) and higher levels of private works.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash*	2 489	2 458	3 064	2 323
Receivables	810	657	627	820
Inventories	10	10	30	50
Other	287	177	139	52
Total Current Assets	**3 596**	**3 302**	**3 860**	**3 245**
Payables	1 209	720	641	499
Borrowings	377	626	570	516
Provisions – employee benefits	1 216	1 185	1 011	992
Other	115	85	113	122
Total Current Liabilities	**2 917**	**2 616**	**2 335**	**2 129**
Working Capital	**679**	**686**	**1 525**	**1 116**
Property, plant and equipment	73 633	66 159	62 588	56 173
Investments	9 156	9 391	6 045	6 027
Other	12	13	12	13
Total Non-Current Assets	**82 801**	**75 563**	**68 645**	**62 213**
Borrowings	1 560	1 487	1 682	1 802
Provisions – employee benefits	102	125	130	64
Total Non-Current Liabilities	**1 662**	**1 612**	**1 812**	**1 866**
Net Assets	**81 818**	**74 637**	**68 358**	**61 463**
Reserves	57 812	50 765	45 010	38 782
Accumulated surpluses	24 006	23 872	23 348	22 681
Total Equity	**81 818**	**74 637**	**68 358**	**61 463**

** Cash includes cash on hand, cash in bank and short-term investments*

Comment

Council's Equity rose by $20.355m or 33% over the period under review. The increase was predominantly a result of:

- rising values of land, buildings and infrastructure assets. The majority of Council's assets (97%), with the exceptions of solid waste disposal assets, some roads, plant, vehicles and equipment are carried at fair value. Overall, the value of Property, plant and equipment increased by $17.460m or 31% over the period.
- Council's investment in Hobart Water increased by 52% from $6.027m in 2004-05 to $9.156m in the current year.

Council's Current assets remained fairly steady during the period under review and were mainly represented by cash. Other assets comprised of items such as prepaid expenses and accrued interest, which tend to fluctuate between years as a result of differences in timing, interest rates and other variables.

Current liabilities rose by 27% over the last four years, caused mainly by increases in Payables and Provosions – employee benefits. These increases were partly offset by reducing debt. The increase in Payables in the current year of $0.489m was caused by large invoices received in June relating to maintenance works on roads and bridges, insurance and water usage.

Council continued to slowly reduce its Borrowings, which decreased by $0.381m or 16% since 2004-05. In 2007-08, Council repaid $0.626m and borrowed an additional $0.450m.

Provisions comprised employee entitlements such as long service leave, annual leave and sick leave. Their value increased by $0.262m or 25% during the period under review. It was noted that 91% of employee provisions were classified as current and a large number of employees were identified as having excessive annual and long service leave balances. The trend of accumulating excessive leave balances may have a negative impact on Council's financial position as the amount of leave entitlements will increase each year along with annual wage and salary indexation and other pay increments.

Reserves, which increased by $19.030m or 49% between 2004-05 and the current year, comprised mainly Asset revaluation reserves (96%). As mentioned previously, the majority of Council's non-current assets were valued at fair value. Valuation methods vary depending on the class of assets. For example, land values are based on the land value adjustment factors published by the Valuer-General. The adjustment factors reflect the fluctuations in the property market from year to year and are commonly used to estimate property values between revaluation cycles. Buildings, on the other hand are indexed, based on appropriate construction industry indices published by the Australian Bureau of Statistics. Independent valuers were used to estimate values of infrastructure assets. Most roads, water and sewerage assets were last valued during 2005-06, with adjustment factors applied each year between valuations. Bridge valuations were undertaken during the current year. Any gain or loss arising from valuation is recognised through Reserves in the Balance Sheet.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 294	7 669	8 147	7 654
Cash flows from Government	2 080	2 036	2 013	1 833
Payments to suppliers and employees	(7 868)	(7 582)	(8 145)	(8 162)
Interest received	238	230	158	172
Borrowing costs	(126)	(136)	(145)	(153)
Cash from operations	**2 618**	**2 217**	**2 028**	**1 345**
Proceeds from sale of Willow Court	0	0	0	2 778
Capital grants and contributions	316	104	740	218
Payments for investments	150	550	(400)	(2 000)
Payments for property, plant and equipment	(2 881)	(3 187)	(2 180)	(2 907)
Proceeds from sale of property, plant and equipment	154	380	219	498
Cash (used in) investing activities	**(2 261)**	**(2 153)**	**(1 621)**	**(1 414)**
Proceeds from borrowings	450	450	450	400
Repayment of borrowings	(626)	(570)	(516)	(468)
Cash (used in) financing activities	**(176)**	**(120)**	**(66)**	**(68)**
Net increase (decrease) in cash	181	(56)	341	(137)
Cash at the beginning of the year	208	264	(77)	60
Cash at end of the year	**389**	**208**	**264**	**(77)**

Comment

Overall, Council improved its financial position by increasing its cash (excluding cash held in short-term investments) from a negative balance of $0.077m at 30 June 2005 to $0.389m at 30 June 2008. The main contributing factors are discussed below.

Cash from operations almost doubled since 2004-05. The increase is attributed to increased Receipts from customers (combinations of Rate revenue and User charges) and lower Payments to suppliers and employees. Lower borrowing costs combined with higher interest income and increased government funding also contributed to the improved operating cash flow.

The level of Cash used in investing activities varies from year to year. Payments for property, plant and equipment mainly represented spending on roads and other infrastructure assets as well as plant and equipment. The 2004-05 cash flow was impacted by Council investing the proceeds from sale of Willow Court of $2.000m.

The movement in Cash used in financing activities correlated with the decline in borrowings as Council progressively refinanced and reduced its debt.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(184)	(59)	(592)	(138)
Operating margin	>1.0	0.98	0.99	0.94	0.99
Underlying result ratio ($'000s)		(1.7%)	(0.6%)	(5.9%)	(1.4%)
Self financing ratio ($'000s)		24.4%	21.9%	20.2%	13.6%
Own source revenue ($'000s)		8 633	8 096	8 016	8 030
Financial Management					
Current ratio	>1	1.23	1.26	1.65	1.52
Indebtedness ratio		19.3%	19.9%	22.6%	23.2%
Cost of debt	7.5%	6.6%	6.4%	6.5%	6.5%
Debt service ratio		7.0%	7.0%	6.6%	6.3%
Debt collection	30 days	36	31	30	39
Creditor turnover	30 days	62	36	34	24
Capital expenditure/depreciation	> 100%	115%	136%	96%	138%
Capital expenditure on existing assets/depreciation	100%	90%	117%	78%	138%
Other Information					
Employee costs expensed ($'000s)		2 496	2 379	2 540	2 912
Employee costs capitalised ($'000s)		102	61	253	310
Total employee costs ($'000s)		**2 598**	**2 440**	**2 793**	**3 222**
Employee costs as a % of operating expenses		20%	20%	21%	24%
Staff numbers (FTEs)		60	60	59	65
Average staff costs ($'000s)		43	41	47	50
Average leave balance per FTE ($'000s)		22	22	19	16

Comment

Financial Performance ratios confirmed comments made previously in respect of Council recording operating deficits in each of the four years under review.

Self-financing ratio shows Council's capacity to fund the replacement of assets from cash generated from operations. In other words, a council is expected to generate enough cash from its operations to meet depreciation expense in order to provide for future capital investments. The ratio indicated an improvement in Council's ability to generate cash from operations.

Current ratio was above the benchmark in all years due to the high level of cash held indicating that Council was able to meet all short-term liabilities. The ratio declined in recent years due to the higher levels of Current liabilities, specifically Payables and Employee provisions. Both the Current and Indebtedness ratios indicated Council's ability to meet its short and longer term commitments.

Creditor turnover was above the 30 days benchmark in all years. In the current year the Creditor turnover almost doubled to 62 days. However, the sharp increase was due to the previously discussed increase in the Payables balance at year end.

Capital Expenditure on existing assets to depreciation ratio indicated that Council, on average, invested sufficiently in the replacement of existing infrastructure assets.

Staff numbers decreased in 2005-06 due to the contracting out of water and sewerage operations, noted previously. This had an impact on the fall in employee costs between 2004-05 and 2005-06. It is also important to note that Council relied heavily on casual and short-term labour to operate its child care facilities, which also had an impact on both total and average employee costs.

Average leave balance per FTE remained relatively high and has increased for several years. The issue of excessive leave balances was discussed in the Balance Sheet section.

DORSET COUNCIL

INTRODUCTION

Dorset Council was created in 1993 when the former municipalities of Ringarooma, Scottsdale and part of the municipality of Launceston City were amalgamated. The Dorset area covers approximately 3 223 square kilometres, including the townships of Scottsdale, Branxholm, Bridport and Derby. The Council services a population of approximately 7 250 people.

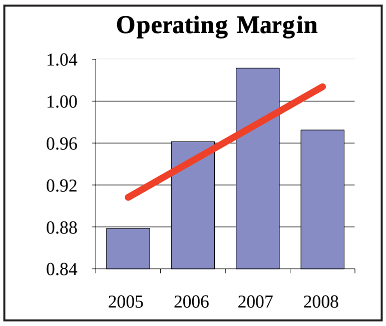
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 8 September 2008, with amended statements received on 2 December 2008. An unqualified audit report was issued on 3 December 2008.

The audit was completed satisfactorily with no major issues outstanding

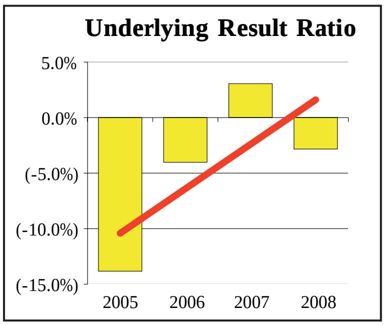
FINANCIAL RESULTS

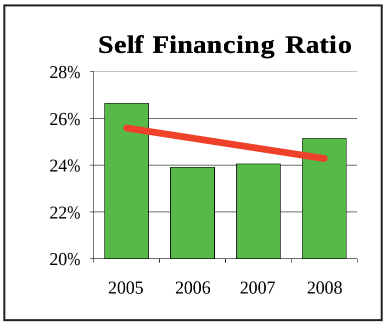
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin is below the benchmark in three of the four years under review, with 2006-07 the only year to exceed the benchmark. The positive result in 2006-07 was based on it being the only year in which Council produced an operating surplus. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil all of its operating requirements.

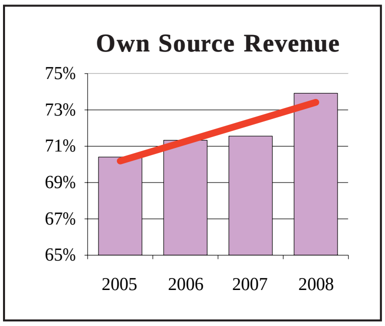
The negative Underlying results ratio in three of the years under review, with a single positive result in 2006-07, reflect the Operating margin results. Although it is not unusual for a council to incur operating deficits, we note in its Estimates Council budgeted for a deficit in 2007-08 (refer Income Statement later in this Chapter). To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result including its depreciation charges.

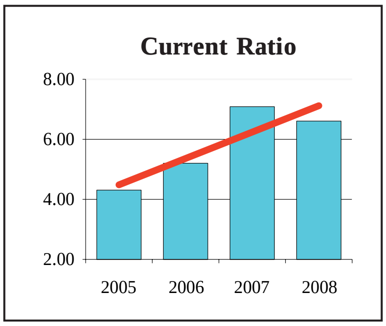




Council generated consistent Self financing ratios over the four year period under review. The ratio shows net operating cash flows generated by Council as a percentage of operating revenue. A positive ratio indicated Council generated operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council generated a substantial amount of its operating revenue from its own sources, although it did rely on grant funding for more than 25% of its revenue in 2007-08 (30% in 2004-05).





The Current ratio was above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	**2007-08** Actual $'000s	**2006-07** Actual $'000s	**2005-06** Actual $'000s	**2004-05** Actual $'000s
Rates	6 242	6 251	5 862	5 514	4 739
User charges	1 037	1 595	1 194	1 080	1 109
Grants	3 161	3 133	3 109	2 859	2 663
Other operating revenue	460	1 033	766	519	487
Total Revenue	**10 900**	**12 012**	**10 931**	**9 972**	**8 998**
Employee costs	2 784	3 046	2 652	2 483	2 420
Borrowing costs	111	119	129	90	85
Depreciation	3 516	4 400	3 458	3 778	3 911
Other operating expenses	4 692	4 787	4 358	4 022	3 826
Total Expenses	**11 103**	**12 352**	**10 597**	**10 373**	**10 242**
Surplus (Deficit) before:	**(203)**	**(340)**	**334**	**(401)**	**(1 244)**
Capital grants and contributions	614	584	3 616	1 676	564
Recognition of assets	0	0	144	39	0
Road revaluation decrement	0	0	(14 279)	0	0
Surplus (Deficit)	**411**	**244**	**(10 185)**	**1 314**	**(680)**

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

Comment

Council recorded deficits before Capital grants and contributions, Recognition of assets and Road valuation decrement in three of the four years under review. This indicates that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. This is further illustrated by Council budgeting for an operating deficit in its 2007-08 Estimates. After including Capital grants and contributions, Recognition of assets and Road valuation decrement Council recorded surpluses in two of the four years. The main movements in revenue and expense items are discussed below.

Rates increased by $1.512m (31.9%) in the period under review. The increase broadly reflected inflationary increases in the general rates charge of 3.9% (2006-07) and 2.4% (2005-06). In addition, property ratings were changed at the beginning of the 2007-08 year to a differential ratings system, with the major increases being felt in industrial and rural properties.

The majority of Grant revenue represented the Commonwealth tax sharing grant, $2.327m (2006-07, $2.423m; 2005-06, $2.238m; 2004-05, $2.102m), which increased by 10.70% during the period under review.

Employee costs increased by $0.626m (25.87%), predominantly as a result of:

- pay rises under Council's enterprise agreement of 4.0% in July of each year under review, combined with the flow on effect to employee provisions
- increased full-time equivalents (FTEs) staff numbers to 53 in 2007-08 (2006-07, 52; 2005-06, 46; 2004-05, 45).

Depreciation expense increased by $0.489m (or 12.5%) from 2004-05 to 2007-08. However, the movement included a decrease of $0.320m (or 8.5%) in 2006-07 due to a number of road components being fully depreciated during the period. Council completed a road revaluation at 30 June 2007 which involved reassessing the remaining useful lives of the components and therefore depreciation in future years. Depreciation expense for 2007-08 increased by $0.942m (or 27.2%). During that financial year a valuation undertaken by Council's consulting engineering advisors indicated Council had not been depreciating sufficiently in prior years to accurately reflect the deterioration in the road conditions.

Other operating expenses represented approximately 39% of total expenses, in each of the four years under review. The majority of expenditure related to material and contractor payments, (for road, water, sewerage and other maintenance costs), energy costs, insurance and State levies, licences and taxes.

Capital grant funding represented Federal Government funding under the Roads to Recovery initiative of $0.501m in 2007-08, (2006-07, $0.509m; 2005-06, $1.005m; 2004-05 $0.564m), funding for the King Street makeover of $0.083m in 2007-08 (2006-07, $0.083m; 2005-06, $0.084m) and Trail of the Tin Dragon funding for the development of tourism infrastructure of $3.000m in 2006-07 (2005-06, $0.500m).

Council revalued road infrastructure at 30 June 2007, resulting in a road revaluation decrement of $14.279m. The revaluation determined that whilst the overall replacement cost for Council's road assets increased by $10.987m, the extent of condition deterioration was greater than reflected in the financial statements resulting in an increase of $25.266m to accumulated depreciation.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	12 350	12 385	8 034	6 163
Receivables	341	539	366	491
Other	325	392	299	247
Total Current Assets	**13 016**	**13 316**	**8 699**	**6 901**
Payables	465	305	350	368
Borrowings	208	196	149	177
Provisions - employee benefits	873	798	700	696
Provisions - rehabilitation	0	0	140	0
Other	424	580	333	361
Total Current Liabilities	**1 970**	**1 879**	**1 672**	**1 602**
Working Capital	**11 046**	**11 437**	**7 027**	**5 299**
Property, plant and equipment	100 871	98 652	112 782	113 113
Other	104	95	86	44
Total Non-Current Assets	**100 975**	**98 747**	**112 868**	**113 157**
Borrowings	1 434	1 642	1 356	1 005
Provisions - employee benefits	132	67	32	132
Provisions - rehabilitation	280	268	115	241
Total Non-Current Liabilities	**1 846**	**1 977**	**1 503**	**1 378**
Net Assets	**110 175**	**108 207**	**118 392**	**117 078**
Reserves	19 482	17 758	17 758	17 758
Accumulated surpluses	90 693	90 449	100 634	99 320
Total Equity	**110 175**	**108 207**	**118 392**	**117 078**

Comment

Total Equity decreased by $6.903m over the period under review due to:

- asset revaluation decrements totalling $14.729m, offset by
- Council surpluses of $5.652m (2007-08, surplus of $0.244m; 2006-07, surplus of $4.094m; 2005-06, surplus of $1.314m)
- asset revaluation increments of $1.724m.

Cash at 30 June 2008 was $12.350m. This balance comprised cash at bank and on hand of $1.550m and short term deposits of $10.800m. Some of these funds were committed, details of which are provided under the Cash Position section of this Chapter.

In 2007-08, Payables totalled $0.465m. The nature of Payables makes it difficult to compare the balance from year to year. Main items in 2007-08 included accruals in relation to capital road works and the purchase of motor vehicles. The 2006-07 balance included accruals for capital road works and ongoing expenses for the Trail of the Tin Dragon project.

Total Borrowings increased by $0.460m for the period under review due to new loan borrowings of $0.500m in 2006-07 (2005-06, $0.500m; 2004-05, $0.460m), offset by principal loan repayments of $0.196m in 2007-08 (2006-07, $0.167m; 2005-06, $0.178m; 2004-05, $0.176m).

Council raised these borrowings to fund a future sewer extension at Bridport and the Bridport Water Reservoir.

Provisions remained reasonably consistent for the period under review, with total provisions increasing by $0.216m. Council's provision balance included $0.280m (2006-07, $0.268m; 2005-06, $0.255m; 2004-05, $0.241m) for rehabilitation costs associated with Council's refuse sites. Council originally planned to commence rehabilitation work during 2006-07, but this expenditure was since deferred.

The balance of Property, plant and equipment decreased by $12.637m (11.17%) for the period under review due mainly to the downward revaluation of roads, $14.279m at 30 June 2007. As previously noted, the revaluation decrement resulted from a detailed study by an external consultant assessing road condition, replacement costs and remaining useful lives.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of these assets. As noted in the Income Statement section, Council undertook revaluations of its land and building assets, sewerage infrastructure and stormwater infrastructure in 2007-08, with road assets revalued in 2006-07.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 069	7 732	7 433	6 881
Cash flows from government	1 728	1 744	1 507	1 716
Payments to suppliers and employees	(8 565)	(7 372)	(6 863)	(6 474)
Interest received	911	631	377	339
Borrowing costs	(123)	(106)	(70)	(65)
Cash from operations	**3 020**	**2 629**	**2 384**	**2 397**
Capital grants and contributions	1 989	4 981	3 028	1 510
Payments for property, plant and equipment	(5 184)	(3 891)	(4 115)	(2 941)
Proceeds from sale of property, plant and equipment	336	299	252	370
Cash from (used in) investing activities	**(2 859)**	**1 389**	**(835)**	**(1 061)**
Proceeds from borrowings	0	500	500	460
Repayment of borrowings	(196)	(167)	(178)	(176)
Cash from (used in) financing activities	**(196)**	**333**	**322**	**284**
Net increase in cash	**(35)**	**4 351**	**1 871**	**1 620**
Cash at the beginning of the year	12 385	8 034	6 163	4 543
Cash at end of the year	**12 350**	**12 385**	**8 034**	**6 163**

Comment

Council generated positive cash from operations in all years under review. Receipts from customers increased by $2.188m, 32%, which was offset by increased Payments to suppliers and employees of $2.091m, also 32%. Council's main increase in Cash from operations came from receipts from customers and interest received.

Payments for property, plant and equipment over the period totalled $16.131m, which was in accordance with Council's capital expenditure plan. Capital expenditure was on major works and upgrades including road and bridge infrastructure, major plant purchases and the construction of the Trail of the Tin Dragon Centre, which included the purchase of the Derby Tin Mine Centre. The costs of the capital works were significantly offset by $11.508m in capital grant funds received.

Cash increased by $7.807m over the period of review to $12.350m. The cash balance at 30 June 2008 included:

- $0.800m borrowed for the Bridport sewerage extension, for which no work had commenced
- carried forward grant funds for the Trail of the Tin Dragon project of $0.504m, Roads to recovery of $0.242m and Health and Wellbeing Centre of $0.038m.

In addition, cash funds held were backing reserve balances assigned to employee entitlements, $1.000m, roads and bridges replacement, $1.800m, plant replacement, $0.450m, and property management, $0.450m. The balance of Council's cash funds remained uncommitted.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(340)	334	(401)	(1 244)
Operating margin	>1.0	0.97	1.03	0.96	0.88
Underlying result ratio		(2.8%)	3.1%	(4.0%)	(13.8%)
Self financing ratio		25.1%	24.1%	23.9%	26.6%
Own source revenue ($'000s)		8 879	7 822	7 113	6 335
Financial Management					
Current ratio	>1	6.61	7.09	5.20	4.31
Indebtedness ratio		20.8%	25.3%	21.1%	21.8%
Cost of debt	7.5%	6.1%	6.9%	6.7%	8.2%
Debt service ratio		2.7%	2.5%	2.5%	2.7%
Debt collection	30 days	16	28	20	31
Creditor turnover	30 days	17	13	16	20
Capital expenditure/depreciation	>100%	118%	113%	109%	75%
Capital expenditure on existing assets/depreciation	100%	74%	97%	80%	70%
Other Information					
Employee costs expensed ($'000s)		3 046	2 652	2 483	2 420
Employee costs capitalised ($'000s)		240	230	224	167
Total employee costs ($'000s)		**3 286**	**2 882**	**2 707**	**2 587**
Employee costs as a % of operating expenses		25%	25%	24%	24%
Staff numbers (FTEs)		53	52	46	45
Average staff costs ($'000s)		62	55	59	57
Average leave balance per FTE ($'000s)		19	17	16	18

Comment

The Financial Performance ratios show that Council recorded operating deficits in all years under review, except for 2006-07, resulting in Operating margins below benchmark and negative Underlying result ratios. The Self financing ratio increased in 2007-08 due to a combination of increased operating revenue and increased net operating cash flows in that year. Council's Own source revenue gradually increased over the period under review due to increased Rates and User charges relative to increases in Grant funding.

Current ratio was above the benchmark in all years indicating that Council was able to meet all short-term liabilities when they fell due. The Indebtedness ratio indicates Council is generating sufficient revenue to meet longer term liabilities.

Council's Cost of debt was below benchmark for the last three years and above the benchmark for 2004-05. The 2004-05 result was due to the timing of loan repayments and new loans rather than high interest rates incurred on loans. Council's Debt service ratio was consistent across the period under review.

Debt collection was below or consistent with benchmark for all years under review which reflects Council's good debt recovery procedures.

The Creditor turnover ratio was below benchmark for all years reflecting Council's policy of paying outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was above 100% for the last three years reported, which reflects Council's significant investments in Property, plant and equipment.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation was below benchmark in all years under review, indicating that Council might not have invested sufficiently in maintaining existing assets. This view is perhaps also supported by the recommendation by Council's consulting engineers that it had not been depreciating sufficiently in prior years to accurately reflect the deterioration in the road conditions.

Employee costs as a percentage of operating expenses, Average staff costs and Average staff entitlements were fairly consistent throughout the period under review. Average staff costs and average employee entitlements have gradually increased over the four years, mainly due to pay rises under Council's Enterprise Agreement.

GEORGE TOWN COUNCIL

INTRODUCTION

George Town Council was proclaimed in 1993 and was formerly the Municipality of George Town, which was established in 1907. Council services a population of approximately 6 740 people and includes the townships of George Town, Low Head, Pipers River and Hillwood and covers an area of 653 square kilometres.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

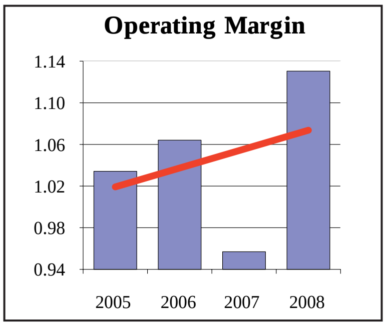
Signed financial statements were received on 20 October 2008, with amended statements received on 5 December 2008. An unqualified audit report was issued on 15 December 2008.

Council did not comply with Section 84 Financial Statements of the *Local Government Act 1993* in that the financial statements were not prepared and certified by the General Manager within 90 days after the end of the financial year.

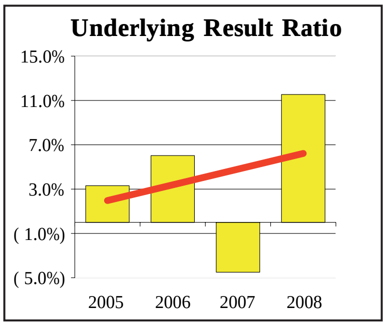
The audit was completed satisfactorily with no other major items outstanding.

FINANCIAL RESULTS

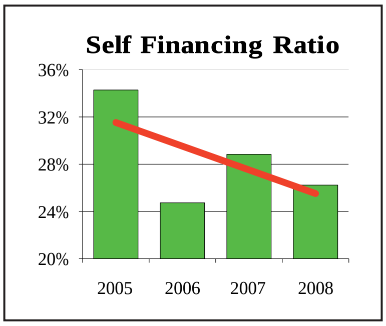
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was above the benchmark of one in three of the four years under review, with 2006-07 the only year to fall below the benchmark. An Operating margin above the benchmark indicates Council is generated sufficient revenue to fulfil its operating requirements. The margin was below one in 2006-07 because Council incurred an operating deficit of $0.417m.

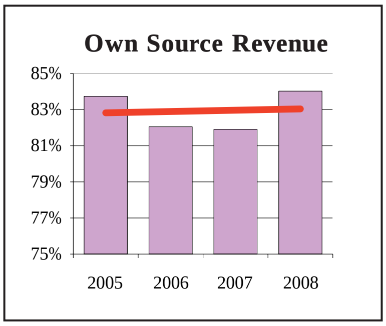


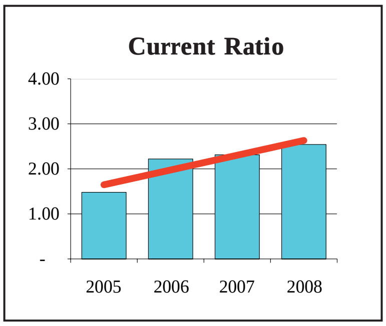
The positive Underlying results ratio in three of the years under review reflect the operating margin results. We note in its Estimates council budgeted for a surplus in 2007-08 and exceeded its estimates. We would expect a council to, as a minimum, budget for a break-even operating result which Council has done.



While positive, Council's Self financing ratio declined over the four year period under review. The ratio shows net operating cash flows generated by Council as a percentage of operating revenue. A positive ratio indicated Council generated operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 16% (2004-05, 16%).





The Current ratio was above the benchmark of greater than one in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	6 131	6 175	5 738	5 351	5 088
User charges	1 525	1 754	1 616	1 502	1 708
Grants	1 563	1 700	1 716	1 650	1 347
Other operating revenue	314	1 014	417	691	141
Total Revenue	**9 533**	**10 643**	**9 487**	**9 194**	**8 284**
Employee costs	2 396	2 439	2 724	2 364	2 193
Borrowing costs	143	197	122	147	184
Depreciation	2 404	2 268	2 346	2 228	1 944
Other operating expenses	4 442	4 511	4 722	3 901	3 689
Total Expenses	**9 385**	**9 415**	**9 914**	**8 640**	**8 010**
Surplus (Deficit) before:	**148**	**1 228**	**(427)**	**554**	**274**
Capital grants and contributions	235	333	594	244	93
Recognition of assets	0	1 624	0	939	0
Equity accounting adjustment	0	0	0	0	(527)
Surplus (Deficit)	**383**	**3 185**	**167**	**1 737**	**(160)**

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

Comment

Council recorded Surpluses before Capital grants and contributions, Recognition of assets and an Equity accounting adjustment in three of the four years under review. The operating deficit in 2005-06 was primarily due to the significant increase in Employee costs and Other operating expenses in that financial year. Overall, these surpluses indicate that it is generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges.

After including Capital grants and contributions, Recognition of assets and an Equity accounting adjustment, Council recorded surpluses for three of the four years. We note the surplus in 2007-08 was well above Estimate.

The main movements in revenue and expense items are discussed below.

Rates increased by $1.087m, (or 21.4%), in the period under review. The increase reflected general increases of 4% (2006-07) and 4.5% (2005-06) and the impact of new developments within the municipality over the period. The 7.6% increase in rate revenue in 2007-08 was a result of a full municipal revaluation undertaken, which resulted in a 137% increase in the capital value of all properties, and an 80% increase in the Assessed Annual Value.

The majority of Grant revenue for 2007-08 represented the Commonwealth tax sharing grant, $1.441m, (2006-07, $1.319m; 2005-06, $1.219m; 2004-05, $1.118m), which increased by 28.89% during the period under review.

Other operating revenue included interest income, contributions, net gains and losses on the disposal of assets and Council's share of the profit earned due to its investment in Esk Water. Council's share of profit from Esk Water was $0.193m (2006-07, $0.043m; 2005-06, $0.257m).

Employee costs increased in the four year period under review by $0.246m, (or 11.2%). The increase in the initial three years was $0.531m (or 24.21%), which included Enterprise Bargain Agreement increases of 3.5% for 2006-07 and 5% for 2005-06. In 2007-08, Employee costs decreased by $0.285m (10.46%) which was due to the net result of a 3.5% increase in the Enterprise Bargain Agreement offset by the departure of several key staff, who were replaced by contractors.

Depreciation expense increased by $0.324m (or 16.67%), from 2004-05 to 2007-08. The majority of the increase related to increased depreciation charges following the revaluation of a number of infrastructure asset classes, with the most significant being roads and bridges.

Other operating expenses represented approximately 48% of total expenses. In 2007-08 the majority of expenditure related to materials and contractor payments, $1.675m, (for road, water, sewerage and other maintenance costs) and the purchase of water, $0.500m. Over the four year period other operating expenses increased by $0.824m (or 22.35%), due primarily to:

- decommissioning of the George Town Tip and conversion to a waste transfer station. Costs associated with the tip increased by $0.197m, of which $0.125m relates to the site rehabilitation
- $0.375m was spent on assessing the York Cove Seaport development, and another $0.035m conducting a feasibility study specifically related to silt issues.

The major capital grants included funding for the Memorial Hall Development, the York Cove Seaport Development and Federal Government supplementary funding under the Roads to Recovery initiative.

In general, recognition of assets represented infrastructure assets contributed to Council through sub-divisions established in the municipal area. The Equity accounting adjustment related to a change in accounting policy, with Council deciding to equity account it investment in Esk Water from 2004-05.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	3 104	3 946	2 794	1 916
Receivables	388	323	598	376
Other	938	586	138	171
Total Current Assets	**4 430**	**4 855**	**3 530**	**2 463**
Payables	587	777	386	476
Borrowings	525	612	557	560
Provisions - employee entitlements	376	480	489	468
Provisions - other	90	85	0	0
Other	165	145	158	160
Total Current Liabilities	**1 743**	**2 099**	**1 590**	**1 664**
Working Capital	**2 687**	**2 756**	**1 940**	**799**
Property, plant and equipment	93 506	85 217	83 713	74 150
Investments	6 366	5 788	5 602	5 727
Total Non-Current Assets	**99 872**	**91 005**	**89 315**	**79 877**
Borrowings	2 971	2 006	1 368	1 925
Provisions - employee entitlements	180	64	35	33
Provisions - other	0	88	133	133
Total Non-Current Liabilities	**3 151**	**2 158**	**1 536**	**2 091**
Net Assets	**99 408**	**91 603**	**89 719**	**78 585**
Reserves	60 871	55 752	54 325	44 449
Accumulated surpluses	38 537	35 851	35 394	34 136
Total Equity	**99 408**	**91 603**	**89 719**	**78 585**

Comment

Total Equity increased by $20.823m over the period under review due to:

- Surpluses of $5.089m (2007-08, $3.185m; 2006-07, $0.167m; and 2005-06, $1.737m)
- assets revaluation increments totalling $15.294m
- recognition of Esk Water asset revaluation movements of $0.440m.

Cash and investment balances totalled $3.104m at 30 June 2008. This balance comprised cash at bank and on hand of $0.155m and short term deposits of $2.949m.

Other current assets primarily represent prepayments and assets held for resale. The balance at 30 June 2008 included $0.749m of land held for resale relating to several properties identified as surplus to requirements. This included the airport land and building on Soldier Settlement Road, which were added in the current year.

Payables at 30 June 2007 was significantly greater than the preceding two years due to a large creditor outstanding at year end relating to the George Town Memorial Hall redevelopment. The balance in 2007-08 was 17.2% less than the previous year.

Council applies a revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value based on depreciated replacement cost. To maintain accurate valuations, Council undertakes a revaluation of these assets on a regular basis. Property, plant and equipment increased by $19.356m (or 26.10%) over the period under review. The increase was primarily due to:

- asset acquisitions totalling $10.041m
- the revaluation of assets, $15.294m, offset by
- depreciation expenses totalling $7.018m.

Investments reflects Council's investment in Esk Water. Council equity accounts its investment in this associate.

Borrowings increased by $1.012m (or 40.74%), from the commencement of the 2006-07 year. In 2005-06, total borrowings decreased by $0.560m, due primarily to repayments, with no new loans. In 2006-07, borrowings increased by $0.693m due primarily to a new loan to fund the George Town Memorial Hall redevelopment, of $1.250m, offset by $0.557m in loan repayments. A further loan was arranged in July 2007 to fund upgrades of the Memorial Hall. This loan was for $1.500m.

Council's total Provisions balance at 30 June 2008 was $0.646m (2006-07, $0.717m), and remained fairly stable over the period under review. The balance comprised employee entitlements of $0.556m and a tip site make-good provision of $0.090m (2006-07, $0.173m).

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 955	7 998	7 173	7 493
Cash flows from Government	1 699	1 716	1 650	1 347
Payments to suppliers and employees	(8 004)	(7 098)	(6 593)	(5 913)
Interest received	350	229	171	104
Borrowing costs	(208)	(109)	(127)	(191)
Cash from operations	**2 792**	**2 736**	**2 274**	**2 840**
Capital grants and contributions	333	594	244	93
Payments for property, plant and equipment	(5 155)	(2 877)	(1 096)	(1 349)
Proceeds from sale of property, plant and equipment	300	6	15	96
Cash (used in) investing activities	**(4 522)**	**(2 277)**	**(837)**	**(1 160)**
Proceeds from borrowings	1 500	1 250	0	250
Repayment of borrowings	(612)	(557)	(559)	(706)
Cash from (used in) financing activities	**888**	**693**	**(559)**	**(456)**
Net increase in cash	**(842)**	**1 152**	**878**	**1 224**
Cash at the beginning of the year	3 946	2 794	1 916	692
Cash at end of the year	**3 104**	**3 946**	**2 794**	**1 916**

Comment

Council generated positive Cash from operations in all four years under review although cash generated in each year was not significantly greater than the annual depreciation charge. Cash from operations remained fairly stable in the four year period, with increases in Receipts from customers being offset by Payments to suppliers and employees.

Payments for property, plant and equipment over the four year period totalled $10.477m, and include major capital works undertaken on road infrastructure, $3.116m, the Franklin Street Depot purchase, $0.556m (2006-07) and the George Town Memorial Hall redevelopment, $3.261m. The George Town Memorial Hall redevelopment was budgeted to cost $3.250m, with the majority of the expenditure incurred in 2007-08. The Payments for property, plant and equipment were partially offset by capital grant funding, as detailed previously in the Income Statement section of this Chapter.

Cash increased by $2.412m since 30 June 2004. The increase was due to cash generated from operations, which totalled $10.642m for the four years under review, of which $8.796m was used for investing activities. In addition, Council received cash flows from financing activities of $0.566m (new loans $3.000m less principal repayments of $2.434m).

Council indicated that a significant proportion of the cash was allocated to capital projects, which were delayed by an emphasis on clearing a backlog of maintenance projects.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 228	(427)	554	274
Operating margin	>1.0	1.13	0.96	1.06	1.03
Underlying result ratio		11.5%	(4.5%)	6.0%	3.3%
Self financing ratio		26.2%	28.8%	24.7%	34.3%
Own source revenue ($'000s)		8 943	7 771	7 544	6 937
Financial Management					
Current ratio	>1	2.54	2.31	2.22	1.48
Indebtedness ratio		35%	28%	20%	30%
Cost of debt	7.5%	6.4%	5.4%	6.7%	7.4%
Debt service ratio		7.7%	7.0%	7.5%	10.8%
Debt collection	30 days	18	16	32	20
Creditor turnover	30 days	19	28	16	14
Capital expenditure/depreciation	>100%	227%	123%	49%	69%
Capital expenditure on exisiting assets/depreciation	100%	66%	66%	49%	69%
Other Information					
Employee costs expensed ($'000s)		2 439	2 724	2 364	2 193
Employee costs capitalised ($'000s)		431	675	541	469
Total employee costs ($'000s)		**2 870**	**3 399**	**2 905**	**2 662**
Employee costs as % of operating expenses		26%	27%	27%	27%
Staff numbers (FTEs)		46	49	46	45
Average staff costs ($'000s)		62	69	63	59
Average leave balance per FTE ($'000s)		12	11	11	11

Comment

Council recorded positive Results from operations in three of the four years under review, with the exception of 2006-07. The surpluses resulted in the Operating margins being above the benchmark for those three years. This result was further illustrated in the Underlying result ratio. These Financial Performance ratios indicated Council's rating policy resulted approximately in a break-even position although, as noted in the Income Statement section, this was not the case in 2006-07 because of increased Employee costs and Other operating costs including $0.375m spent on assessing the York Cove Seaport development.

Council's Own source revenue gradually increased over the period due to general increases in rates revenue and user charges relative to movements in recurrent grant funds received.

Current ratio was above the benchmark in all years indicating that Council was able to meet all short-term liabilities as they fell due. The Indebtedness ratio indicated Council generating sufficient revenue to meet its longer term liabilities.

Cost of debt ratio remained below the benchmark in all years under review, with the Debt service ratio previously reducing during the first three years due to debt repayments. However, a $1.250m loan for the George Town Memorial Hall redevelopment was not taken out until the end of the 2006-07 year and a further $1.500m loan taken out in July 2007 caused both the debt service ratio and cost of debt ratio to increase in 2007-08.

Capital expenditure to depreciation ratio was above 100% in 2006-07 and was 227% in 2007-08. However, the ratio failed to reach the benchmark in the preceding two years. This indicated that Council may not have invested sufficiently in maintaining its existing asset base over the period as a whole. This is further illustrated in the Capital expenditure on existing assets/depreciation ratio. In each of the years under review, the ratio is considered low. Capital expenditure to depreciation ratio indicates that Council's investment in infrastructure was insufficient relative to the replacement cost of assets as represented by the annual depreciation charge. Council intends to increase its capital works programme in future periods, as it has reduced a backlog of maintenance expenditure.

Average staff costs decreased in line with staff numbers at higher paid levels. Additional wages and overtime associated with the purchase of the Franklin Street Depot and the George Town Tip rehabilitation program were incurred in 2007, hence higher average wages per employee during that year. Overall employee numbers at 30 June 2008 were down due to several key works staff departing during the year, and being replaced with contractors. FTE staff numbers noted above are at 30 June, however average staff levels throughout the year were lower as a result of a number of positions being vacant for extended periods throughout the year. Accordingly, actual employment costs per employee on an average basis were comparable with previous years.

LATROBE COUNCIL

INTRODUCTION

Latrobe Council was created in 1993 and was formerly the Municipality of Latrobe, which was established in 1907. The municipality covers an area of approximately 600 square kilometres, including the townships of Latrobe, Port Sorell, Shearwater and Hawley. Council services a population of approximately 9 070 people.

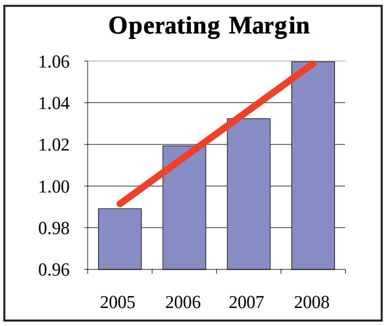
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 26 November 2008 and an unqualified audit report was issued on 11 December 2008. The *Local Government Act 1993* requires Council to submit financial statements within 90 day after the end of the financial year. Council failed to meet this deadline.

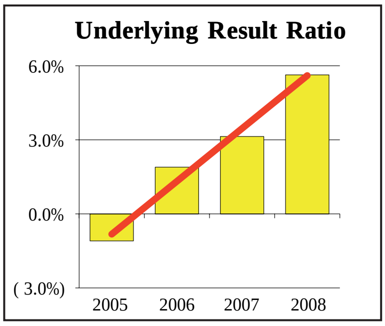
The audit was completed satisfactorily with no other major issues outstanding.

FINANCIAL RESULTS

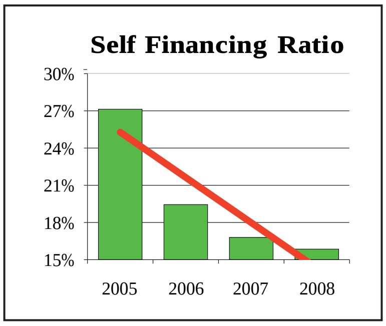
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



Council's Operating margin increased over the period with it being above benchmark for the last three years. Council generated sufficient revenue to fulfil its operating requirements.

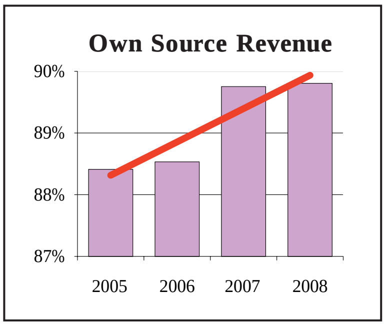


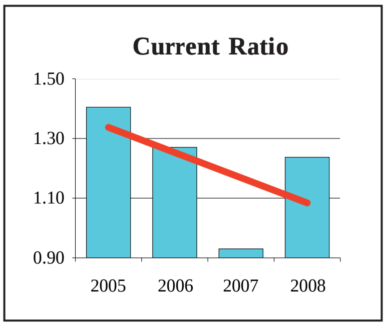
Council's Underlying result has improved in the four year period under review, with Council producing operating surpluses before Capital grants and Contributions of non-current assets in the past three years. To ensure long-term financial sustainability, we would expect a council to produce, at a minimum, a break-even operating result.



Council maintained a positive but declining Self financing ratio over the period under review. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio means that Council is generating operating cash flows which are contributing towards its capital expenditure programs. The declining ratio was caused by the growth in cash payments to suppliers and employees being greater than the growth in operating cash receipts. This also resulted in a declining Current ratio.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 10% (2004-05, 12%).





The Current ratio was above the benchmark of one in three of the four years under review, indicating that Council was able to meet all short-term liabilities. However, Council's net current working capital position declined, something which should be kept under review.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	7 042	7 148	6 770	6 264	5 953
User charges	1 244	1 282	1 189	874	886
Grants	1 146	1 146	1 108	1 090	1 026
Other operating revenue	680	969	985	842	707
Profit on disposal of assets	830	696	760	435	281
Total Revenue	**10 942**	**11 241**	**10 812**	**9 505**	**8 853**
Employee costs	2 902	2 941	2 783	2 578	2 535
Borrowing costs	81	79	111	126	136
Depreciation	2 570	2 455	2 581	2 279	2 066
Other operating expenses	5 040	5 133	4 998	4 342	4 213
Total Expenses	**10 593**	**10 608**	**10 473**	**9 325**	**8 950**
Surplus (Deficit) before:	**349**	**633**	**339**	**180**	**(97)**
Capital grants	550	716	224	456	27
Contributions of non-current assets	0	962	1 971	1 829	867
Surplus	**899**	**2 311**	**2 534**	**2 465**	**797**

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

Comment

Council recorded Surpluses before Capital grants and Contributions of non-current assets in the past three years under review. These recent operating surpluses indicate that Council generated sufficient revenue to fulfil its operating requirements including coverage of its depreciation charges. After including capital grants and Contributions of non-current assets Council recorded strong surpluses in each of the four years.

Rates increased by $1.195m (20.1%) in the four year period under review. The increase was mainly due to a combination of higher general, water, and sewerage rates.

In 2006 Council established a controlling authority under the provisions of the *Local Government Act 1993* to manage Camp Banksia – a recreational camp. Council commenced control of the camp in conjunction with a lease from the Crown on 1 July 2006. Consequently, venue hire fees for the camp were included in User charges for the final three years under review.

The majority of Grant revenue represented the Commonwealth tax sharing grant, 2007-08 $1.137m, (2006-07, $1.078m; 2005-06, $1.049m; 2004-05, $1.008m), which increased by 6.94% during the period under review.

The majority of Council's Profit on disposal of assets in all years related to the sale of land in the Latrobe Industrial Estate and Council's commercial development at Port Sorell.

Depreciation expense decreased slightly (4.9%) in 2007-08 due to reassessment in the useful lives of some assets. Depreciation increased by $0.515m (24.93%) from 2004-05 to 2006-07. The increases were due primarily to the impact of revaluations of infrastructure assets as follows:

- sewerage infrastructure 30 June 2005
- bridges 1 July 2005
- buildings 30 June 2005 and 30 June 2006
- water and stormwater infrastructure 1 July 2006.

Other operating expenses increased by $0.920m (21.87%) over the period under review. Major items included in Other operating expenses were: Materials and contracts (2007-08, $3.973m; 2006-07, $2.782m; 2005-06, $2.890m; 2004-05, $2.901m), Other expenses ($0.941m; $1.202m; $1.278m; $1.147m) and Government contributions and levies ($0.217m; $0.201m; $0.173m; $0.166m).

Council received Capital grants totalling $1.423m over the period under review. The majority of the funding related to Federal Government funding under the Roads to Recovery initiative. In 2007-08 Council received $0.716m (2006-07, $0.224m; 2005-06 $0.456m).

Contributions of non-current assets totalled $5.629m over the four year period. The contributions represented the transfer of new subdivision assets to Council.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	937	1 447	2 198	2 455
Receivables	391	270	250	261
Other	968	430	526	522
Total Current Assets	**2 296**	**2 147**	**2 974**	**3 238**
Payables	610	930	776	628
Borrowings	134	293	414	367
Provisions - employee benefits	580	572	495	442
Other	532	513	656	868
Total Current Liabilities	**1 856**	**2 308**	**2 341**	**2 305**
Working Capital	**440**	**(161)**	**633**	**933**
Property, plant and equipment	88 700	75 250	70 288	62 956
Investments	7 708	6 872	4 255	4 201
Other	20	36	192	282
Total Non-Current Assets	**96 428**	**82 158**	**74 735**	**67 439**
Borrowings	944	1 078	1 370	1 657
Provisions - employee benefits	33	25	43	87
Provisions - rehabilitation	673	800	800	800
Other	286	334	366	471
Total Non-Current Liabilities	**1 936**	**2 237**	**2 579**	**3 015**
Net Assets	**94 932**	**79 760**	**72 789**	**65 357**
Reserves	47 239	34 379	29 941	27 084
Accumulated surpluses	47 693	45 381	42 848	38 273
Total Equity	**94 932**	**79 760**	**72 789**	**65 357**

Comment

Total Equity rose by $29.575m over the period under review due to:

- Surpluses of $8.106m (2007-08, $2.311m; 2006-07, $2.533; 2005-06, $2.465m)
- Asset revaluation increments of $17.089m
- Increases in Council's investment in Cradle Coast Water (CCW) of $3.607m.

Cash at 30 June 2008 of $0.937m comprised cash at bank and on hand and a cash management account. The reduction in cash over the period under review of $1.518m is examined under the Cash Position section of this chapter.

Other current assets include inventories, accrued revenue and prepayments. The balance at 30 June 2008 included a $0.479m deposit for the purchase of a property.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets and applies indices in the intervening periods where movements are considered material. Construction indices issued by the Australian Bureau of Statistics are used for infrastructure assets and adjustment factors issued by the Valuer-General are used for land assets.

The Property, plant and equipment balance increased by $24.744m over the period under review. The increase was primarily due to revaluations totalling $20.350m including land, $2.087m, buildings $2.734m, storm water, $1.867m and subdivision assets taken over of $3.800m, offset by write-downs of assets replaced.

Non-current investments comprised Council's investment in its associates CCW, $7.351m, and Dulverton Regional Waste Management Authority, $0.356m. Council's investment in CCW increased by $3.067m since 2004-05 principally as a result of revaluation increments reported by CCW.

Non-current provisions included $0.673m for the rehabilitation costs associated with the Alexander Street refuse site.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 608	8 919	8 573	8 666
Cash flows from government	974	1 108	1 119	1 139
Payments to suppliers and employees	(8 893)	(8 293)	(7 895)	(7 434)
Interest received	172	193	177	167
Borrowing costs	(79)	(111)	(126)	(136)
Cash from operations	**1 782**	**1 816**	**1 848**	**2 402**
Capital grants and contributions	716	224	456	27
Proceeds from investments	68	82	0	90
Payments for investments	(34)	(11)	0	(15)
Payments for property, plant and equipment	(3 751)	(3 637)	(2 828)	(2 833)
Proceeds from sale of property, plant and equipment	986	1 189	639	779
Cash (used in) investing activities	**(2 015)**	**(2 153)**	**(1 733)**	**(1 952)**
Proceeds from borrowings	0	0	0	0
Repayment of borrowings	(277)	(414)	(372)	(321)
Cash (used in) financing activities	**(277)**	**(414)**	**(372)**	**(321)**
Net increase (decrease) in cash	**(510)**	**(751)**	**(257)**	**129**
Cash at the beginning of the year	1 447	2 198	2 455	2 326
Cash at the end of the year	**937**	**1 447**	**2 198**	**2 455**

Comment

Council generated positive Cash from operations in all years under review. However, whilst Receipts from customers increased by $0.982m, or 10.9%, Payments to suppliers and employees more than offset this increasing $1.459m, or 19.6%. The fact that the inflationary trend in cash expenditure was greater than the growth in operating cash revenues may lead to difficulties for Council:

- meeting its operating commitments
- having the ability to fund its capital expenditure requirements
- servicing its debt.

Payments for property, plant and equipment over the period totalled $13.049m. Key asset additions included:

- 2007-08 Wesley Vale/Moriarty Road intersection, $1.001m, Bridge replacement on Bakers Beach road, $0.150m, redevelopment of Station Square, $0.516m, upgrade of heating at Latrobe Swimming Pool, $0.104m and ongoing road resealing program
- additions to non-current assets in prior years included road reconstructions, an upgrade of the Latrobe Memorial Hall, construction of a weir, footpath and bridge at Bells Parade, land purchases and development works related to Council's commercial development at Port Sorell.

Council's Cash balance decreased by $1.389m over the period of review. The decrease was primarily due to capital expenditure undertaken in the period and, in the year ended 30 June 2008, by increased cash Payments to suppliers and employees. Although Council received specific funding for works, it used an amount in excess of its operating cash flow to fund a wide range of capital projects. In consideration of the general trend in operating cash flows and consistently high levels of capital expenditure, Council may find itself in the position of needing to extend borrowings.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		633	339	180	(97)
Operating margin	>1.0	1.06	1.03	1.02	0.99
Underlying result ratio		5.6%	3.1%	1.9%	(1.1%)
Self financing ratio		15.9%	16.8%	19.4%	27.1%
Own source revenue ($'000s)		10 095	9 704	8 415	7 827
Financial Management					
Current ratio	>1	1.24	0.93	1.27	1.40
Indebtedness ratio		19.2%	23.1%	30.6%	38.5%
Cost of debt	7.5%	6.5%	7.0%	6.6%	6.7%
Debt service ratio		3.2%	4.9%	5.2%	5.2%
Debt collection	30 days	17	12	13	10
Creditor turnover	30 days	18	30	33	23
Capital expenditure/depreciation	>100%	153%	141%	124%	137%
Capital expenditure on existing assets/depreciation	100%	72%	79%	73%	92%
Other Information					
Employee costs expensed ($'000s)		2 941	2 783	2 578	2 535
Employee costs capitalised ($'000s)		315	240	286	233
Total employee costs ($'000s)		**3 256**	**3 023**	**2 864**	**2 768**
Employee costs as % of operating expenses		28%	27%	28%	28%
Staff numbers (FTEs)		54	55	52	52
Average staff costs ($'000s)		60	55	55	53
Average leave balance per FTE ($'000s)		11	11	10	10

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded small but improving operating surpluses in 2005-06 to 2007-08 and a small deficit in 2004-05. The Operating margin was around benchmark for all years under review.

The Underlying result ratio improved, being positive over the past three years.

Self financing ratio declined over the period but remained positive. This ratio is a measure of a council's ability to fund the replacement of assets from cash generated from operations.

Council's Own source revenue improved slightly over the period.

Current ratio was above the benchmark in three of the four years (the exception was 2006-07) indicating that Council was generally able to meet all short-term liabilities.

Council's Indebtedness ratio was fairly consistent for all four years under review.

Council has repaying debt over the period. Both Council's Cost of debt and Debt service ratios were consistent across the period under review, with the Cost of debt better than benchmark in all years.

Debt collection was well below benchmark for all years under review which reflects Council's good debt recovery procedures.

Creditor turnover ratio is below benchmark for 2004-05 and 2006-07 but improved in 2007-08. Part of this was due to timing differences. It is Council's policy to pay outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was above 100% for all years reported, which reflected Council's significant payments for property, plant and equipment. After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation was below benchmark in all years, indicating that Council might not have invested sufficiently in maintaining existing assets.

Employee costs as a percentage of operating expenses, Average staff costs and Average leave balance per FTE were fairly consistent for all four years.

NORTHERN MIDLANDS COUNCIL

INTRODUCTION

Northern Midlands Council was created in 1993 when the former municipalities of Evandale, Campbell Town, Longford, Ross and part of Fingal were merged. The municipality covers an area of approximately 5 126 square kilometres, extending from Liffey Bluff in the west to Mt St John in the east, and from Relbia in the north to Tooms Lake in the south. Council services a population of approximately 12 500 people.

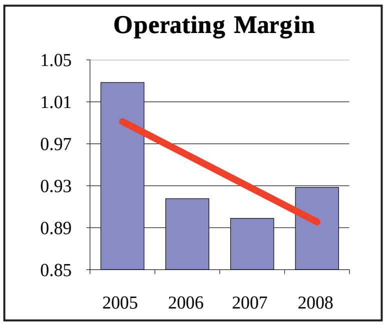
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Initial signed financial statements were received on 21 November 2008, with amended statements received on 18 December 2008. An unqualified audit report was issued on 19 January 2009. The *Local Government Act 1993* requires Council to submit financial statements within 90 days after the end of the financial year. Council failed to meet this deadline.

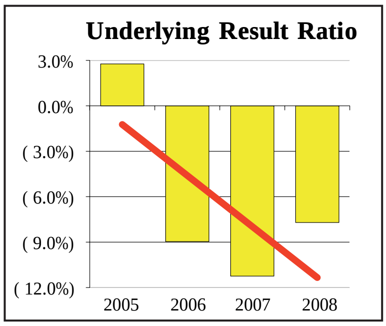
The audit was completed satisfactorily with no other major issues outstanding.

FINANCIAL RESULTS

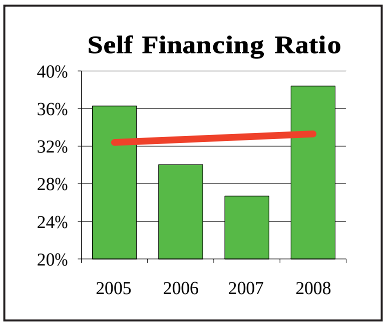
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin is below the benchmark of one in the past three years under review, with 2004-05 the only year to exceed the benchmark. An operating margin below the benchmark indicated Council might not be generating sufficient revenue to fulfil its operating requirements.

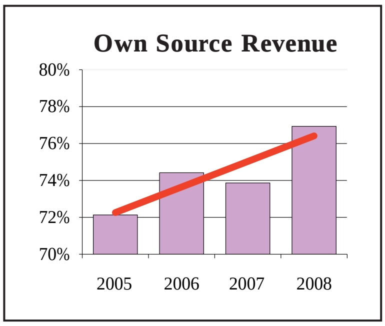


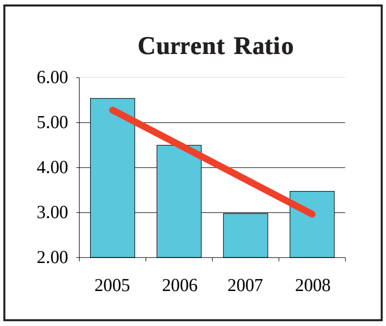
The negative Underlying results ratio in the past three years under review, with the positive result in 2004-05 reflect the operating margin results. Although it is not usual for a council to incur operating deficits, we note in its Estimates Council budgeted for a deficit before capital grants (see Income Statement analysis). To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even Operating result.



Council generated positive Self financing ratios over the four year period under review. The ratio shows net operating cash flows generated by Council as a percentage of operating revenue. A positive ratio indicated Council is generating operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council generated an increased majority of its operating revenue from its own sources. Council's Rates, User charges and Other revenue increased, whilst Grant funding remained fairly static.





While it is declining, the Current ratio was above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	7 819	7 899	6 885	6 569	6 373
User charges	1 730	1 840	1 468	1 418	1 443
Grants	3 213	3 362	3 543	3 399	3 496
Other operating revenue	993	1 474	1 660	1 901	1 232
Total Revenue	**13 755**	**14 575**	**13 556**	**13 287**	**12 544**
Employee costs	4 270	4 394	4 206	3 862	3 409
Depreciation	4 983	4 938	4 685	4 433	3 750
Other operating expenses	5 006	5 449	5 900	5 554	4 484
Loss on disposal of assets	331	917	289	629	554
Total Expenses	**14 590**	**15 698**	**15 080**	**14 478**	**12 197**
Surplus (Deficit) before:	**(835)**	**(1 123)**	**(1 524)**	**(1 191)**	**347**
Capital grants	872	1 542	789	2 346	1 356
Contributions of non-current assets	0	120	98	365	110
Surplus (Deficit)	**37**	**539**	**(637)**	**1 520**	**1 813**

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

Comment

Council recorded Deficits before Capital grants and Contributions of non-current assets in each of the past three years, compared to a Surplus of $0.347m in 2004-05. Over the four-year period under review Council's aggregate deficit before Capital grants and contributions and recognition of assets totalled $3.491m. The overall deficit indicated Council was not generating sufficient revenue to meet its operating requirements including coverage of its depreciation charges. This is further illustrated by Council budgeting for an operating deficit in its 2007-08 Estimates.

Over the four year period, Revenues increased by 16.9% while expenditures increased by 28.7% (employee costs are up 28.9%, depreciation 31.6% and other operating costs 21.2%). The main movements in revenue and expense items are discussed below.

Rates increased by $1.526m (or 23.9%) in the period under review and in 2007-08 was in line with Council's estimated rates income. The increase reflects broad inflationary increases in the general rates charge of 4.5% (2007-08), 3.9% (2006-07) and 2.4% (2005-06). In addition, property ratings were changed at the beginning of the 2007-08 year to a differential ratings system, with the major increases being felt in industrial and rural properties.

The majority of Grants was represented by the Commonwealth tax sharing grant, $3.244m, (2006-07, $3.114m; 2005-06, $3.072m; 2004-05, $2.926m), which increased by 10.9% during the period under review.

Other operating revenue was unusually high in 2005-06 primarily due to an additional reimbursement of $0.350m from Tasman Group Services (Longford Meatworks) for additional waste water treatment costs as a result of high levels of effluent from meatworks operations and the receipt of $0.342m in settlement of a claim with a contractor in relation to defects in prior years' construction of the water treatment plant. Continued decreases in the current year under review can be attributed to disputed charges levied by Council and the consequent ongoing negotiations with the abattoir.

Employee costs increased in the four year period under review by $0.985m (or 28.89%). Council's Enterprise Bargaining Agreement resulted in pay increases of 3% in July 2006 and 3.5% in July 2005. In addition, a competitive employment environment for technical staff has resulted in an increase in salaries for specialist staff.

Depreciation expense increased by $1.188m (or 31.68%) from 2004-05 to 2007-08. The majority of the increase related to 2005-06, with an increase of $0.635m resulting from the 2004-05 revaluation of a number of infrastructure asset classes. The main increase was in roads, with a $0.405m (22%) increase in depreciation from the introduction of a hierarchical basis for road recognition, which effectively resulted in shorter lives for high-use roads and longer lives for low-use roads. In addition, Council revalued buildings in 2006-07 and reassessed their useful lives. The net impact was to increase depreciation by $0.157m in 2006-07.

Other operating expenses represented approximately 35% of total expenses, down from 39% in 2006-07. The majority of expenditure related to material and contractor payments, (for road, water, sewerage and other maintenance costs), electricity costs, consultant fees, insurance and Government levies and charges. Over the period under review other operating expenses increased by $0.965m, (or 21.52%). The increase included:

- additional expenditure on road maintenance in 2006-07 of $0.327m and 2005-06 of $0.232m
- increased valuation fees as a result of a municipal property revaluation undertaken in 2006-07
- increased fleet costs largely due to higher fuel prices
- waste water operating costs increased due to additional work required as a result of meatworks effluent, noted previously
- water operating costs increased primarily due to finalisation of water treatment plant construction in Longford in 2005-06.

Loss on disposal of assets in the 2007-08 mainly comprised $0.496m for stormwater and drainage assets, $0.287m for roads and $0.116m for bridges. All were predominantly due to the replacement of existing assets with the construction of new assets.

Capital grants included Federal government funding under the Roads to Recovery initiative ($0.685m, 2007-08; $1.477m, 2005-06; and $0.219m, 2004-05). In addition, Council received grant funding for the Longford Flood Mitigation project $0.535m (2007-08), $0.869m (2005-06) and $1.137m (2004-05).

In general, Contributions of non-current assets represented infrastructure assets contributed to Council through sub-divisions established in the municipal area.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	5 880	4 781	7 887	7 518
Receivables	820	737	932	517
Inventories	25	22	20	14
Total Current Assets	**6 725**	**5 540**	**8 839**	**8 049**
Payables	560	440	658	368
Provisions - employee benefits	919	889	848	763
Other	457	530	459	322
Total Current Liabilities	**1 936**	**1 859**	**1 965**	**1 453**
Working Capital	**4 789**	**3 681**	**6 874**	**6 596**
Property, plant and equipment	204 310	188 428	158 505	166 228
Receivables	11	36	66	96
Total Non-Current Assets	**204 321**	**188 464**	**158 571**	**166 324**
Provisions - employee benefits	108	116	65	66
Total Non-Current Liabilities	**108**	**116**	**65**	**66**
Net Assets	**209 002**	**192 029**	**165 380**	**172 854**
Reserves	92 458	76 024	48 739	57 733
Accumulated surpluses	116 544	116 005	116 641	115 121
Total Equity	**209 002**	**192 029**	**165 380**	**172 854**

Comment

Total Equity increased by $36.148m (or 20.91%) over the period under review due to:

- net Surpluses over the period of $1.422m (2007-08, surplus $0.539m; 2006-07 deficit $0.637m; 2005-06 surplus $1.520m)
- asset revaluation increments of $34.726m, including major revaluation increments (including indexation adjustments) for:
  - land $7.213m, 2007-08
  - buildings $15.582m, 2006-07
  - roads and streets $3.588m, 2007-08; $3.494m, 2006-07
  - bridges $2.942m, 2005-06.

The revaluation increments were offset by a decrement in road infrastructure assets in 2005-06 of $13.456m. A survey of roads conducted during 2005-06 compared to the previous 2000-01 survey indicated a more rapid deterioration of roads than previously anticipated. The valuation also resulted in a reassessment of the unit replacement cost of roads, resulting in a reduction compared to the 2000-01 rates adopted.

Cash at 30 June 2008 was $5.880m. This balance comprised cash at bank and on hand of $0.557m, special committee balances of $0.159m and short term deposits of $5.164m. Cash included $0.475m in unspent government grant funding to be used on specific projects, with the remaining balance uncommitted and available to be used for any purpose determined by Council.

Receivables were unusually high in 2005-06 due a $0.367m debt outstanding from Tasman Group Services in relation to waste water treatment plant emergency maintenance and operating costs. The debt was paid in 2006-07 resulting in a reduction in the receivables balance. In the current year, the revaluation of rated properties saw a rise in rate debtors, as a number of appeals resulted in debts still unpaid at year end.

The increase in Property, plant and equipment from 2004-05 to 2007-08 of $38.082m, (or 13.36%) was the net result of Council applying a revaluation model to the majority of its infrastructure assets, which resulted in the assets being recorded at fair value based on depreciated replacement cost. To maintain accurate valuations, Council undertakes a revaluation of these assets on a regular basis. Increases in Property, plant and equipment were primarily due to the:

- revaluation of a number of asset classes, resulting in asset revaluation increments of $27.285m in 2006-07 and $16.434m in 2007-08. This also resulted in a corresponding increase to the asset revaluation reserve, accounting for the upward movement in Reserves
- capital additions of $13.702m, including $4.153m constructing the Longford flood levee, $3.446m in road assets and $1.198m on sewerage and drainage assets.

These increases were offset by:

- asset revaluation decrements of $8.994m in 2005-06
- disposed of asset totalling $2.487m
- Depreciation expenses of $14.056m.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 364	10 695	9 906	9 322
Cash flows from Government	4 311	3 584	3 441	3 792
Payments to suppliers and employees	(10 581)	(11 138)	(9 887)	(9 012)
Interest received	502	477	531	448
Cash from operations	**5 596**	**3 618**	**3 991**	**4 550**
Capital grants and contributions	685	789	2 346	1 356
Payments for property, plant and equipment	(5 348)	(7 754)	(6 214)	(5 584)
Proceeds from sale of property, plant and equipment	166	241	246	205
Cash (used in) investing activities	**(4 497)**	**(6 724)**	**(3 622)**	**(4 023)**
Net increase (decrease) in cash	**1 099**	**(3 106)**	**369**	**527**
Cash at the beginning of the year	4 781	7 887	7 518	6 991
Cash at the end of the year	**5 880**	**4 781**	**7 887**	**7 518**

Comment

Council generated positive Cash from operations in all four years under review, an increase of 23%. Receipts from customers increased by $0.669m (or 6.26%), in 2007-08, $0.789m, (or 7.96%), in 2006-07 and $0.584, (or 6.26%) in 2005-06. The increases attributed primarily to increasing Rates, through general inflationary increases and the impact of economic development within the municipality.

Payments to suppliers and employees decreased by $0.557m (or 5.0%) in 2007-08, but increased by $1.251m (or 12.65%) in 2006-07 and $0.875m (or 9.71%) in 2005-06. The recent decrease related to several payments made in 2006-07, including $0.130m to an independent contractor for services provided in the revaluation of municipal assets and dwellings, and another of $0.049m for a report pertaining to the strategic environmental plan. In addition, there was a significant expensing of works jobs in 2006-07 in the areas of road maintenance.

Payments for property, plant and equipment over the four year period totalled $24.900m, in accordance with Council's capital expenditure plan. Capital expenditure included $5.021m on the construction of the Longford flood levee, roads and streets $5.733m, bridges $2.281m and sewerage/stormwater and drainage $2.456m. Capital expenditure was in part funded by $5.176m in capital grant funding.

Cash decreased by $1.638m since 30 June 2005. The decrease was due to the significant amount of capital expenditure undertaken in the period. Although Council received specific funding for the flood levee and specific road works, it used an amount in excess of its operating cash flows to fund a wide range of capital projects.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(1 123)	(1 524)	(1 191)	347
Operating margin	>1.0	0.93	0.90	0.92	1.03
Underlying result ratio		(7.7%)	(11.2%)	(9.0%)	2.8%
Self financing ratio		38.4%	26.7%	30.0%	36.3%
Own source revenue ($'000s)		11 213	10 013	9 888	9 048
Financial Management					
Current ratio	>1	3.47	2.98	4.50	5.54
Indebtedness ratio		1.0%	1.2%	0.7%	0.7%
Debt collection	30 days	29	30	40	22
Creditor turnover	30 days	19	12	20	13
Capital expenditure/depreciation	>100%	108%	166%	140%	149%
Capital expenditure on existing assets/depreciation	100%	110%	102%	100%	114%
Other Information					
Employee costs expensed ($'000s)		4 394	4 206	3 862	3 409
Employee costs capitalised ($'000s)		297	214	146	198
Total employee costs ($'000s)		**4 691**	**4 420**	**4 008**	**3 607**
Employee costs as % of operating expenses		30%	28%	28%	29%
Staff numbers (FTEs)		74	75	73	72
Average staff costs ($'000s)		63	59	55	50
Average leave balance per FTE ($'000s)		14	13	13	12

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits in the past three years with a surplus result in 2004-05. This resulted in operating margins below benchmark and negative Underlying result ratios.

Self financing ratio was higher in 2007-08 due to the higher net operating cash flows in that year. Own source revenue gradually increased over the period due to higher increase in Rates and User charges relative to increases in Grant funding.

Current ratio was above the benchmark, indicating in all four years that Council was able to meet all short-term liabilities as they fell due.

Council's Indebtedness ratio was low in all years due to it not holding any borrowings in the period under review.

Debt collection was above the benchmark in 2005-06 due primarily to the Tasman Group Services debtor of $0.367m outstanding at 30 June 2006. This debt was paid in 2006-07. The ratio for the current year is just below the benchmark.

Creditor turnover has been well below the benchmark in each of the years under review.

Capital expenditure to depreciation ratio was well above 100%, but in the 2007-08 year fell to a level just above the benchmark (108%). This reflected Council's significant investments in property, plant and equipment, especially in prior years.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation was marginally above the benchmark in 2007-08, 2006-07 and 2005-06, with the 2004-05 ratio well above the benchmark. The variance in the ratios related to new capital projects, which included the Longford water treatment plant completed in 2004-05 and the flood levee completed in 2006-07.

Employee costs as a percentage of operating expenses and average staff entitlements were fairly consistent throughout the period under review. However, average staff costs increased over the period, reflecting normal wage increases and changes in the staff mix.

SORELL COUNCIL

INTRODUCTION

The Sorell area was first proclaimed as a Municipality in 1862. In 1993 it acquired a portion of the former Richmond Council when the latter was absorbed by Clarence City Council, but had to surrender from South of Dunalley to Eagle Hawk Neck to the Tasman Council. The population serviced by Sorell Council is approximately 12 400 people and covers an area of 583 square kilometres.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 1 October 2008. Revised signed statements were received on 22 December 2008 and an unqualified audit report was issued on 23 December 2008.

Roads and bridges represent a significant proportion of non-current assets in the Balance Sheet, with the last independent revaluation for Roads conducted during the 2002-03 financial year. Bridges were revalued in 2006-07. Ideally Property, plant and equipment should be revalued every three to five years.

The implication is that a significant proportion of Property, plant and equipment were not revalued within the past five years and the amount whilst indexed annually may not support the fair value. We recommended that Council update its asset revaluations as a matter of priority.

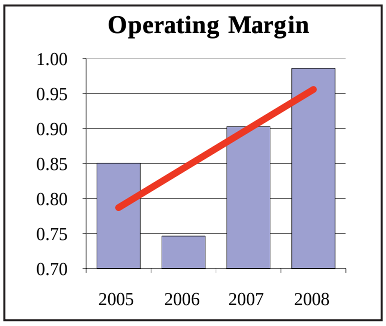
Council reduced its financial deficits over the four-year period under review to a small surplus in 2007-08, $0.712m but only after bringing to account Capital grants, Contributed property, plant and equipment and Impairment of cash investments. Prior to these items, Council incurred an operating deficit of $0.497m in 2007-08. Impairment of Council's investment in Collateralised Debt Obligations (CDOs) had a negative impact on Council's financial performance. Due to current financial market conditions and the requirement to report investments at fair value, Council's investment in CDOs was written down from $0.500m in 2006-07 to $0.204m in 2007-08.

Sorell is one of the fastest growing council areas in Tasmania which is likely to add to financial pressures as it is required to deliver additional services. In this context, incurring Operating deficits requires close monitoring by Council. It is understood that for the 2007-08 budget Council adopted a long-term focus on its financial requirements and implemented a long-term financial plan to address key issues of financial sustainability. Council budgeted for an Operating deficit of $1.535m before capital grants and customer contributions in 2007-08. Although it is not unusual for a council to incur operating deficits, we would expect that Council aims to budget for a break-even operating result as a minimum.

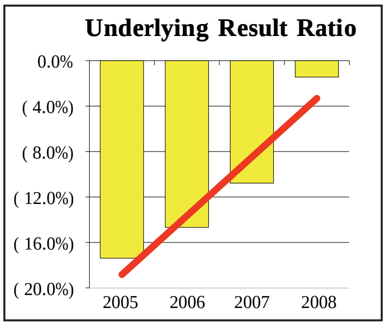
Apart from the above matters referred to, the audit was completed satisfactorily with no other issues outstanding.

FINANCIAL RESULTS

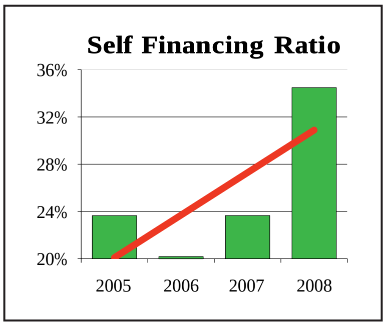
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios include:



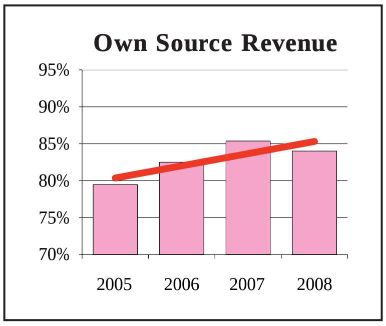
Council recorded operating deficits before grants and contributed assets in each year of the period under review resulting in the Operating margin being below the expected benchmark of one. However, there was a general improvement over the period. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.



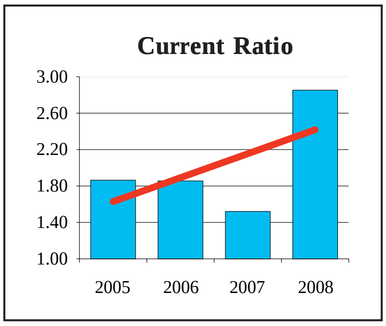
The negative Underlying results ratio decreased over the period indicating that operating deficits before capital grants were decreasing when compared with total operating revenues. Council's performance moved towards a break-even position, a step towards ensuring long-term financial sustainability.



The Self financing ratio averaged around 25% over the period under review except for 2007-08 where it increased to 35% due to increased revenue from rates, user charges and grants combined with lower employee costs. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicated that Council generated sufficient operating cash flows which contributed towards its capital expenditure programs.



The Own source revenue percentage shows Council was generating the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of approximately 16% (2004-05, 21%).



The Current ratio was above the benchmark of greater than one in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate * $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	9 062	9 087	8 166	7 545	6 960
User charges	1 719	1 733	1 584	1 507	1 458
Grants	1 741	2 227	1 845	2 184	2 328
Investment income	547	508	437	375	333
Other operating revenue	113	379	358	672	49
Gain on disposal of assets	0	0	226	205	215
Total Revenue	**13 182**	**13 934**	**12 616**	**12 488**	**11 344**
Employee costs	4 962	4 542	4 505	4 219	3 878
Borrowing costs	245	227	266	188	183
Depreciation	4 739	4 491	4 345	4 414	4 027
Materials and services	3 221	3 117	3 178	2 670	2 822
Other operating expenses	1 550	1 653	1 554	2 237	2 177
Loss on disposal of assets	0	105	128	593	230
Total Expenses	**14 717**	**14 135**	**13 976**	**14 320**	**13 317**
Deficit before:	**(1 535)**	**(201)**	**(1 360)**	**(1 833)**	**(1 973)**
Capital grants	344	275	301	441	50
Contributed property, plant and equipment	0	934	471	1 146	232
Impairment of investments	0	(296)	0	0	0
Revaluation (decrement)	0	0	0	(2 412)	0
Surplus (Deficit)	**(1 191)**	**712**	**(588)**	**(2 657)**	**(1 691)**

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

Comment

Council continued the trend of reducing its Deficit before Capital grants, Contributed property, plant and equipment, impairment of investments and Revaluation decrements in 2007-08. Deficits indicated Council was not generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges.

However, in 2007-08 the result after Capital grants, Contributed property, plant and equipment and Revaluation decrements was a Surplus of $0.712m. This was an encouraging improvement on the previous three years.

Council's overall Deficits for the four years totalled $4.225m, despite Capital grants of $1.067m and Contributed property, plant and equipment of $2.783m. The Deficit was higher in 2005-06 due to the revaluation decrement relating to buildings and other land improvements of $2.412m.

Total Revenue increased $2.590m (or 22.83%) from 2004-05, specifically revenue from Rates increased by $2.127m (30.56%). The increase was primarily due to a higher general rate levied of 7.93% in 2006-07 and 4.34% in 2005-06. The general rate increased 4.4% in 2007-08.

User charges increased by $0.275m (18.86%) over the period due predominantly to increased in water consumption charges, rate certificates and inspection fees.

The majority of Grant revenue for 2007-08 comprised a $1.446m Commonwealth tax sharing grant (2006-07, $1.376m; 2005-06, $1.381m; 2004-05, $1.329m).

Other operating revenue included movements in Council's interests in its associates, Hobart Water and Southern Waste Solutions (2007-08, $0.173m loss; 2006-07, $0.257m; 2005-06, $0.409m).

Total Expenses increased $0.818m (6.14%) since 2004-05. Employee costs increased $0.664m (17.12%) over the period, primarily as a result of salary indexation.

Borrowing costs increased slightly in 2007-08. An additional $2.770m in Borrowings was taken up towards the end of 2007-08, which had a minimal impact on interest costs.

Depreciation expense increased $0.464m (11.52%) from 2004-05 to 2007-08, primarily due to the impact of revaluations of building and other infrastructure assets at 1 July 2005.

Materials and services included expenditure used to maintain infrastructure assets which increased $0.295m (10.45%) from 2004-05 to 2007-08 and primarily related to buildings and roads.

Other operating expenses decreased $0.524m (24.06%) from 2004-05 to 2007-08. This was mainly due to the impairment of a single rate debtor, $0.239m, in 2005-06.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	1 902	2 596	8	59
Receivables	605	758	829	338
Investments	6 204	1 840	5 155	4 387
Other	132	222	214	193
Total Current Assets	**8 843**	**5 416**	**6 205**	**4 977**
Bank overdraft	0	0	356	0
Payables	1 783	1 509	1 524	1 255
Borrowings	564	1 229	464	349
Provisions – employee benefits	753	824	766	920
Other	0	0	234	146
Total Current Liabilities	**3 100**	**3 562**	**3 344**	**2 670**
Working Capital	**5 743**	**1 854**	**2 861**	**2 307**
Property, plant and equipment	117 847	111 948	108 137	76 835
Investments	5 158	4 982	3 029	2 817
Investment property	836	605	581	559
Other	125	153	283	1 399
Total Non-Current Assets	**123 966**	**117 688**	**112 030**	**81 610**
Borrowings	6 621	3 186	3 644	3 176
Provisions – employee benefits	87	122	137	131
Total Non-Current Liabilities	**6 708**	**3 308**	**3 780**	**3 307**
Net Assets	**123 001**	**116 234**	**111 111**	**80 610**
Reserves	89 859	83 997	79 306	46 391
Accumulated surpluses	33 142	32 237	31 805	34 219
Total Equity	**123 001**	**116 234**	**111 111**	**80 610**

Comment

Total Equity rose by $42.391m over the period under review due to:

- asset revaluation increments totalling $43.468m over the period (2007-08, $5.862m; 2006-07, $4.691m; 2005-06, $32.065m) offset by,
- deficits of $4.225m (2007-08, surplus of $0.712; deficits in the following years 2006-07, $0.588m; 2005-06, $2.657m; 2004-05, $1.691m).

Council's Cash balance at 30 June 2008, $1.902m, comprised cash at bank and on hand. Cash and Current Investments for 2007-08 totalled $8.106m (2004-05, $4.446m). Council advised that $2.500m has been committed to the new South East Community Civic Centre and $0.500m to the new car park.

Council held current investments of $4.000m in floating rate notes and $2.000m in principal protected yield accrual notes. The nature of these investments is such that market values fluctuate over the term of the instrument. Although unsecured, by their nature holding these to maturity should result in recoupment of the face value.

In addition, Council had a small investment in CDOs which was impaired. The impairment was discussed in the Audit of the 2007-08 Financial statements section of this Chapter.

The increase in Payables from 2006-07 to 2007-08 of $0.513m related to timing differences. The fall in payables from 2005-06 to 2005-07 of $0.255m (16.70%) was mainly as a result of a claim by Cambridge Sand being brought to account in 2005-06 of $0.419m.

Council's Borrowings increased in 2007-08 by $2.770m. New loans of $4.000m to fund future capital expenditure. This contrasted with increases in total borrowings during 2006-07 and 2005-06 of $0.307m (7.49%) and $0.583m (16.51%),

Property, pland and equipment were revalued upwards by $5.772m in 2007-08 ($3.907m, 2006-07; $22.310m, 2005-06). Infrastructure and property were progressively revalued to fair values by indexation, council officer valuations or independent valuation.

Up until 2006-07 Work-in-progress was included in Other Assets. In 2007-08 Work in progress balances were transferred to Property, plant and equipment and the prior year's balance was adjusted accordingly. In 2004-05, Other assets included $0.855m which were transferred to Property, plant and equipment in 2005-06.

Non-current Investments represented Council's interest in Hobart Water and Southern Waste Solutions. The investments are based on Council equity accounting its share in these entities at 30 June each year. The carrying value of the investment in Hobart Water increased in 2007-08 to $4.946m (2006-07, $4.518m) due to operating profits and revaluations in that entity. Equity in Southern Waste Solutions fell 54.0% to $0.211m in 2007-08 due to operating losses.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	10 734	10 249	9 084	9 149
Cash flows from government	2 674	2 061	2 186	2 278
Payments to suppliers and employees	(8 851)	(9 390)	(8 936)	(8 842)
Interest received	475	331	375	311
Borrowing costs	(227)	(266)	(188)	(214)
Cash from operations	**4 805**	**2 984**	**2 520**	**2 683**
Capital grants and contributions	275	301	441	50
Payments for property, plant and equipment	(4 829)	(4 362)	(3 424)	(2 816)
Dividends received	389	100	36	55
Proceeds from sale of property, plant and equipment	287	249	205	215
Cash (used in) investing activities	**(3 878)**	**(3 712)**	**(2 742)**	**(2 496)**
Proceeds from borrowings	4 000	770	900	750
Repayment of borrowings	(1 257)	(412)	(318)	(254)
Cash from financing activities	**2 743**	**358**	**582**	**496**
Net increase (decrease) in cash	**3 670**	**(371)**	**360**	**683**
Cash at the beginning of the year	4 436	4 807	4 446	3 763
Cash at end of the year	**8 106**	**4 436**	**4 807**	**4 446**

Comment

Council generated positive cash from operations in all years under review. While Receipts from customers increased by $1.585m over the period, Payments to suppliers and employees were maintained at approximately the same levels.

Council recorded a decrease in net cash in 2006-07 of $0.371m, primarily due to increased investment on infrastructure assets. This decline in net cash was reversed in 2007-08 due to higher cash from financing activities of $2.743m and increased Cash from operations.

Payments for property, plant and equipment totalled $4.839m in 2007-08, (2006-07, $4.362m; 2005-06, $3.424m). This included payments for road infrastructure, (2007-08, $1.504m; 2006-07, $1.677m; 2005-06, $2.064m), drainage infrastructure, ($0.197m, $0.636m, $0.486m) and plant and vehicles additions, ($0.744m, $0.594m, $0.541m).

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(201)	(1 360)	(1 833)	(1 973)
Operating margin	>1.0	0.99	0.90	0.75	0.85
Underlying result ratio		(1.4%)	(10.8%)	(14.7%)	(17.4%)
Self financing ratio		34.5%	23.7%	20.2%	23.6%
Own source revenue ($'000s)		11 707	10 771	10 303	9 016
Financial Management					
Current ratio	>1	2.85	1.52	1.86	1.86
Indebtedness ratio		57.3%	30.7%	36.7%	36.7%
Cost of debt	7.5%	5.1%	6.2%	4.9%	5.5%
Debt service ratio		10.7%	5.5%	4.1%	4.2%
Debt collection	30 days	23	32	37	18
Creditor turnover	30 days	56	35	60	56
Capital expenditure/depreciation	>100%	108%	100%	78%	70%
Capital expenditure on existing assets/depreciation	100%	51%	66%	56%	48%
Other Information					
Employee costs expensed ($'000s)		4 542	4 505	4 219	3 878
Employee costs capitalised (2006-07 first year captured) ($'000s)		435	482	-	-
Total employee costs ($'000s)		**4 977**	**4 987**	**4 219**	**3 878**
Employee costs as a % of operating expenses		32%	33%	26%	30%
Staff numbers (FTEs)		85	86	85	79
Average staff costs ($'000s)		59	58	50	49
Average leave balance per FTE ($'000s)		10	11	10	13

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits before adjustments in all years under review resulting in Operating margins below the benchmark and negative underlying result ratios.

The Current ratio was above the benchmark in all years due to the high level of investments held indicating that Council was able to meet all short-term liabilities.

Indebtedness ratio was consistent for the first three years, but increased significantly in 2007-08 as Council took out additional borrowings to meet capital expenditure requirements. As a consequence, the Debt service ratio increased.

Debt collection remained below benchmark for the period under review apart from 2006-07, 32 days and 2005-06, 37 days. The ratios reflected an improvement in Council's debt recovery.

Creditor turnover was higher than benchmark in 2007-08 due to a number of capital projects being finalised as at 30 June with invoices received in June. A claim was made by Cambridge Sands Pty

Ltd dating back to 2000 determined by an independent arbitrator in July 2005, of $0.828m. A liability of $0.419m was recognised in 2004-05 with the remaining liability of $0.408m recognised in 2005-06. This increased the ratio in those years. Council has a policy of paying creditors within 30 days.

Capital expenditure to depreciation ratio improved significantly in 2006-07 and in 2007-08. This indicated that Council invested sufficiently in the replacement of infrastructure assets. However, the ratio of Capital expenditure on existing assets to depreciation suggests that Council is under investing in its existing infrastructure.

Employee costs as a percentage of operating expenses, Staff numbers and Average leave balances per employee were fairly consistent for all years. Average staff costs increased mainly due to Enterprise Bargaining Agreement increases and staffing movements.

WEST COAST COUNCIL

INTRODUCTION

The West Coast Council was created during the amalgamation of council boundaries in 1993. The Council includes the former Zeehan Commission (which comprised the towns of Zeehan, Tullah and Rosebery) coupled with the former Municipalities of Lyell (which included the towns of Queenstown, Gormanston and Linda) and Strahan.

The municipal area covers approximately 9 575 square kilometres and encompasses the towns of Queenstown, Rosebery, Strahan, Tullah and Zeehan. The Council services a population of approximately 5 150 people.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2008. Following the audit, the financial statements were resigned on 21 November 2008 and an unqualified audit report was issued on 26 November 2008.

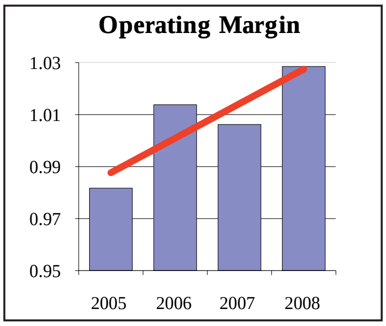
We noted anomalies in relation to the currency of valuations and the indexing of values for Roads, Bridges, Sewerage, Water Supplies and Other Structures and Infrastructure assets. Roads and Infrastructure were indexed for the first time this year whereas formal revaluations by a qualified professional were not conducted for a number of years. Other classes of non current assets (Water, Sewerage and Storm water assets), also have outdated formal valuations.

We made a recommendation to Council that full revaluations of all material long-lived assets be performed on a more regular basis and that the appropriate indices be obtained for use in intervening years between formal revaluations. This matter was also noted in previous year.

Other than the matter noted, the audit was completed satisfactorily with no other major issues outstanding.

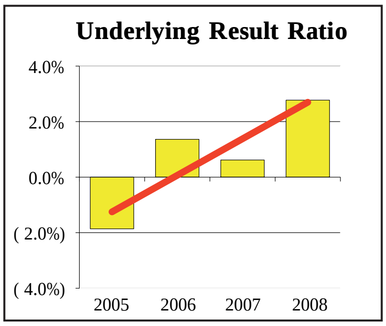
FINANCIAL RESULTS

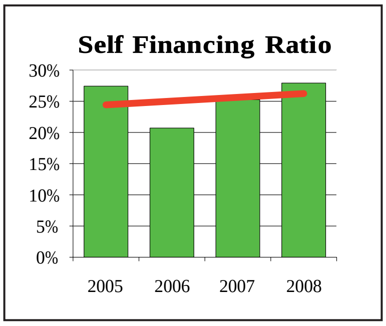
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



2004-05 was the only year that the Operating margin was below the expected benchmark. The graph suggests that, over the period, Council maintained and improved its operational effectiveness.

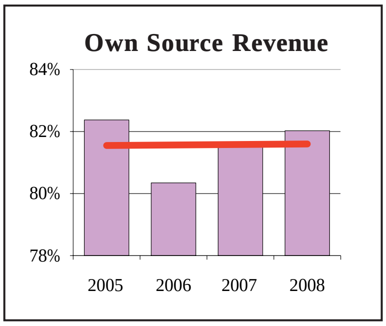
The negative Underlying results ratio in 2004-05 was the only negative year in all four years under review. This ratio helps to measure the strength of the operating result, the higher the ratio the stronger the result. The improvement was, again due to Council generating surpluses.

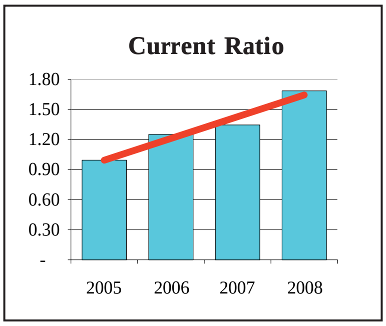




The Self financing ratio shows net operating cash flows generated by Council as a percentage of operating revenue. A positive ratio indicates Council generated operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage was consistent over the period of review. This percentage shows Council generated the majority of its operating revenue from its own sources.





The Current ratio was on or above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	6 046	6 088	5 703	5 555	5 355
User charges	2 311	1 004	1 050	948	1 302
Grants	2 413	1 730	1 673	1 751	1 491
Interest	193	357	241	235	153
Other revenue	108	446	403	422	161
Total Revenue	**11 071**	**9 625**	**9 070**	**8 911**	**8 462**
Employee costs	3 226	3 310	3 092	2 995	3 055
Borrowing costs	140	113	130	145	200
Depreciation	2 476	2 087	1 846	1 718	1 634
Other operating expenses	5 229	3 848	3 946	3 931	3 730
Total Expenses	**11 071**	**9 358**	**9 014**	**8 789**	**8 619**
Surplus (Deficit) before:	**0**	**267**	**56**	**121**	**(157)**
Capital grants	0	269	545	1 927	1 404
Capital contributions	0	204	430	338	0
Revaluation of assets	0	0	0	(1 927)	0
Assets written-off	0	0	(240)	0	0
Assets recognised for the first time	0	409	0	0	0
Surplus	**0**	**1 149**	**791**	**459**	**1 247**

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

Comment

Council recorded Surpluses in three of the four years under review, indicating that it generated sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. Low Interest and Other revenue in 2004-05 resulted in a small deficit of $0.157m. Including capital items, Council recorded a Surplus of $3.646m for the four years under review. The total Surpluses included capital grants and contributions of $5.117m, which were partly offset by a devaluation of the Queenstown water infrastructure of $1.927m in 2005-06 and a write-off of a public amenity of $0.240m demolished in 2006-07. The 2007-08 results were affected by the recognition of Granville Harbour sewerage assets, valued at $0.409m for the first time.

Rates increased $0.733m (13.7%) during the period under review. The increase for 2004-05 to 2006-07 was primarily due to an increase in the general rate levied. The increase from 2006-07 to 2007-08 was due a higher Assessed Annual Value (AAV) for the municipality offset by a lower general rate.

Grants represent, after Rates, the second major source of revenue for Council and were mainly represented by Financial Assistance Grants distributed by the State. The amount of grants received fluctuated slightly from year to year as the number of projects varied.

User charges comprised charges for works and reimbursements and remained relatively constant over the review period. Other revenue included proceeds from the running of the Visitor Information and Booking Centre and rent. The increase of $0.299m or 49% between the years under review was primarily due to increased commissions and retail sales from the Visitor Information and Booking Centre.

Employee costs were reasonably steady over the four years under review and in line with salary indexation and changes in staff numbers.

The increase in Depreciation of $0.457m (or 28%) between 2004-05 and the current year was due to the increase in value of Property, plant and equipment as a result of revaluation adjustments and capital expenditure.

Other operating expenses comprised mainly administration type expenditure and remained relatively steady over the review period.

Capital grants included $1.500m provided by the State Government towards an upgrade of the Trial Harbour Road between Zeehan and the Avebury Nickel Mine in 2005-06. Mining companies also contributed $0.972m towards the upgrade over a three year period (2005-06, $0.338m; 2006-07, $0.430m and 2007-08, $0.204m).

Both revenue and expenses for 2007-08 were below budget. The variance against budget in User charges and Other operating revenue was partly due to differences in accounting for the Visitor Information and Booking Centre operations. While the budget was prepared on a gross basis, the financial statements were prepared on a net basis, recognising the commission only. The variance in Grants was a result of some funding pledges not eventuating.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Cash	4 264	2 323	1 768	2 621
Receivables	287	480	639	1 013
Other	223	155	114	111
Total Current Assets	**4 774**	**2 958**	**2 522**	**3 745**
Payables	1 063	775	581	876
Borrowings	382	354	407	453
Provisions	680	724	693	662
Other	704	343	333	1 772
Total Current Liabilities	**2 829**	**2 196**	**2 014**	**3 763**
Working Capital	**1 945**	**762**	**508**	**(18)**
Property, plant and equipment	58 868	54 271	52 773	50 328
Other	101	128	174	221
Total Non-Current Assets	**58 969**	**54 399**	**52 948**	**50 549**
Borrowings	1 544	1 426	1 780	2 187
Provisions	34	10	40	55
Other	55	82	109	136
Total Non-Current Liabilities	**1 633**	**1 518**	**1 929**	**2 378**
Net Assets	**59 281**	**53 643**	**51 527**	**48 153**
Reserves	11 967	7 478	6 153	3 701
Accumulated surpluses	47 314	46 165	45 374	44 451
Total Equity	**59 281**	**53 643**	**51 527**	**48 153**

Comment

Total equity increased by $5.638m or 10% in the current year and by $11.128m or 23% since 2004-05. The major contributors to the increases were annual surpluses generated by Council and asset revaluation increments.

Cash increased by $1.643m during the period of review with a $1.941m increase in 2007-08. The cash balance comprised both cash at bank and short-term bank deposits. The large cash balance in the current year was mainly due to delays in Council's capital works program due to the lack of contractors.

The decrease in Receivables in each year under review was generally due to improved collection of rates and other debtors.

The increase in Property, plant and equipment of $8.540m over the four year period was primarily due to revaluations of land and buildings, capitalisation of work on the Trial Harbour Road upgrade, and other additions to roads, bridges and plant and equipment. Property, plant and equipment increased by $4.597m in 2007-08. This was mainly due to a revaluation of roads, bridges, sewerage system, water assets and other structures of $4.491m and additions of $2.777m. The increase was offset by a higher Depreciation expense of $2.040m.

Payables were consistent over the period of review except for the increase in the current year of $0.288m. This increase reflected the purchase of a new truck for $0.355m in late June 2008. This caused the Creditors ratio to increase significantly (see Financial Analysis section of this Chapter).

Borrowings decreased by $0.714m or 27% over the period of review. Borrowings decreased consistently due to repayments until 2007-08 when Council took out a new loan of $0.500m. This increase in borrowings was partly offset by repayments totalling $0.353m during the year.

Other current liabilities decreased by $1.149m or 60% because the amount in 2004-05 included a $1.500m grant in advance for the Trial Harbour Road upgrade. The increase in 2007-08 of $0.333m was mainly due to Council collecting $0.288m from the sale of properties with outstanding rates. The proceeds must be held in trust and if unclaimed within three years will be retained by Council.

Employee provisions remained fairly constant over the past four years.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 328	7 971	7 879	7 135
Cash flows from government	1 930	1 243	1 751	1 920
Payments to suppliers and employees	(7 719)	(7 035)	(7 852)	(6 650)
Interest received	255	241	228	153
Borrowing costs	(107)	(130)	(162)	(237)
Cash from operations	**2 687**	**2 290**	**1 845**	**2 321**
Capital grants and contributions	473	975	765	976
Payments for property, plant and equipment	(1 347)	(2 793)	(3 227)	(2 262)
Proceeds from sale of property, plant and equipment	8	421	217	88
Cash (used in) investing activities	**(866)**	**(1 397)**	**(2 245)**	**(1 198)**
Proceeds from borrowings	500	0	0	0
Repayment of borrowings	(380)	(338)	(453)	(268)
Cash from (used in) financing activities	**120**	**(338)**	**(453)**	**(268)**
Net increase (decrease) in cash	**1 941**	**555**	**(853)**	**854**
Cash at the beginning of the year	2 323	1 768	2 621	1 767
Cash at the end of the year	**4 264**	**2 323**	**1 768**	**2 621**

Comment

Cash increased from $1.767m at the beginning of 2004-05 to $4.264m at the end of the current year. Cash from operations increased each year, with the exception of 2005-06 when Council recorded a decrease in its operating cash flow as a result of higher payments for materials and contracts. The sharp decrease in Payments for property, plant and equipment in the current year was caused, as mentioned earlier, by delays in Council's capital works program.

Other variations in cash flow amounts reflected the comments made in previous sections of this Chapter, such as higher rates revenue due to increasing property values and general increases in operating expenditure.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		267	56	121	(157)
Operating margin	>1.0	1.03	1.01	1.01	0.98
Underlying result ratio		2.8%	0.6%	1.4%	(1.9%)
Self financing ratio		27.9%	25.2%	20.7%	27.4%
Own source revenue ($'000s)		7 895	7 397	7 159	6 971
Financial Management					
Current ratio	>1	1.69	1.35	1.25	1.00
Indebtedness ratio		20.7%	20.5%	26.9%	34.1%
Cost of debt	7.5%	6.1%	6.6%	6.0%	7.2%
Debt service ratio		5.1%	5.2%	6.9%	6.0%
Debt collection	30 days	15	26	36	53
Creditor turnover	30 days	65	32	23	44
Capital expenditure/depreciation	>100%	65%	151%	188%	138%
Capital expenditure on existing assets/depreciation	100%	58%	137%	184%	129%
Other Information					
Employee costs expensed ($'000s)		3 310	3 092	2 995	3 055
Employee costs capitalised ($'000s)		16	24	50	56
Total employee costs ($'000s)		**3 326**	**3 116**	**3 045**	**3 111**
Employee costs as % of operating expenses		35%	34%	34%	35%
Staff numbers (FTEs)		56	57	58	58
Average staff costs ($'000s)		59	55	53	54
Average leave balance per FTE ($'000s)		13	13	13	12

Comment

The Financial Performance ratios showed that Council recorded surpluses before capital items in three of the four years under review. The Operating margin was either above or very close to the benchmark of one. Underlying result ratio fluctuated between years and reflected the movements in Council's operating results.

Self-financing ratio shows the level of Council's ability to fund the replacement of assets from cash generated from operations. In other words, an entity is expected to generate enough cash from its operations to meet depreciation expense in order to provide for future capital investments. The ratio indicates an improvement in Council's ability to generate cash from operations however, the amount generated may still not be sufficient to fund future capital expenditure.

Current ratio was above the benchmark for all years under review, indicating that Council was able to meet all short-term liabilities.

Council's Debt collection ratio improved over the period under review, from 53 days in 2004-05 to 15 days in 2007-08. The higher Debt collection ratio in 2004-05 was mainly due to the inclusion of a large debt in relation to the construction of the Trial Harbour Road. The Creditor turnover ratio was abnormally high in 2007-08 due a purchase of a new truck for $0.355m in late June 2008, which was included in the Payables balance.

Capital expenditure to depreciation was below the benchmark of 100% for 2007-08 but above benchmark for all prior years under review. The current year unfavourable ratio was caused by delays in Council's capital works program. After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio showed that Council invested heavily in maintaining existing assets in all financial years other than 2007-08.

Total employee costs and Average staff costs increased over the period under review in line with salary indexation and general increases. However, when expressed as a percentage of operating expenses, employee costs remained steady over the past four years.

SMALLER RURAL COUNCILS

BREAK O'DAY COUNCIL

INTRODUCTION

Break O'Day Council was created in 1993 when the former municipalities of Portland and Fingal were amalgamated. The Break O'Day area covers approximately 3 521 square kilometres and comprises the eastern portion of the Fingal Valley and the coastal zone from the Denison River in the south, to Eddystone Point in the north. The Council services a population of approximately 6 200.

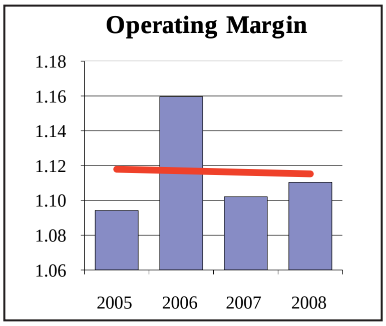
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 26 September 2008, with amended statements received on 23 October 2008. An unqualified audit report was issued on 31 October 2008.

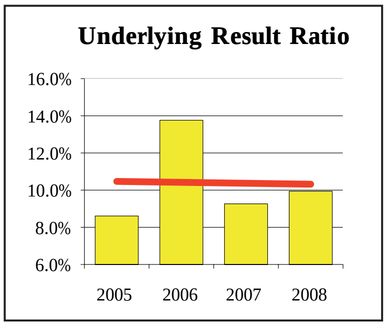
The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

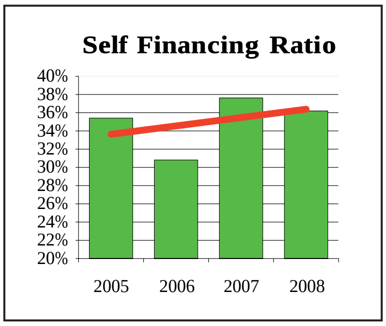
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was above the expected benchmark of one in all four years, with Council generating increased operating surpluses before capital grants.
An Operating margin above the benchmark indicates Council is generating sufficient revenue to fulfil its operating requirements including its depreciation charges. The margin was unusually high in 2005-06 due mainly to profit on the disposal of land held for resale of $0.616m.

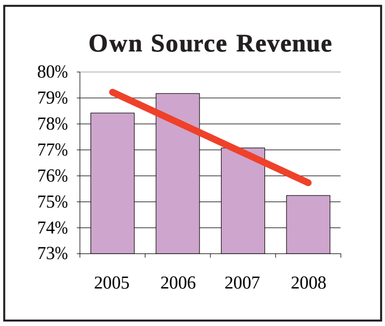


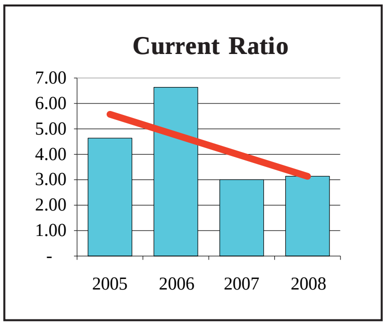
This ratio provides a measure of the strength of the operating result. In 2005-06, Council recorded an Underlying result ratio of 13.8% which represented a strong operating surplus in that year.



The Self financing ratio was above 30% in all years under review. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that Council generated operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources. However, since 2005-06, Council's Own source revenue has decreased due to an increase in the level of government tax sharing grant funding received in 2006-07 and 2007-08.





The Current ratio was well above the benchmark in all four years indicating that Council was able to meet all short-term liabilities. The ratio at 30 June 2006 was unusually high because of an increase in cash held at year end due to the receipt of grant funds for sewerage works in St Helens of $1.288m, which was unspent at balance date.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	6 651	6 666	6 005	5 544	4 851
User charges	1 071	1 199	1 171	1 065	1 139
Grants	3 119	2 951	2 383	2 078	1 885
Other operating revenue	623	1 104	836	1 290	860
Total Revenue	**11 464**	**11 920**	**10 395**	**9 977**	**8 735**
Employee costs	3 427	3 538	3 102	2 693	2 348
Borrowing costs	135	139	138	142	106
Depreciation	2 665	2 759	2 569	2 327	2 265
Other operating expenses	4 291	4 299	3 623	3 442	3 264
Total Expenses	**10 518**	**10 735**	**9 432**	**8 604**	**7 983**
Surplus before:	**946**	**1 185**	**963**	**1 373**	**752**
Capital grants	587	575	247	2 745	502
Contributions of non-current assets	0	0	31	55	0
Surplus for the year	**1 533**	**1 760**	**1 241**	**4 173**	**1 254**

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

Comment

Council recorded Surpluses before Capital grants and Contributions in all years under review indicating that it generated sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. After including Capital grants and Contributions, Council recorded surpluses totalling $8.428m for the four year period.

Rates increased by $1.815m (or 37.41%) in the period under review. The increase was mainly due to increases in general rate revenue during the period. The general rates raised were $2.660m in 2004-05 compared with $3.588m in 2007-08. The general rate levied per dollar of AAV increased from 9.43 cents in 2004-05 to 10.80 cents in 2006-07 (an increase of 14.49%). In 2007-08, the general rate levied per dollar of AAV decreased to 5.90 cents due to the significant increase in the AAV following a municipal revaluation effective 1 July 2007. Total AAV increased from $27.863m in July 2006 (date of raising rates for 2006-07) to $59.276m in July 2007, which represented an increase of 112.74%.

User charges include water by measure charges, tip fees, building and development application fees and certificate fees relating to land information and property liabilities.

The majority of Grant revenue represented the Commonwealth tax sharing grant, $2.348m (2006-07, $2.259m; 2005-06, $2.044m; 2004-05, $1.880m), which increased by 24.89% during the period under review. In 2007-08, Council also received the following funding:

- $0.171m for the Lower George River flood mitigation
- $0.150m for the Bay of Fires development project
- $0.101m for the 2006 bushfire disaster relief.

Other operating revenue increased by $0.244m (28.37%) over the period under review. The increase was primarily due to rent received in advance in 2007-08, $0.217m.

Employee costs increased by $1.190m (or 50.68%) during the period under review due mainly to:

- pay rises under Council's enterprise agreement (3.5% in July 2007 and 4.5% in July 2004, 2005 and 2006), combined with the flow on effect to employee provisions
- an increase in full-time equivalent (FTEs) staff numbers from 51 in 2004-05 to 62 in 2007-08.

During the period under review, Depreciation increased by $0.494m (or 21.81%) due primarily to the impact of asset revaluations. In particular, the increase in Depreciation in 2006-07, $0.242m, was mainly due to the impact of increased road asset values following a revaluation effective 30 June 2006.

Capital grants totalling $4.069m over the period under review included the following major items:

- Roads to Recovery and Auslink funding totalling $2.072m
- State Government funding in 2005-06 for sewerage re-use schemes of $1.288m
- funding in 2005-06 and 2006-07 for the St Helens Main Street makeover of $0.250m.

Contributions of non-current assets consisted of subdivision assets taken over by Council.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	7 277	6 768	10 811	7 358
Receivables	463	348	297	271
Inventories	73	132	147	139
Other	86	89	138	240
Total Current Assets	**7 899**	**7 337**	**11 393**	**8 008**
Payables	1 081	703	708	540
Borrowings	157	177	172	144
Provisions - employee benefits	687	706	631	657
Provisions - rehabilitation	42	18	33	0
Other	550	838	173	386
Total Current Liabilities	**2 517**	**2 442**	**1 717**	**1 727**
Working Capital	**5 382**	**4 895**	**9 676**	**6 281**
Property, plant and equipment	98 547	94 059	81 828	56 484
Other	73	0	0	0
Total Non-Current Assets	**98 620**	**94 059**	**81 828**	**56 484**
Borrowings	2 479	2 019	2 067	1 902
Provisions - employee benefits	111	65	64	28
Provisions - rehabilitation	97	97	77	110
Total Non-Current Liabilities	**2 687**	**2 181**	**2 208**	**2 040**
Net Assets	**101 315**	**96 773**	**89 296**	**60 725**
Reserves	94 816	92 996	91 653	64 185
Accumulated surpluses (deficits)	6 499	3 777	(2 357)	(3 460)
Total Equity	**101 315**	**96 773**	**89 296**	**60 725**

Comment

Total Equity rose by $40.590m over the period under review. The majority of the increase was due to:

- Surpluses of $7.174m (2007-08, $1.760m; 2006-07, $1.241m; 2005-06, $4.173m)
- asset revaluation increments of $33.416m (2007-08, $2.781m; 2006-07, $6.237m; 2005-06, $24.398m).

Cash at 30 June 2008, $7.277m, comprised cash at bank and on hand (including those held by committees) of $0.722m, deposits at call of $5.583m, short term investments of $0.786m, and cash held in trust of $0.186m. Council maintained a strong cash position over the period with an average balance of $8.054m. Cash was predominantly held to finance reserves totalling $4.374m at that date. Those reserves were retained for employee benefits and future capital works relating to:

- replacement of road and bridge assets
- rehabilitation of waste transfer areas
- Council properties, buildings and recreational properties
- water and water re-use schemes.

The cash held in trust at 30 June 2008 of $0.186m related to unspent funds received in relation to the December 2006 East Coast bushfires. At 30 June 2007, the cash held in trust totalled $0.453m, which included $0.419m related to the East Coast bushfires and $0.034m relating to funds received for the replacement of the Davis Gully Bridge. Further details regarding the bushfire funding are provided at the end of this section.

Receivables balance increased by $0.192m from 30 June 2005 to 30 June 2008. The main increase was in 2007-08, $0.115m, which was primarily due to increased rate debtors of $0.111m. A number of properties were subsequently sold by Council and outstanding rates recovered.

Property, plant and equipment increased by $42.063m (74.47%) over the period under review. The increase was primarily due to the revaluation of a number of asset classes, resulting in asset revaluation increments totalling $33.416m. This also resulted in a corresponding increase to the asset revaluation reserve, accounting for part of the upward movement in Reserves. The major revaluation increment related to roads and streets in 2005-06 and amounted to $24.398m.

Council applies the revaluation model to the majority of its infrastructure assets, which results in assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets and applies indices in the intervening periods where movements are considered material. Construction indices issued by the Australian Bureau of Statistics are used for this purpose.

Payables increased by $0.378m in 2007-08 due primarily to two large capital creditors related to road works and waste water treatment plant works.

Total Borrowings increased by $0.590m during the period under review due to principal loan repayments of $0.793m and new borrowings of $1.383m. A new loan borrowing drawn down in 2007-08 of $0.900m was used to fund the final stage of the St Helens Waste Water Treatment Plant.

The Provision for rehabilitation relates to costs associated with Council's refuse sites and quarries.

Other current liabilities included:

- bushfire trust funds, $0.186m, (2006-07, $0.419m). This balance was offset by cash funds held. Further details are provided at the end of this section.
- retentions held in relation to St Helens Waste Water Treatment Plant contract, $0.209m, (2006-07, $0.230m)
- funds held as a result of the sale of properties for unpaid rates, $0.085m, (2006-07, $0.091m).

Bushfire Funding

During 2006-07 Council received $0.419m to administer Community Recovery Initiatives in relation to the December 2006 East Coast bushfires. These funds formed part of the total financial assistance distribution administered by the Red Cross, Department of Economic Development and Tourism and Council.

The trust funds did not form part of Council operations and were to be distributed in accordance with the Community Recovery Fund Deed of Agreement. The majority of the funds were received from the State government, $0.416m, with the balance comprising donations from various sources.

The following table shows the Income Statement relating to the Community Recovery Grant funds for the period ended 30 June 2008. The total income of $0.419m was recorded in Council's cash balance and as a liability (trust funds held) at 30 June 2007. A total of $0.233m was expended during 2007-08 on projects and activities related to the recovery of the community from the bushfires, leaving available funds of $0.186m at 30 June 2008. As noted previously, these funds were recorded in Council's cash balance and as a liability at that date.

Community Recovery Grant for the December 2006 East Coast Bushfires
Income Statement for the Period Ended 30 June 2008

Income		**$'000s**
	Grants	416
	Donations	3
Total Income		**419**
Expenditure		
	Community Recovery Funding Tier 2 - F Bradley	10
	Community Recovery Funding Tier 2 - Blue Seas	7
	Community Recovery Funding Tier 2 - White Sands	10
	Recovery Engagement Strategy	1
	Local Engagement in Recovery Activities	8
	St Marys Emergency Services Centre	49
	Beaumaris hinterland fuel risk reduction	3
	Fire Defence Preparation and Recovery Info Sheets	1
	Fire Fighter Recognition	1
	Fire Control Property Management Planning	7
	Scamander Mouth Public Amenities Part A	29
	Cornwall Park Amenities - Shelter and BBQ	22
	Resident's fire stories publication	10
	Disaster Recovery Co-Ordinator Expenses	75
Total Expenditure		**233**
Available Funds		**186**

The trust funds received by Council were utilised, as approved by the Affected Area Recovery Committee (AARC), for the benefit of the Break O'Day community affected by the bushfires.

AARC was established to develop and co-ordinate a recovery plan and to assist Local Government in the long-term recovery of communities impacted by the East Coast bushfires of December 2006 and to facilitate the effective coordination of recovery through information sharing and collective decision-making.

AARC adopted a Recovery Plan and part of the plan was to form a Community Recovery Reference Group (CRRG) and appoint a Disaster Recovery Co-ordinator. The Recovery Plan was developed following community planning forums and outlined a number of broad strategies which targeted issues raised by the community. The CRRG was formed to assist in the recovery process and was made up of community members.

In consultation with the Disaster Recovery Co-ordinator, the CRRG determined what projects should be put forward to AARC for funding approval. Once AARC had approved a project, either the Disaster Recovery Co-ordinator or Council were responsible for the project until completion.

The remaining trust funds, $0.186m, are due to be expended on the committed projects listed in the table below. All projects are due to be completed in 2008-09, except for the Beaumaris to Scamander Multi Use Path, as the acquisition of land required for construction of the path is yet to be finalised.

Committed Project Balances

		$'000s
	Community Recovery Funding Tier 2 - Murfet	10
	Local Engagement in Recovery Activities	9
	Fire Recovery Event	4
	Economic Recovery - Event support	2
	St Marys Emergency Services Centre - GST Component - TFS	5
	Community Training and Skill Development	5
	2 x Sat Phones	2
	Cornwall Park Amenities - DA fees	1
	Four Mile Creek Management Plan	5
	Four Mile Creek Playground Fence	10
	Four Mile Creek Outdoor Noticeboard	1
	Four Mile Creek Gravel Pathway	3
	St Marys Pergola	13
	Fire Defence Preparation and Recovery Info Sheets	1
	Beaumaris to Scamander Multi Use Path Planning (in Wages)	14
	Beaumaris to Scamander Multi Use Path Construction	85
Total Committed Balances		**169**
Balance of Funds to be Expended		**17**

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 996	8 476	7 397	6 799
Cash flows from government	2 951	2 383	2 078	1 885
Payments to suppliers and employees	(8 059)	(7 443)	(6 815)	(5 846)
Interest received	567	632	557	362
Borrowing costs	(141)	(137)	(143)	(107)
Cash from operations	**4 314**	**3 911**	**3 074**	**3 093**
Capital grants and contributions	575	247	2 745	502
Payments for property, plant and equipment	(4 718)	(8 610)	(3 516)	(2 491)
Proceeds from sale of property, plant and equipment	165	0	956	649
Cash from (used in) investing activities	**(3 978)**	**(8 363)**	**185**	**(1 340)**
Proceeds from borrowings	900	128	355	616
Repayment of borrowings	(460)	(172)	(161)	(162)
Cash from (used in) financing activities	**440**	**(44)**	**194**	**454**
Net increase (decrease) in cash	**776**	**(4 496)**	**3 453**	**2 207**
Cash at the beginning of the year	6 315	10 811	7 358	5 151
Cash at the end of the year	**7 091**	**6 315**	**10 811**	**7 358**

Comment

Cash at 30 June 2008 (refer Balance Sheet section of this Chapter) was $7.277m. This balance included trust funds of $0.186m ($0.453m, 2006-07) which are not recorded in the above cash analysis.

Council generated positive cash inflows from operations in all years under review. Cash from operations increased by $1.221m from 2004-05 to 2007-08, predominantly due to increased grant funding of $1.066m.

Payments for property, plant and equipment over the period totalled $19.335m, which included the following capital projects:

- St Helen's Waste Water Treatment Plant
- St Helens Main Street makeover
- road reseals and reconstructions
- bridge replacements
- plant and equipment purchases.

Council recorded an overall increase in cash of $1.940m. This was a result of increased funding from government grants as well as a net increase in borrowings of $1.044m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 185	963	1 373	752
Operating margin	>1.0	1.11	1.10	1.16	1.09
Underlying result ratio		9.9%	9.3%	13.8%	8.6%
Self financing ratio		36.2%	37.6%	30.8%	35.4%
Own source revenue ($'000s)		8 969	8 012	7 899	6 850
Financial Management					
Current ratio	>1	3.14	3.00	6.64	4.64
Indebtedness ratio		30.0%	27.2%	28.0%	29.8%
Cost of debt	7.5%	5.8%	6.2%	6.6%	5.8%
Debt service ratio		5%	3%	3%	3%
Debt collection	30 days	21	18	16	17
Creditor turnover	30 days	41	16	31	29
Capital expenditure/depreciation	>100%	171%	335%	151%	110%
Capital expenditure on existing assets/depreciation	100%	127%	91%	24%	77%
Other Information					
Employee costs expensed ($'000s)		3 538	3 102	2 693	2 348
Employee costs capitalised ($'000s)		333	372	242	326
Total employee costs ($'000s)		**3 871**	**3 474**	**2 935**	**2 674**
Employee costs as % of operating expenses		33%	33%	31%	29%
Staff numbers (FTEs)		64	60	52	51
Average staff costs ($'000s)		60	58	56	53
Average leave balance per FTE ($'000s)		12	13	13	14

Comment

The Financial Performance ratios show that Council recorded operating surpluses in all years under review, resulting in Operating margins above benchmark and positive Underlying result ratios. Own source revenue gradually increased over the period under review in line with increased Rates and User charges noted in the Income Statement section of this Chapter. However, when expressed as a percentage of total revenue, Own source revenue declined since 2005-06, due to increased level of government tax sharing grant funding received in 2006-07 and 2007-08.

Current ratio was above the benchmark in all years indicating it was able to meet all short-term liabilities when they fell due.

Council's Indebtedness ratio, Cost of debt and Debt service ratio were fairly consistent across the period under review, with the Cost of debt below benchmark in all years.

Debt collection was below benchmark for all years under review which reflected Council's good debt recovery procedures.

Creditor turnover was below or only slightly above benchmark in all years except for 2007-08 (41 days). The increase was due to the two large capital creditors referred to previously in the Balance Sheet section. It is noted that Council has a policy of paying outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was above 100% for all years reported, which reflected Council's significant investment in property, plant and equipment.

After removing the effect of expenditure of new assets, Council's Capital expenditure on existing assets to depreciation ratio was below benchmark in all years except for 2007-08, indicating that Council may not have invested sufficiently in maintaining existing assets.

Employee costs as a percentage of operating expenses and Average leave per FTE were fairly consistent throughout the period under review. Average staff costs gradually increased over the period under review due mainly to pay rises under Council's Enterprise Agreement, as noted previously.

CENTRAL HIGHLANDS COUNCIL

INTRODUCTION

The Central Highlands area was proclaimed a municipality under the *Local Government Act 1993* and combined the former Municipalities of Hamilton and Bothwell. The population serviced by Council is approximately 2 315 people with the Municipality covering an area of 7 976 square kilometres. Council is one of the smallest councils in terms of number of rate payers with the responsibility for servicing the second largest geographic area of all the Tasmanian councils.

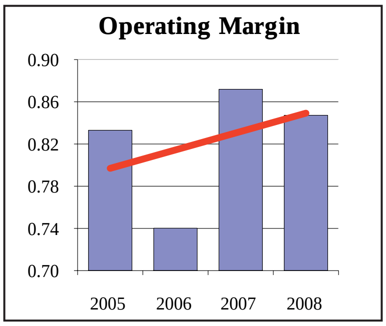
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2008 with amended statements received on the 25 November 2008. The unqualified audit report was issued on 26 November 2008.

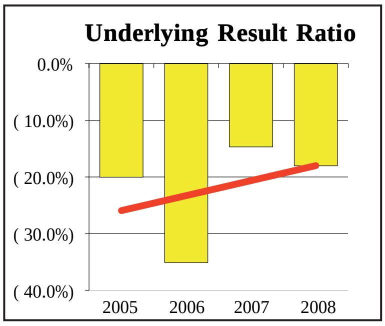
The audit was completed with satisfactory results with no major items outstanding.

FINANCIAL RESULTS

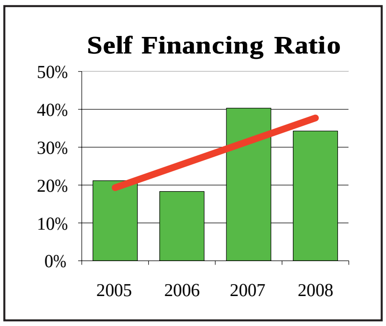
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was below the expected benchmark of one in all four years but was improving. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

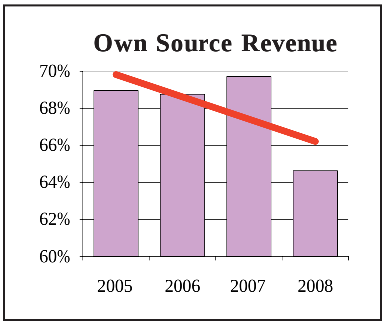


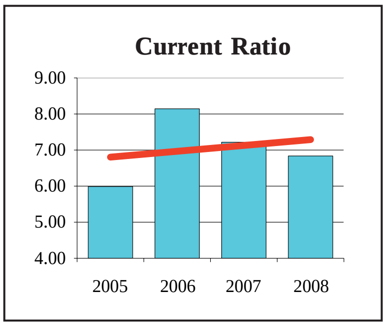
The negative Underlying results ratio also improved. It is noted that Council budgeted for a deficit in the 2007-08 financial year. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.



This ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that Council is generated operating cash flows which contributed towards its capital expenditure programs.

The Own source revenue percentage shows Council is generating the majority of its operating revenue from its own sources. However, this is declining with the percentage own source revenue being 65% in 2007-08 as against 69% in 2004-05 which indicates Council is increasing its reliance on government grants.





The Current ratio was above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	**2007-08** Actual $'000s	**2006-07** Actual $'000s	**2005-06** Actual $'000s	**2004-05** Actual $'000s
Rates	2 635	2 685	2 563	2 140	2 067
User charges	638	582	696	844	1 081
Grants	2 101	2 038	1 770	1 752	1 722
Other operating revenue	454	457	816	872	678
Total Revenue	**5 828**	**5 762**	**5 845**	**5 608**	**5 548**
Employee costs	1 401	1 787	1 542	1 566	1 626
Borrowing costs	0	0	3	3	3
Depreciation	3 185	3 002	2 978	3 177	2 482
Other operating expenses	4 287	2 012	2 181	2 830	2 549
Total Expenses	**8 873**	**6 801**	**6 704**	**7 576**	**6 660**
Surplus (Deficit) before:	**(3 045)**	**(1 039)**	**(859)**	**(1 968)**	**(1 112)**
Capital Grants	0	382	371	789	2 721
Contributions of non current assets	0	42	162	0	0
Surplus (Deficit)	**(3 045)**	**(615)**	**(326)**	**(1 179)**	**1 609**

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

Comment

Council recorded Deficits before Capital grants and Contributions in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. After including Capital grants and Contributions, Council recorded a surplus in 2004-05 and a deficit in the remaining years.

Rates increased by $0.618m (or 30%) over the four year review period. The largest increase was in 2006-07 of $0.423m (or 20%) after properties in the Municipality were re-valued. Rates increased by $0.122m (or 5%) in 2007-08. This was due to the municipal revaluation and the AAV increasing by $7.933m (or 33%). This increase was offset by a decrease in the general rate from 0.058 cents to 0.044 cents (or 24%) in 2007-08.

User charges decreased by $0.499m (or 46%) over the period of review. This revenue was derived from the hire of Council equipment which experienced decreased demand due to increased charges that better reflect full cost recovery. The decrease is also attributable to the reduction in heavy vehicle registration contribution of $0.120m received by Council.

Grants, primarily Commonwealth tax sharing grants was consistent over the period of review. In 2007-08 Council received a one-off grant of $0.500m, to complete works on the Ellendale Road.

Other operating revenue remained fairly consistent over the period of review with the exception of a $0.359m decrease in 2007-08. The previous year included a refund retention bond for $0.304m.

Employee costs increased by $0.245m (or 16%) from 2006-07, due to new award increases, casual staff increases and termination payments.

Depreciation, after a large increase in 2005-06 due to a revaluation of assets was reasonably consistent over the last three years.

Other operating expenses fell over the period of review by $0.537m, (or 21.1%) with only 2005-06 showing an increase due to a one-off item of $0.485m, for impairment charges in relation to funds owing to Council by a debtor.

Council budgeted for a $3.045m deficit in 2007-08. This was due to Council holding funds in 2006-07 for shacksite roadwork's in 2007-8 and budgeting $0.110m for plant assets to be funded from cash reserves. Both actual revenue and expenses were below budget. The variance in Other expenses is predominately due to work budgeted underspent in the areas of private works and road maintenance.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	5 091	5 778	4 590	4 357
Receivables	381	424	362	362
Inventories	36	22	33	23
Other	98	113	97	97
Total Current Assets	**5 606**	**6 337**	**5 082**	**4 839**
Payables	281	395	154	260
Borrowings	0	0	14	14
Provisions - employee benefits	539	483	456	479
Other	0	0	0	55
Total Current Liabilities	**820**	**878**	**624**	**808**
Working Capital	**4 786**	**5 459**	**4 458**	**4 031**
Property, plant and equipment	116 203	100 239	93 480	93 570
Other	68	70	109	141
Total Non-Current Assets	**116 271**	**100 309**	**93 589**	**93 711**
Borrowings	0	0	0	14
Provisions - employee benefits	31	21	24	42
Total Non-Current Liabilities	**31**	**21**	**24**	**56**
Net Assets	**121 026**	**105 747**	**98 023**	**97 686**
Reserves	92 296	77 751	70 303	69 235
Accumulated surpluses	28 730	27 996	27 720	28 451
Total Equity	**121 026**	**105 747**	**98 023**	**97 686**

Comment

Total Equity increased by $14.545m from 2006-07 and by $23.061m since 30 June 2005. The main reasons for the increases were revaluation of roads, drains, water schemes and bridges. The increases were offset by a $2.120m deficit in the last three years of the period under review.

Cash at 30 June 2008 comprised cash at bank and on hand of, $0.768m and short term investments of $4.323m. Council maintained a relatively strong cash and investment position over the period with an average balance of $4.954m. Cash is committed to the following projects, Roads to Recovery $0.356m, Shacksites $0.078m, Community water grant $0.019 and Economic development plan $0.012m.

Receivables, Inventories and Other current assets were reasonably consistent over the period of review.

Payables balances fluctuated over the period of review which was primarily due to timing differences in account payments at year end.

Provisions for employee entitlements were also reasonably consistent over the review period with an increase of only, $0.049m, (or 10%) from 2004-05.

Property, plant and equipment increased $22.633m (or 24%) over the review period. Council applies a revaluation model to the majority of its infrastructure assets, which resulted in the assets being recorded at fair value based on depreciated replacement cost. To maintain accurate valuations, Council undertakes a revaluation of these assets on a regular basis. An independent revaluation was performed in 2007-08 and Roads, Drainage, Water and Sewerage and Bridges increased by $15.894m, and a revaluation of Roads in 2006-07 resulted in an increase of $7.264m.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 936	4 027	4 115	4 142
Cash flows from Government	1 979	1 770	1 752	1 722
Payments to suppliers and employees	(4 379)	(3 783)	(5 059)	(4 918)
Interest received	439	346	222	231
Borrowing costs	0	(3)	(3)	(3)
Cash from operations	**1 975**	**2 357**	**1 027**	**1 174**
Capital grants and contributions	382	371	789	2 721
Proceeds from investments	0	0	0	7
Payments for investments				0
Payments for property, plant and equipment	(3 296)	(1 639)	(1 594)	(3 029)
Proceeds from sale of property plant and equipment	252	97	25	207
Cash (used in) investing activities	**(2 662)**	**(1 171)**	**(780)**	**(94)**
Proceeds from borrowings	0	16	0	0
Repayment of borrowings	0	(14)	(14)	(15)
Cash from (used in) financing activities	**0**	**2**	**(14)**	**(15)**
Net increase (decrease) in cash	**(687)**	**1 188**	**233**	**1 065**
Cash at the beginning of the year	5 778	4 590	4 357	3 292
Cash at the end of the year	**5 091**	**5 778**	**4 590**	**4 357**

Comment

Cash decreased by $0.687m, (or 12%) from 2006-07, but increased by $1.799m, (or 55%), over the period of review.

Cash from operations fell by $0.382m, (or 16%) from 2006-07 but was positive over all years under review with an excess of operating revenue, $24.681m, over expenditure, $18.481m of $6.533m or (5.6%).

Reasons for movements in Receipts from customers and Cash from Government have been discussed in the Income Statement section. Payments to suppliers and employees increased by $0.596m (or 16%) from 2006-07 and fluctuated over the review period. The increase is mainly due to increased maintenance and minor works.

Payments for property, plant and equipment totalled $9.558m over the review period with payments increasing by $1.657m from 2006-07. This was primarily due to increased plant purchases and road expenditure.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(1 039)	(859)	(1 968)	(1 112)
Operating margin	>1.0	0.85	0.87	0.74	0.83
Underlying result ratio		(18.0%)	(14.7%)	(35.1%)	(20.0%)
Self financing ratio		34.3%	40.3%	18.3%	21.2%
Own source revenue ($'000s)		3 724	4 075	3 856	3 826
Financial Management					
Current ratio	>1	6.84	7.22	8.14	5.99
Indebtedness ratio		0.8%	0.5%	0.6%	1.5%
Cost of debt	7.5%	0.00%	42.86%	14.29%	8.45%
Debt service ratio		0.00%	0.19%	0.20%	0.22%
Debt collection	30 days	43	47	44	42
Creditor turnover	30 days	30	65	20	24
Capital expenditure/depreciation	>100%	110%	55%	50%	122%
Capital expenditure on existing assets/depreciation	100%	97%	43%	25%	74%
Other Information					
Employee costs expensed ($'000s)		1 787	1 542	1 566	1 626
Employee costs capitalised ($'000s)		70	44	34	46
Total employee costs ($'000s)		**1 857**	**1 586**	**1 600**	**1 672**
Employee costs as % of operating expenses		26%	23%	21%	24%
Staff numbers (FTEs)		33	33	34	36
Average staff costs ($'000s)		56	48	47	46
Average leave balance per FTE ($'000s)		17	15	14	14

Comment

The low Operating margins, comparative to the Benchmark of one, shown in each year under review was due to Council's operating deficit, discussed in the previous sections of this Chapter. Deficits also impacted negatively upon the Underlying results ratio.

Self financing ratio decreased from 2006-07, resulting from the lower Cash from operations as discussed previously. Own source revenue, which excludes government funding, also decreased from 2006-07 and is the lowest it has been over the four year review period.

The Current ratio indicated Council was able to meet all its short-term liabilities, is well above the benchmark for all years under review.

Debt collection improved from 2006-07 however remains above the benchmark.

Creditor turnover decreased markedly from 2006-07 reflecting more prompt payments to creditors and is reflected in the lower Payables balance stated in the Balance Sheet.

Capital expenditure/depreciation and Capital expenditure on existing assets/depreciation ratios improved markedly from 2006-07. In both cases this reflected the large increase, in 2007-08 of payments made for Property, plant and equipment assets noted in the Cash Position section. These ratios assist to define whether Council is maintaining its present infrastructure capability by investing in, or renewing its non-current assets. The majority of Council's non-current assets are infrastructure assets including roads, water, sewerage, drainage and footpaths, kerbs gutters.

Employee costs expensed rose by $0.245m (or 16%) from 2006-07 due to factors discussed in the Income Statement section and $0.161m (or 16%) over the period of review. The rise in employee costs also increased the Employee costs as a % of operating expense ratio and Average staff costs. The 17% increase in average staff costs in 2007-08 is due new award increases, casual staff increases and termination payments.

FLINDERS COUNCIL

INTRODUCTION

The Flinders Council originates from the Flinders Municipality, which was established in 1907. Flinders Island is the largest of the Furneaux group of islands and is about 29 kilometres wide at its widest point and 64 kilometres long, an area of 1 994 square kilometres. The Council services a permanent population of approximately 870 people plus additional absentee ratepayers.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 3 December 2008 and an unqualified audit report was issued on 8 December 2008.

Council did not comply with section 84 of the *Local Government Act 1993* in that the financial statements were not prepared and certified by the General Manager within 90 days after the end of the financial year.

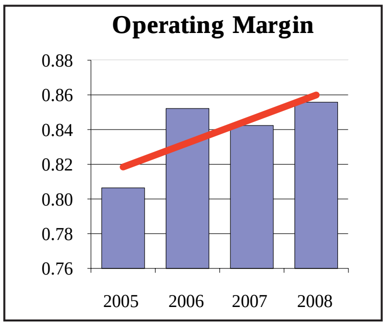
Council continues to incur deficits before capital grants. This suggests that Council is not raising income at levels sufficient to cover all of its operating costs including depreciation. While Council currently has a healthy net working capital position (see Balance Sheet section), in the long term, operating deficits are not sustainable and Council needs to consider ways to increase revenues or contain costs.

Council had issues surrounding its general accounting controls. Reconciliations of subsidiary ledgers were not being completed and reviewed on a timely basis. Electronic Fund Transfer payments and fund transfers were not being appropriately authorised.

Apart from these matters, the audit was completed with satisfactory results with no other major issues outstanding.

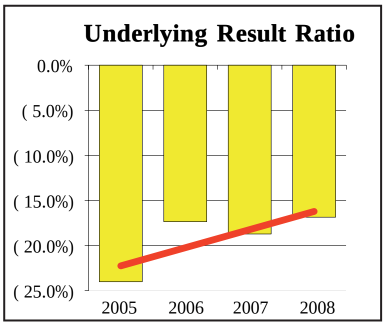
FINANCIAL RESULTS

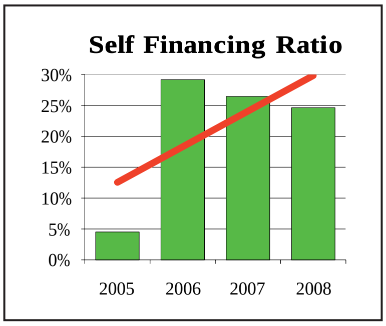
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin, while improving, was below the expected benchmark of one in all four years, which represents operating deficits before capital grants.
An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

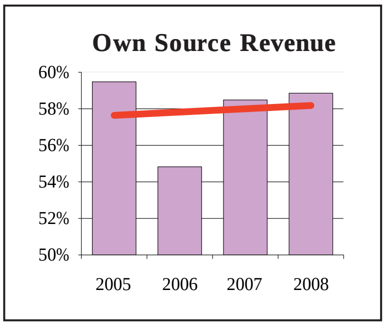
The negative Underlying results ratio decreased over the period indicating that operating deficits before capital grants are decreasing when compared with total operating revenue. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a deficit. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

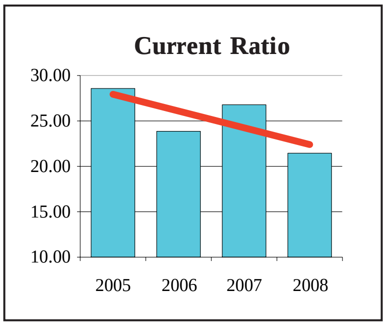




Other than in 2004-05, the Self financing ratio, was consistent at around 27% over the period under review. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that a council is generating operating cash flows which are contributing towards its capital expenditure programs.

The Own source revenue percentage shows Council generated significant operating revenue from its own sources. However, it remains dependent on grants to the extent of 41% (2004-05, 41%).





The Current ratio was well above the benchmark of one in all four years indicating that Council was able to meet all short-term liabilities. This was due mainly to the large cash investments held at year end.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	913	973	887	749	714
User charges	1 217	665	722	794	744
Grants	1 002	1 487	1 380	1 479	1 247
Other operating revenue	230	486	295	247	287
Gain on disposal of assets	0	3	40	5	85
Total Revenue	**3 362**	**3 614**	**3 324**	**3 274**	**3 077**
Employee costs	1 312	1 227	1 184	1 009	989
Depreciation	1 496	1 416	1 417	1 357	1 367
Other operating expenses	1 925	1 580	1 345	1 476	1 460
Total Expenses	**4 733**	**4 223**	**3 946**	**3 842**	**3 816**
(Deficit) before:	**(1 371)**	**(609)**	**(622)**	**(568)**	**(739)**
Capital grants	0	0	1 955	0	0
Surplus (Deficit)	**(1 371)**	**(609)**	**1 333**	**(568)**	**(739)**

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

Comment

Council recorded Deficits before Capital grants in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. With the inclusion of a Capital grant of $1.955m in 2006-07 Council recorded a surplus of $1.333m. The main movements in revenue and expense items are discussed below.

Rates increased by $0.259m (or 36.3%) during the four years under review. The increase was mainly due to increases in general rate revenue over the period. Rates increased in 2007-08 by $0.086m (or 9.7%), which was due to the increase in the general rate from 6.7 cents to 6.9 cents. In 2007-08 a $0.948m (or 8%) increase in the AAV followed a municipal revaluation effective 1 July 2007.

Grants increased by $0.240m (or 19.2%) during the four years under review. The increase in 2007-08 was mainly due to a $0.053m increase in the Community and Development grant and a $0.031m increase in the Roads and Bridges Management grant.

Other operating revenue was relatively consistent during the four years under review. The increase of $0.191m between 2006-07 and 2007-08 was mainly due to an increase in interest received.

Employee costs increased by $0.238m (or 19.4%) during the four years under review. Employee costs increased by $0.043m between 2006-07 and 2007-08 mainly due to Council approving a new workplace agreement in late 2007.

Other operating expenses were relatively consistent during the four years under review. The increase of $0.235m in 2007-08 was mainly due to an increase in the cost of materials and supplies.

A capital grants from the Department of Premier and Cabinet (DPAC) of $1.955m was received in 2006-07. This funding was a one-off receipt for the sealing of the airport runway, Whitemark Hall renovation, solid-waste infrastructure and Lady Barron waste water improvement.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	1 799	392	829	442
Receivables	242	255	187	193
Investments	5 129	6 210	4 149	3 980
Inventories	245	288	429	487
Other	114	33	61	70
Total Current Assets	**7 529**	**7 178**	**5 655**	**5 172**
Payables	68	74	99	29
Provisions – employee benefits	126	159	113	118
Other	157	35	25	34
Total Current Liabilities	**351**	**268**	**237**	**181**
Working Capital	**7 178**	**6 910**	**5 418**	**4 991**
Property, plant and equipment	34 940	34 219	34 341	35 381
Other	0	25	88	0
Total Non-Current Assets	**34 940**	**34 244**	**34 429**	**35 381**
Provisions – employee benefits	24	24	39	19
Provisions for quarry pit reinstatement	150	150	150	128
Total Non-Current Liabilities	**174**	**174**	**189**	**147**
Net Assets	**41 944**	**40 980**	**39 658**	**40 225**
Reserves	5 616	4 043	4 054	4 111
Accumulated surpluses	36 328	36 937	35 604	36 114
Total Equity	**41 944**	**40 980**	**39 658**	**40 225**

Comment

Total Equity increased by $1.719m over the period under review primarily due to:

- the asset replacement reserve increment between 2006-07 and 2007-08 of $1.644m
- Council Surplus of $1.333m in 2006-07, off-set by,
- Deficits of $1.177m (2005-06, deficit of $0.568m and 2007-08, deficit of $0.609m).

Cash increased by $1.357m during the period of review with a $1.407m increase between 2006-07 and 2007-08. The cash balance comprises Cash at bank, Deposits at call and funds retained for Special Committees. The increase in 2007-08 was mainly due to capital grant funds being transferred from investments to cash at bank. The balance of $1.799m at 30 June 2008 included $1.060m was committed to grants.

Investments increased by $1.149m during the period of review with a $1.081m decrease between 2006-07 and 2007-08 for the reason outlined in the previous paragraph. See further comment in the Cash Position section. The $5.129m at 30 June 2008 was invested primarily in term deposits and these funds were committed to grants.

Property plant and equipment remained relatively consistent over the four years under review with a slight decrease of $0.441m. Property, plant and equipment increased by $0.721m between 2006-07 and 2007-08. This was predominately due to additions of $0.664m and revaluations of land and buildings of $1.627m. These increases were offset by depreciation $1.416m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	2 190	1 660	1 689	1 574
Cash flows from Government	986	1 380	1 479	1 359
Interest received	446	295	247	287
Payments to suppliers and employees	(2 732)	(2 456)	(2 460)	(3 081)
Cash from operations	**890**	**879**	**955**	**139**
Capital grants	0	1 955	0	0
Proceeds from investments	1 081	0	0	175
Payments for investments	0	(2 061)	(169)	0
Payments for property, plant and equipment	(664)	(1 250)	(404)	(462)
Proceeds from sale of property, plant and equipment	100	40	5	85
Cash from (used in) investing activities	**517**	**(1 316)**	**(568)**	**(202)**
Net increase (decrease) in cash	**1 407**	**(437)**	**387**	**(63)**
Cash at the beginning of the year	392	829	442	505
Cash at the end of the year	**1 799**	**392**	**829**	**442**

Comment

Cash at 30 June 2008 was $1.294m greater than the position at 30 June 2004. This was mainly due to positive Cash from operations totalling $2.863m over the period and Capital grant of $1.955m. These funds were utilised to invest $0.974m in investments and $2.550m in Property, plant and equipment.

The Cash inflow for 2007-08 was $1.407m. This was mainly due to the transfer of unspent capital grant funds from investments to the cash at bank.

Capital grants of $1.955m received in 2006-07 was the one-off payment from DPAC previously mentioned.

Payments for investments increased by $1.892m during the period 2005-06 to 2006-07 primarily due to funds received from DPAC for infrastructure works not completed at that time.

Payments for property, plant and equipment increased by $0.846m during the period 2005-06 to 2006-07 due to the payments in relation to the airport runway.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(609)	(622)	(568)	(739)
Operating margin	>1.0	0.86	0.84	0.85	0.81
Underlying result ratio		(16.9%)	(18.7%)	(17.3%)	(24.0%)
Self financing ratio		24.6%	26.4%	29.2%	4.5%
Own source revenue ($'000s)		2 127	1 944	1 795	1 830
Financial Management					
Current ratio	>1.0	21.45	26.78	23.86	28.57
Indebtedness ratio		8.2%	9.0%	10.5%	8.0%
Debt collection	30 days	52	58	44	48
Creditor turnover	30 days	16	20	24	7
Capital expenditure/depreciation	>100%	47%	88%	30%	34%
Capital expenditure on existing assets/depreciation	100%	45%	86%	23%	34%
Other Information					
Employee costs expensed ($'000s)		1 224	1 181	975	989
Employee costs capitalised ($'000s)		3	3	34	0
Total employee costs ($'000s)		**1 227**	**1 184**	**1 009**	**989**
Employee costs as % of operating expenses		29%	30%	26%	26%
Staff numbers (FTEs)		23	23	21	23
Average staff costs ($'000s)		53	51	48	44
Average leave balance per FTE ($'000s)		7	8	7	6

Comment

Low Operating margins over the period under review reflect the deficits in the last four years.

Current ratio was well above the benchmark for the four years under review because of large cash investments held.

Debt collection was consistently above the benchmark of 30 days due to long-term rate debtors and slow collection of sundry debtors.

Capital expenditure/depreciation ratio was low in 2004-05 and 2005-06. In 2006-07 this ratio improved due to the commencement of airport runway works. However, the ratio dropped in 2007-08. This may indicate that Council is not maintaining its present infrastructure capability by reinvesting in, or renewing, long-lived infrastructure assets.

GLAMORGAN SPRING BAY COUNCIL

INTRODUCTION

The Glamorgan Spring Bay area was proclaimed a municipality under the *Local Government Act 1993* and combined the former Municipalities of Glamorgan and Spring Bay. The municipality stretches from Runnymede in the south to the Denison River just north of Bicheno. The population serviced by Council is approximately 4 400 and covers an area of 2 522 square kilometres. However, during the summer months the population increases threefold, especially upon the return of owners of holiday homes and caravans.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

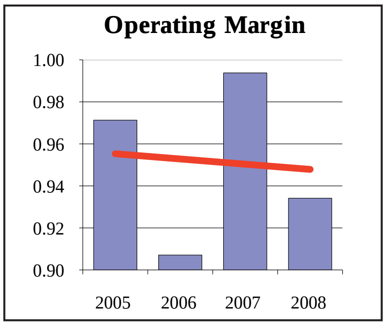
Signed financial statements were received on 29 September 2008, with an amended version of the financial statements received on 20 November 2008. An unqualified audit report was issued on 21 November 2008.

Council continued to incur deficits before capital grants. This suggests that Council was not raising income at levels sufficient to cover all of its operating costs including depreciation. in the long term, operating deficits are not sustainable and Council needs to consider ways to increase revenues or contain costs.

Apart from this matter, the audit was completed with satisfactory results.

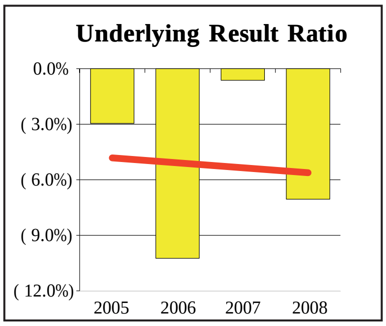
FINANCIAL RESULTS

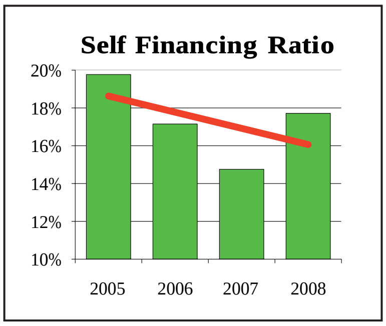
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was below the expected benchmark of one in all four years and was declining, which represented increased operating deficits before capital grants. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

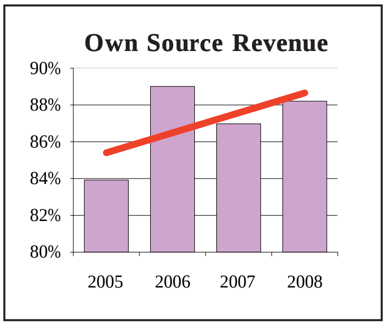
The negative Underlying results ratios over the period reflect the operating deficits before capital grants in all four years under review. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a surplus in 2007-08. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result and then meet its budget expectation.

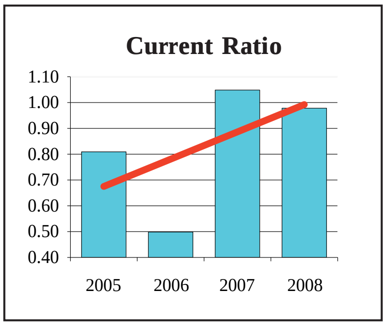




Council generated positive Self financing ratios of between 14 and 20% over the four year period under review. The ratio shows net operating cash flows generated by Council as a percentage of operating revenue. A positive ratio indicates Council generated operating cash flows which are contributed towards its capital expenditure programs. However, while the ratio each year was positive, cash flows generated were below the depreciation expense.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 12% (2004-05, 16 %).





The Current ratio was below the benchmark of one in three out of the four years indicating that a council may experience difficulty in meeting all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	6 317	6 720	6 532	5 683	5 390
User charges	1 266	820	697	539	586
Grants	1 874	1 201	1 270	956	1 317
Other operating revenue	1 579	1 443	1 253	1 521	897
Total Revenue	**11 036**	**10 184**	**9 752**	**8 699**	**8 190**
Employee costs	2 814	2 977	3 111	3 004	2 544
Borrowing costs	158	158	176	196	191
Depreciation	1 935	1 911	1 931	1 898	1 528
Other operating expenses	5 191	5 856	4 595	4 492	4 169
Total Expenses	**10 098**	**10 902**	**9 813**	**9 590**	**8 432**
Surplus (Deficit) before:	**938**	**(718)**	**(61)**	**(891)**	**(242)**
Capital grants	0	1 139	757	959	1 071
Contributions of non-currents assets	0	0	0	57	0
Surplus	**938**	**421**	**696**	**125**	**829**

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

Comment

Council recorded Deficits before Capital grants and Contributions in all years under review, indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. After including Capital grants and Contributions, Council recorded surpluses for the four years totalling $2.071m. The operating results for 2007-08 was well below Estimate. The main movements in revenue and expense items are discussed below.

Rates increased by $1.330m, (or 24.7%), during the period under review. The additional rates income is primarily due to a 26.26%, or $0.849m, increase in the general rating charge in 2006-07. During 2007-08 the general rating charge was split into two categories, namely 5.36c of the property's assessed annual value (AAV) for properties classified as primary production farming and 6.445c (or a 3% increase) per AAV for all other properties. In 2006-07, Council had one rate for the general rating charge of 6.25c per AAV for all properties. In addition, during 2007-08, Council increased its minimum charge for all properties by $10 (or 5%). Despite these increases, Council's operating deficit increased to $0.718m.

A significant proportion of the grant revenue represented Commonwealth tax sharing grant funding of $1.172m in 2007-08 (2006-07, $1.075m; 2005-06, $1.109m; 2004-05, $1.058m).

Other operating revenue includes development and subdivision fees, interest and other sundry revenue items. In 2005-06, Other operating revenue increased by $0.624m primarily due to levies charged on a significant number of building projects. In addition, revenue from contributions and reimbursements for services provided also increased. The level of development activity in 2006-07 did not meet that experienced in 2005-06 resulting in the decline in this revenue source. In 2007-08 other revenue increased by approximately $0.201m compared to 2006-07 as a result of increased building developments along the coast line, as well as increased interest revenue due to higher cash balances from the improved cash flows.

Employee costs increased by $0.567m (or 22.29%) from 2004-05 to 2006-07, with a reduction in Employee costs in 2007-08 of $0.134m. The increases in employee costs over the three year period between 2004-05 and 2006-07 were due to a combination of annual salary increments, termination payments, reassessment of Workers Compensation Insurance premiums and a 3.5% salary increase in 2006-07. It is noted that an increasingly competitive employment environment for technical staff put upward pressure on salaries and wages and it is for this reason that Council experienced average staff costs per employee of $66 000, which is high for a council of this size. The decrease on employee costs experienced during 2007-08 was attributable to the loss of several key staff members. The decrease was offset by the additional $0.264m in accrued wages relating to two years of back pay for the EBA introduced at the beginning of the 2006-07 year.

Council's Depreciation expense increased by $0.383m (or 25.1%) over the four year period under review. The increase was attributable to asset revaluations undertaken in 2005-06, in particular relating to buildings, roads and bridges and infrastructure assets. In addition, capital additions and contributed assets increased the depreciable asset base.

Other operating expenses include consultancies and professional service, materials and contracts, waste management and regional health service payments. In 2007-08, these expenses increased by $1.261m due to several key staff resigning with Council engaging external contractors to perform their duties rather than replacing these staff. Other contributing factors to the increase in operating expenses include an increase in professional services of $0.619m as a result of the new Hobart Water contract, additional water purchases of $0.168m due to water shortages in the municipality, as well as a $0.031m increase in telecommunications due to the installation of a new ISDN line to meet the increased data demands of the Council. Materials and contracts represent 54% of total expenses, which is a relatively high proportion of costs compared to other councils and can be largely attributed to Glamorgan Spring Bay's relatively remote location, with recruiting of suitable technical and professional staff being a significant challenge, hence a greater reliance on external service providers.

Capital grant funding consists primarily of Roads to Recovery funding and Commonwealth roads financial assistance grants. The 2004-05 grant revenue also included a State Government grant of $0.631m to repay the loan for the Triabunna Call Centre sold during that year. Capital grants increased during 2007-08 by $0.382m (or 50.46%) on the 2006-07 funding received. This increase is primarily due to an additional $0.300m in Roads to Recovery funding being received by the Council, as well as an additional $0.085m received from the Commonwealth Government for roads, and a reduction in State government funding of $0.050m.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	1 387	901	257	515
Receivables	470	368	464	630
Other	164	93	145	0
Total Current Assets	**2 021**	**1 362**	**866**	**1 145**
Payables	1 410	575	998	708
Borrowings	216	257	278	305
Provisions – employee entitlements	440	467	461	402
Total Current Liabilities	**2 066**	**1 299**	**1 737**	**1 415**
Working Capital	**(45)**	**63**	**(871)**	**(270)**
Property, plant and equipment	58 522	56 014	56 559	43 928
Receivables	65	65	0	0
Total Non-Current Assets	**58 587**	**56 079**	**56 559**	**43 928**
Borrowings	2 224	2 441	2 621	2 913
Provisions – employee entitlements	41	41	103	24
Total Non-Current Liabilities	**2 265**	**2 482**	**2 724**	**2 937**
Net Assets	**56 277**	**53 660**	**52 964**	**40 721**
Reserves	26 888	24 786	24 786	12 537
Accumulated surpluses	29 389	28 874	28 178	28 184
Total Equity	**56 277**	**53 660**	**52 964**	**40 721**

Comment

Total Equity rose by $15.556m over the period under review due to:

- Surpluses of $1.242m (2007-08, $0.421m; 2006-07, $0.696m; 2005-06, $0.125m)
- asset revaluation increments of $14.719m (2007-08, $2.601m; 2005-06, $12.118m), offset by
- a prior period adjustment to the asset revaluation reserve of $0.405m in 2007-08 relating to an overstatement in a prior period balance.

Cash at 30 June 2008 was $1.387m. This balance comprised cash at bank and on hand of $0.531m, special committee balances of $0.127m and short term deposits of $0.729m. Council's Cash balance has increased over the period under review as a result of managements efforts to improve cash flow.

Payables increased significantly during 2007-08, up to $1.410m. The increase was primarily due to several one-off payables including $0.307m in accrued wages and salaries, which was mainly comprised of back pay from the EBA agreement introduced during 2006, $0.130m in water purchases and $0.217m in capital works purchases.

Council applies a revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value based on depreciated replacement cost. To maintain accurate valuations, Council undertakes a revaluation of these assets on a regular basis. From 30 June 2005 to 30 June 2008, the balance of Property, plant and equipment increased by $14.594m. The increase was primarily due to the revaluation of a number of asset classes, resulting in asset revaluation increments of $2.601m in 2007-08 and $12.118m in 2005-06. The revaluation increment in

2007-08 related to roads and bridges. The revaluation increments in 2005-06 included road and bridge assets $6.232m, buildings $1.774m and infrastructure assets $1.879m. In this four year period, Council made capital investments of $6.283m, disposed of asset totalling $0.654m and incurred depreciation of $5.740m.

Borrowings decreased by $1.310m (or 34.95%) from the commencement of the 2004-05 year to 30 June 2008. The decrease reflects the implementation of a debt reduction program, which has resulted in loan repayments of $2.000m over the four year period, with $0.690m in new borrowings. The repayment of borrowings was assisted in 2004-05 by a State Government grant of $0.631m to repay the loan debt for the Triabunna Call Centre, which was sold during that year.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 406	8 581	7 732	6 423
Cash flows from Government	1 215	1 332	956	1 317
Payments to suppliers and employees	(8 747)	(8 342)	(7 032)	(5 990)
Interest received	88	44	32	60
Borrowing costs	(158)	(176)	(196)	(191)
Cash from operations	**1 804**	**1 439**	**1 492**	**1 619**
Capital grants and contributions	1 139	757	959	1 071
Payments for property, plant and infrastructure	(2 325)	(1 435)	(2 468)	(2 430)
Proceeds from sale of property, plant and equipment	126	84	77	587
Cash (used in) investing activities	**(1 060)**	**(594)**	**(1 432)**	**(772)**
Proceeds from borrowings	0	70	0	620
Repayment of borrowings	(258)	(271)	(318)	(1 153)
Cash (used in) financing activities	**(258)**	**(201)**	**(318)**	**(533)**
Net increase (decrease) in cash	**486**	**644**	**(258)**	**314**
Cash at the beginning of the year	901	257	515	201
Cash at the end of the year	**1 387**	**901**	**257**	**515**

Comment

Council generated positive cash from operations in all years under review. Receipts from customers increased by $2.983m, (or 46.4%), from 2004-05 to 2007-08. The increase relates to a combination of increased rates and other operating revenue (as noted previously under the Income Statement section), as well as management's efforts in debtor recovery. In the corresponding period, Payments to suppliers and employees increased by $2.757m, (or 46.0%).

Investments in Property, plant and equipment over the four year period totalled $8.658m, which was funded by capital grants of $3.926m and cash from operations. Capital work undertaken during the period included roads and bridges, $3.121m, buildings, $0.331m and water and sewerage infrastructure, $1.115m. The investment in 2006-07 of $1.435m was lower than prior years due to the LGAT funding gap review, which resulted in Council examining its capital works program. The examination found Council's capital budget was geared towards new assets and not the renewal of existing assets. From the review, Council decided to postpone its capital works program until it had the opportunity to consider its current asset management practices. Normal capital expenditure resumed during the 2007-08 year.

The large inflow from Proceeds from the sale of property, plant and equipment in 2004-05 of $0.587m, included $0.430m from the sale of the call centre at Triabunna which was also used to settle debt.

As noted in the Balance Sheet analysis, Council made a commitment to reduce its loan debt. This is reflected in the financing activities with loan repayments of $2.000m over the period under review and $0.700m in new borrowings since 2005-06.

Council's Cash balance increased by $1.186m in the four-period under review. The increase is primarily the result of managements efforts to improve the cash flow of the Council, as well as the significant increase in trade and other payables. During the 2007-08 year trade and other payables increased by $0.835m, helping the council's cash position at year end being more favourable. This is reflected in the current ratio (Financial Analysis), with the current ratio slipping below 1.0 in 2007-08 to 0.98.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(718)	(61)	(891)	(242)
Operating margin	>1.0	0.93	0.99	0.91	0.97
Underlying result ratio		(7.1%)	(0.6%)	(10.2%)	(3.0%)
Self financing ratio		17.7%	14.8%	17.2%	19.8%
Own source revenue ($'000s)		8 983	8 482	7 743	6 873
Financial Management					
Current ratio	>1	0.98	1.05	0.50	0.81
Indebtedness ratio		25.2%	29.3%	35.2%	42.7%
Cost of debt	7.5%	6.2%	6.3%	6.4%	5.4%
Debt service ratio		4.1%	4.6%	5.9%	16.4%
Debt collection	30 days	23	19	27	38
Creditor turnover	30 days	38	15	30	17
Capital expenditure/depreciation	>100%	122%	74%	130%	159%
Capital expenditure on existing assets/depreciation	100%	122%	69%	120%	157%
Other Information					
Employee costs expensed ($'000s)		2 977	3 111	3 004	2 544
Employee costs capitalised ($'000s)		101	102	300	105
Total employee costs ($'000s)		**3 078**	**3 213**	**3 304**	**2 649**
Employee costs as % of operating expenses		27%	32%	31%	30%
Staff numbers (FTEs)		46	47	48	47
Average staff costs ($'000s)		67	68	63	54
Average leave balance per FTE ($'000s)		10	11	11	9

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits in all years under review resulting in Operating margins below benchmark and negative Underlying result ratios. The Self financing ratio was fairly static at around 17.3% over the period under review. Council's Own source revenue gradually increased over the period which is due to higher rates revenue and user charges relative to grant funding.

Current ratio was above the benchmark during 2006-07. Although Council is improving its liquidity position, the ratio will need to be monitored. The lower Indebtedness ratio indicates Council is generating sufficient revenue to meet its longer term liabilities.

Cost of debt was below the benchmark in all the years under review. Cost of debt reflects current market rates and is within expectations. Council's debt service ratio was fairly consistent over the past years, after the repayment of the loan debt relating to the Triabunna Call Centre in 2004-05.

Debt collection improved to be below benchmark in the past three years as it actively pursued outstanding debts, particularly longer-term debtors. During 2007-08 Council continued to actively pursue outstanding rates debtors, with several properties being sold to recover amounts owed.

Creditor turnover was below the benchmark in each of the years under review, except 2007-08. The higher ratio for 2007-08 was due to the large Payables balance due to several one-off payables for water purchases $0.130m and capital works purchases $0.217m.

Capital expenditure to depreciation ratio was above 100% in 2007-08, 2005-06 and 2004-05. However, in 2006-07, the ratio was significantly below the benchmark. Factors which contributed to the reduced capital expenditure included a $0.201m reduction in road funding in 2006-07 and Council's decision to postpone capital works until it had reviewed its current asset management practices (as noted previously under the Cash Position analysis). Council has resumed normal capital expenditure during 2007-08, resulting in the ratio being well above the 100% benchmark.

After removing the effect of expenditure on new assets, for the reasons noted previously, Council's capital expenditure on existing assets to depreciation was below benchmark in 2006-07. A ratio below the benchmark indicate that in 2006-07 Council may not have invested sufficiently in maintaining existing assets. As noted in the Cash Position analysis Council undertook a review of its capital expenditure in the 2006-07 year, which revealed that the capital budget was geared towards the purchase of new assets. Accordingly, Council addressed this concern in the 2007-08 year which is reflected in the higher level of capital expenditure on existing assets.

Employee costs as a percentage of operating expenses and average staff entitlements were fairly consistent throughout the 2004-05 to 2006-07 period. However, with the loss of several key staff during 2007-08 these costs have reduced by 5% compared to 2006-07. In contrast the average staff costs increased over 2004-05 to 2006-07 and reflect normal wage increases and changes in the staff mix.

KENTISH COUNCIL

INTRODUCTION

Kentish Council originated from the Kentish Municipality, which was established in 1907.

The municipal area covers approximately 1 187 square kilometres and encompasses the towns of Sheffield and Railton. The Council services a population of approximately 6 100 people.

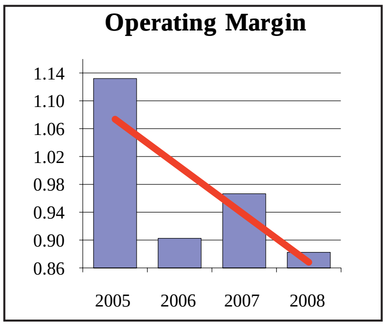
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Initial signed financial statements were received on 31 August 2008, with amended financial statements received on 12 November 2008. An unqualified audit report was issued on 13 November 2008.

The audit was completed satisfactorily with no major items outstanding.

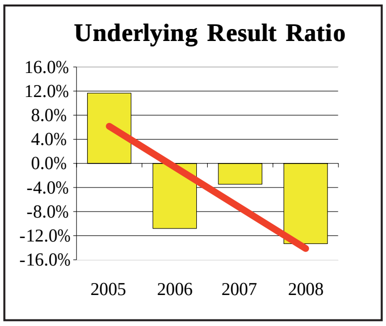
FINANCIAL RESULTS

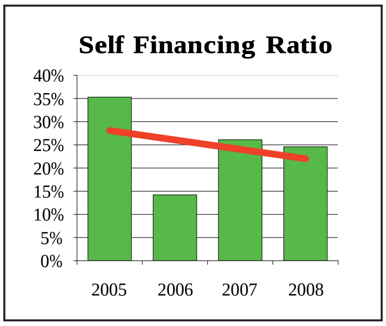
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



Other than 2004-05, the Operating margin was below the expected benchmark of one. Based on trend analysis, the margin is declining, which represents increasing operating deficits before capital grants. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

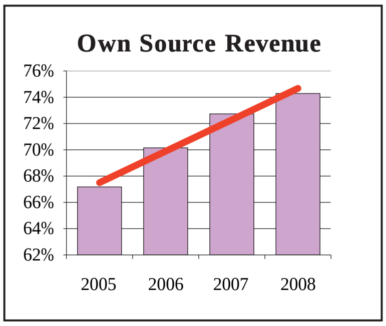
Council recorded negative Underlying result ratios in the last three years under review indicating that operating deficits before capital grants were incurred in those years. Although it is not unusual for a council to incur operating deficits, we note in its Estimates Council budgeted for an operating deficit in 2007-08. To ensure long term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

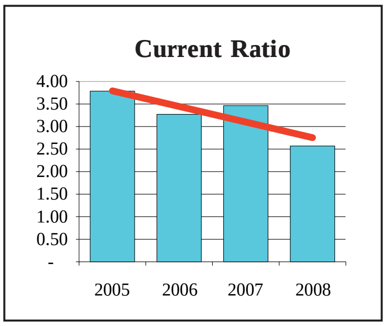




Since 2004-05, the Self financing ratio has, on average, continued to decline. The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that Council is generating operating cash flows which are contributing towards its capital expenditure programs.

The Own source revenue percentage shows Council gradually generating more of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 26% (33% in 2004-05).





The Current ratio while declining, was above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	4 127	4 244	3 792	3 541	3 289
User charges	366	545	542	514	480
Grants	2 029	1 916	1 781	1 882	2 015
Other operating revenue	358	746	417	368	355
Total Revenue	**6 880**	**7 451**	**6 532**	**6 305**	**6 139**
Employee costs	1 113	1 531	1 483	1 323	1 272
Borrowing costs	160	131	40	17	28
Depreciation	1 378	2 565	1 770	1 630	1 465
Other operating expenses	4 434	4 217	3 465	4 016	2 658
Total Expenses	**7 085**	**8 444**	**6 758**	**6 986**	**5 423**
Surplus (Deficit) before:	**(205)**	**(993)**	**(226)**	**(681)**	**716**
Capital grants	570	665	412	790	144
Recognition of assets	0	632	33	0	0
Surplus	**365**	**304**	**219**	**109**	**860**

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

Comment

Council recorded a deficit from operating activities in 2007-08 of $0.993m (before bringing to account capital grants and recognition of assets) compared with deficits in 2006-07 and 2005-06 and a surplus in 2004-05. Deficits resulting from operating activities indicate that Council may not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. The main movements in revenue and expense items are discussed below.

Revenue from Rates increased by $0.955m (or 29.0%) in the period under review and in 2007-08 was slightly higher than Council's estimated rates income due to supplementary rates and interest raised during the year. As expected, Rates continues to represent the majority of total revenue (57.0% in 2007-08, compared with 53.6% in 2004-05). The increase was due to a combination of increases in the general rate levied, an increase in water and sewerage rates levied, and an increase in the Assessed Annual Valuations (AAV) of properties over the period.

The majority of Grant revenue for 2007-08 represented the Commonwealth tax sharing grant, $1.815m, (2006-07, $1.756m; 2005-06, $1.684m; 2004-05, $1.561m), which increased by 16.3% during the period under review. The balance in 2004-05 included a grant received for the Cradle Valley Centralised Sewerage Scheme, $0.364m.

Other operating revenue increased by $0.391m (or 110.1%) over the period under review.
The increase related to:

- Visitor Information Centre income, which increased from $0.066m in 2004-05 to $0.143m in 2007-08
- interest income, which increased from $0.199m in 2004-05 to $0.277m in 2007-08
- recognition of income due to be received by Council following an arbitration ruling in 2007-08, $0.081m.

Employee expenses increased by 20.4% from $1.272m in 2004-05 to $1.531m in 2007-08. The increase was primarily due to general pay rises combined with the flow-on effect to employee provisions. Staff numbers remained reasonably constant over the four years under review. The variance between budgeted and actual Employee costs was due to some outdoor staff costs being included in the Other operating expenses budget.

Borrowing costs increased by 227.5% from $0.040m in 2006-07 to $0.131m in 2007-08. The increase was due to a loan obtained by Council to enable the construction of new offices. While this transaction occurred in 2006-07, interest payments did not commence until July 2007.

Depreciation expense increased by $1.100m (or 75.1%) from 2004-05 to 2007-08. The main increase occurred in 2007-08, $0.795m, due to:

- current year revaluation of land, buildings, bridges, water, sewerage and stormwater assets
- prior year revaluation of road assets which was dated 30 June 2007. The impact did not occur until 2007-08 and led to increased depreciation on road assets of $0.738m.

The budgeted Depreciation for 2007-08 did not include the impact of the revaluation of road assets dated 30 June 2007.

Other operating costs increased by $1.559m (or 58.7%) during the period under review. Major items included in Other operating costs were:

- sealed and unsealed road maintenance costs including nature strips and footpaths (2007-08, $0.840m; 2006-07, $0.737m)
- water purchases and monitoring ($0.239m; $0.242m)
- waste management costs including garbage collection, recycling and disposal charges ($0.249m; $0.274m)
- general administration expenditure including electricity, insurance, legal fees, information technology support, councillor allowances and expenses, election costs and visitor information centre operating costs ($1.117m; $0.776m)
- maintenance and operation of treatment plant and pump station including mains and stormwater ($0.530m; $0.488m).

Council received $2.011m in Capital grants during the period under review, which included the following major items:

- Roads to Recovery and Auslink funding, $1.313m
- Sheffield Streetscape funding, $0.167m
- Wilmot black spot funding, $0.098m.

The Recognition of assets in 2007-08 related to the Ambulance/SES premises taken over by Council during the year.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	3 154	3 800	2 942	3 759
Receivables	209	148	98	80
Other	177	178	199	87
Total Current Assets	**3 540**	**4 126**	**3 239**	**3 926**
Payables	897	572	653	552
Borrowings	124	94	42	146
Provisions - employee benefits	178	165	171	122
Other	179	360	124	217
Total Current Liabilities	**1 378**	**1 191**	**990**	**1 037**
Working Capital	**2 162**	**2 935**	**2 249**	**2 889**
Property, plant and equipment	65 060	56 038	37 700	33 108
Investments	2 363	1 948	1 212	1 197
Other	22	45	132	154
Total Non-Current Assets	**67 445**	**58 031**	**39 044**	**34 459**
Borrowings	2 204	2 045	139	150
Provisions - employee benefits	53	41	27	46
Other	0	25	41	61
Total Non-Current Liabilities	**2 257**	**2 111**	**207**	**257**
Net Assets	**67 350**	**58 855**	**41 086**	**37 091**
Reserves	67 491	59 300	41 750	37 990
Accumulated deficits	(141)	(445)	(664)	(899)
Total Equity	**67 350**	**58 855**	**41 086**	**37 091**

Comment

Total Equity rose by $30.259m over the period under review due to:

- surpluses of $0.632m (2007-08, $0.304m; 2006-07, $0.219m and 2005-06, $0.109m)
- a prior period adjustment of $0.015m as a result of an amendment to Council's investment in Cradle Coast Water (CCW)
- asset revaluation increments of $28.602m (2007-08, $7.825m; 2006-07 $16.894m, 2005-06 $3.883m)
- increases Council investments in CCW and Dulverton Regional Waste Management Authority (DRWMA) of $1.010m. These increases arose from Council recognising its share of the increases in the authorities' asset revaluation reserves.

Cash balance at 30 June 2008, $3.154m, comprised cash at bank and on hand $2.203m, special committees $0.131m, and short term deposits, $0.820m. Council maintained a strong cash and investment position over the period with an average balance of $3.414m.

Council applies the revaluation model to its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets. Property, plant and equipment increased by $31.952m in the period under review due primarily to the revaluation of infrastructure assets. The increase in Property, plant and equipment during 2007-08 of $9.022m included the following asset revaluation increments:

- Land, $1.617m,
- Bridges, $0.883m,
- Water, $2.446m,
- Sewerage, $4.080m,
- Stormwater, $1.890m.

The above increments were offset by a revaluation decrement to Building assets of $3.091m.

Revaluations of roads and streets resulted in increments of $16.894m in 2006-07 and $3.883m in 2005-06.

Non-current investments comprised Council's investment in its associates, CCW, $2.094m, and DRWMA, $0.269m, at 30 June 2008. Council's investment in CCW increased by $0.897m since 30 June 2005 due to Council's share of profits of the Authority, $0.087m, less dividends received, $0.053m, plus the share of the Authority's asset revaluation increments, $0.848m and a prior period adjustment of $0.015m. Council's initial contribution to DRWMA of $0.068m was converted from a loan to an investment on 30 June 2007.

Total Borrowings increased by $2.032m during the period under review which reflected new loan borrowings of $2.282m, offset by principal loan repayments of $0.250m. These loans were raised to fund the council office redevelopment.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 524	4 939	4 736	4 260
Cash flows from Government	2 174	1 793	1 746	1 651
Payments to suppliers and employees	(6 010)	(5 195)	(5 766)	(3 915)
Interest received	275	208	197	199
Borrowing costs	(131)	(40)	(17)	(28)
Cash from (used in) operations	**1 832**	**1 705**	**896**	**2 167**
Capital grants and contributions	665	412	926	508
Proceeds from investments	0	2	2	2
Payments for property, plant and equipment	(3 515)	(3 355)	(2 652)	(1 955)
Proceeds from sale of property, plant and equipment	183	135	127	148
Cash (used in) investing activities	**(2 667)**	**(2 806)**	**(1 597)**	**(1 297)**
Proceeds from borrowings	282	2 000	0	0
Repayment of borrowings	(93)	(41)	(116)	(103)
Cash from (used in) financing activities	**189**	**1 959**	**(116)**	**(103)**
Net increase (decrease) in cash	**(646)**	**858**	**(817)**	**767**
Cash at the beginning of the year	3 800	2 942	3 759	2 992
Cash at the end of the year	**3 154**	**3 800**	**2 942**	**3 759**

Comment

Council generated positive Cash from operations in all years under review. Council's Cash balance increased from $2.992m at 30 June 2004 to $3.154m at 30 June 2008, an increase of $0.162m.

As noted in Council's annual plan, the financial stability of Council, including cash funds available will need to remain under close scrutiny. We believe such actions will ensure Council can continue to:

- meet its operating commitments
- have the ability to fund its capital expenditure requirements
- service its debt.

Payments for property, plant and equipment totalled $11.477m for the four years under review. Major capital expenditure during this period included:

- building additions and improvements including new Council offices, $2.772m,
- road works and reconstructions, $3.744m,
- plant purchases ,$1.481m,
- stormwater, sewer and water works including the Sheffield sewerage treatment plant upgrade, $2.187m.

The current council budget suggests that over the next three years, cash reserves will decrease as water and sewerage operations transfer to the new entity on 1 July 2009. It is noted that Council has budgeted asset replacement and spending on a variety of projects over the next three years totalling $8.327m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(993)	(226)	(681)	716
Operating margin	>1.0	0.88	0.97	0.90	1.13
Underlying result ratio		(13.3%)	(3.5%)	(10.8%)	11.7%
Self financing ratio		24.6%	26.1%	14.2%	35.3%
Own source revenue ($'000s)		5 535	4 751	4, 23	4 124
Financial Management					
Current ratio	>1	2.57	3.46	3.27	3.79
Indebtedness ratio		40.8%	44.4%	4.7%	6.2%
Cost of debt	7.5%	5.9%	3.4%	7.1%	8.0%
Debt service ratio		3.0%	1.2%	2.1%	2.1%
Debt collection	30 days	17	13	10	8
Creditor turnover	30 days	42	31	36	44
Capital expenditure/depreciation	>100%	137%	190%	163%	133%
Capital expenditure on existing assets/depreciation	100%	91%	141%	129%	129%
Other Information					
Employee costs expensed ($'000s)		1 531	1 483	1 323	1 272
Employee costs capitalised ($'000s)		0	0	0	0
Total employee costs ($'000s)		**1 531**	**1 483**	**1 323**	**1 272**
Employee costs as a % of operating expenses		18%	22%	19%	23%
Staff numbers (FTEs)		29	29	29	25
Average staff costs ($'000s)		53	51	46	51
Average leave balance per FTE ($'000s)		8	7	7	7

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits (after excluding capital grants and asset recognition) in the last three years resulting in Operating margins below benchmark and negative Underlying result ratios. An operating surplus in 2004-05 resulted in a positive Operating margin and Underlying result ratio.

Self financing ratio was lower in 2005-06 due to the lower Net operating cash flows. Council's Own source revenue gradually increased over the period in line with the relative increase in rates revenue and user charges.

Current ratio was above benchmark in all years indicating it was able to meet all short-term liabilities when they fell due.

Indebtedness ratio was significantly higher in 2006-07 and 2007-08 due to new loans totalling $2.282m for the construction of Council's new offices and other capital works.

With the exception of 2006-07, Council's Cost of debt and Debt service ratios are consistent across the period under review. The decrease during 2006-07 was due to the timing of new loan funds with no repayments made before the end of the financial year.

Debt collection was well below the benchmark of 30 days for all years under review. The ratio reflects Council's good debt recovery procedures.

Creditor turnover was above the benchmark of 30 days in all years under review. This was due to a number of significant creditors at 30 June relating to plant hire, road materials and capital works.

Capital expenditure to depreciation ratio was well above 100% for all years reported, which reflected Council's significant investment in property, plant and equipment.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation was above benchmark in the first three years under review, indicating that Council invested sufficiently in maintaining existing assets. In 2007-08, the ratio decreased to 91% due to the increase in depreciation as a result of the revaluation of road infrastructure at 30 June 2007.

Employee costs as a % of operating expenses, Average staff costs and Average staff entitlements were fairly consistent throughout the period under review. Council does not normally perform asset construction in-house which is reflected in the nil Employee costs capitalised amount.

KING ISLAND COUNCIL

INTRODUCTION

King Island Council (proclaimed under the *Local Government Act 1993*) originated from the King Island Municipality, which was established in 1907. The municipality covers an area of approximately 1 100 square kilometres with Council services provided to a population of approximately 1 700 people.

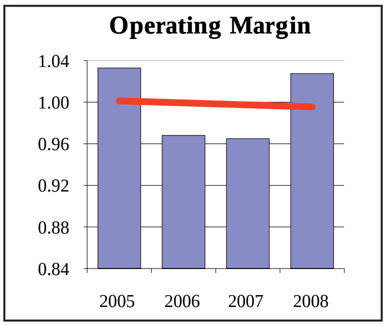
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2008. Following the audit, amended financial statements were received on 2 November 2008. An unqualified audit report was issued on 14 November 2008.

The audit was completed satisfactorily with no major issues outstanding.

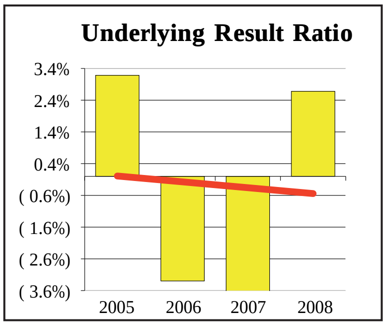
FINANCIAL RESULTS

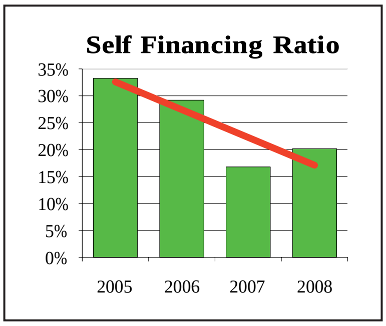
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin, exceeded or was very close to the benchmark of one in each of the four years under review. It is important to note that the current year's ratio was largely effected by a recognition of $0.213m of revenue from the sale of properties with outstanding rates. Without this one-off source of income, Council would have operated at a deficit of $0.085m and the Operating margin would drop down to 0.99%. An Operating margin above the benchmark indicates a council is generating sufficient revenue to fulfil its operating requirements.

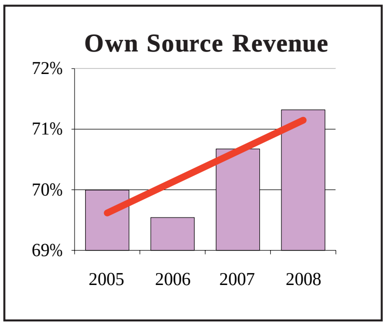
The Underlying results ratio in 2007-08 showed marked improvement from the negative ratios in 2006-07 and 2005-06. However, as mentioned previously the current year's results were largely effected by revenue from the sale of properties with outstanding rates. The negative underlying results ratio in two out of four years reviewed indicates Council's dependence on capital grants to fund its operations. Without the revenue from the sale of properties with outstanding rates, the Underlying results ratio would be a negative 1.6%.

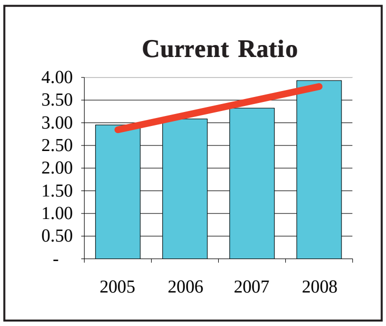




The ratio shows net operating cash flows generated by Council expressed as a percentage of operating revenue. A positive ratio indicates that a council is generating operating cash flows which are contributing towards its capital expenditure programs. The Self financing ratio, whilst improving upon 2006-07, decreased over the review period, indicating Council's operating cash flows declined.

Own source revenue remained fairly steady during the review period and shows that Council generated on average 70% of operating revenue from its own sources. Council was reliant on external funding to the extent of around 30%. The external funding was mainly provided for recurrent maintenance of roads infrastructure





The Current ratio increased each year over the four year review period and was well above the benchmark of one. This ratio indicates that a council is able to meet all its short-term liabilities as and when they fall due.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	1 932	1 952	1 878	1 850	1 806
User charges	1 145	1 181	1 183	1 016	849
Grants	1 954	1 541	1 454	1 395	1 310
Interest	200	225	216	191	132
Other operating revenue	345	474	227	128	269
Total Revenue	**5 576**	**5 373**	**4 958**	**4 580**	**4 366**
Employee costs	1 537	1 501	1 343	1 264	1 201
Borrowing costs	37	66	42	44	23
Depreciation and amortisation	981	1 266	1 170	1 176	1 117
Other operating expenses	2 570	2 412	2 583	2 247	1 886
Total Expenses	**5 125**	**5 245**	**5 138**	**4 731**	**4 227**
Surplus (Deficit) before:	**451**	**128**	**(180)**	**(151)**	**139**
Capital grants	0	1 095	285	388	157
Assets not previously recognised	0	0	0	1 360	0
Surplus	**451**	**1 223**	**105**	**1 597**	**296**

** The Estimate represents Councils final estimate (budget) for the year. This is provided for comparison only and was not subject to audit.*

Comment

Council recorded a Surplus before capital items for the first time in the four year period under review. However, it is important to note that this year's favourable result was due to Council becoming entitled to and recognising as revenue proceeds of $0.213m from the sale of properties with outstanding rates (discussed later). Without this one-off source of income, Council would have operated at a deficit of $0.069m, the third year in a row that a deficit would have occurred. It is however, pleasing to note that Council budgeted to achieve an operating surplus with the primary reason for not achieving such a result was actual grant funding being less than budget by $0.413m and actual depreciation charges being greater than budget by $0.285m.

Overall, Council's surpluses reported over the review period totalled $3.129m and were predominantly a result of the following non-operating items:

- contribution from the Department of Primary Industries and Water (DPIW), $0.700m, towards the restoration and maintenance of the Naracoopa Jetty
- accounting for assets not previously recognised, $1.360m, related to culverts brought to account for the first time in 2005-06
- Capital grants received under the Roads to Recovery Program ($0.145m in 2007-08; $0.197m in 2006-07; $0.388m in 2005-06 and $0.157m in 2004-05) and the Regional Airports Funding Program ($0.250m in 2007-08 and $0.088m in 2006-07).

Rate, which is the major source of Council's income, increased by 4% in the current period due mainly to an increase in the general rate and fire levy. The overall increase in Rates over the four year period of 8% resulted from a combination of higher property values and increases in rates and charges.

The majority of Grant revenue was represented by a general purpose Financial Assistance Grant ($1.035m in 2007-08) and motor tax ($0.319m in 2007-08).

User charges, which represented on average 22% of operating revenue, comprised mainly private works, works carried out on behalf of the Department of Infrastructure Energy and Resources and airport landing charges. Generally, the value of private and departmental works vary from year to year depending on demand.

As mentioned previously, Council became entitled to retain $0.213m remaining from the sale of properties with unpaid rates. Under legislation, councils are entitled to sell land with outstanding rates for three or more years. Any money remaining after costs of the sale, payments of outstanding rates, discharge of mortgages etc. are refunded to the previous owner. Any money received by a council from the sale of land that is not claimed by the previous owner of the land within three years of the sale, vests council.

Total Expenses increased in each year under review. Both Employee costs and Other expenses recorded the largest increases between 2004-05 and the current year of 25% and 27% respectively. The increase in Employee costs reflected:

- general wages increases, in line with Council's Enterprise Bargaining Agreement(EBA)
- provisional increments while negotiations on the new EBA continued
- increased staff numbers of 5 full time equivalents (FTEs) from 27 FTEs in 2004-05 to 32 FTEs in the current year (including 2 additional FTEs in the newly created Community and Economic Development Unit in 2007-08)
- increased use of labour hire.

Other expenses rose due to general increases in costs of supplies and amount of works undertaken by Council.

Depreciation and amortisation expenses increased by a net amount of $0.149m or 13% from 2004-05 with the largest increase of $0.096m recorded in the current year. The movement reflected changes in the value of infrastructure assets as well as new additions (valuation of non-current assets is discussed later in the Balance Sheet section of this Chapter). The increase this year was a result of new capital additions, in particular improvements to King Island Airport, Council chambers and accounting system and IT upgrades.

The reason for the variance between budget and actual Surplus, after bringing to account Capital grants, was due mainly to the receipt of $0.700m from DPIW towards the restoration and maintenance of Naracoopa Jetty, not included in the original estimate.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Cash	0	458	218	436
Receivables	427	294	221	295
Investments	3 617	3 140	3 753	2 816
Inventories	237	235	251	271
Other	110	90	116	167
Total Current Assets	**4 391**	**4 217**	**4 559**	**3 985**
Bank overdraft	141	0	0	0
Payables	41	133	325	162
Borrowings	124	134	61	74
Employee Provisions	541	513	631	636
Other	270	489	461	478
Total Current Liabilities	**1 117**	**1 269**	**1 478**	**1 350**
Working Capital	**3 274**	**2 948**	**3 081**	**2 635**
Property, plant and equipment	54 503	51 775	51 111	47 133
Total Non-Current Assets	**54 503**	**51 775**	**51 111**	**47 133**
Borrowings	882	1 006	670	731
Provisions	24	56	31	29
Total Non-Current Liabilities	**906**	**1 062**	**701**	**760**
Net Assets	**56 871**	**53 661**	**53 491**	**49 008**
Reserves	36 497	33 931	35 282	30 760
Accumulated surpluses	20 374	19 730	18 209	18 248
Total Equity	**56 871**	**53 661**	**53 491**	**49 008**

Comment

Council's Equity increased by $7.863m or 16% since 2004-05 predominately caused by an increase in the asset revaluation reserve. Overall, the value of Property, plant and equipment increased by $7.370m or 16% between 2004-05 and the current year. Accumulated surpluses, which represented the second major component of Total Equity, rose by $2.126m or 12% since 2004-05. The increase in Accumulated surpluses was largely affected by the recognition of infrastructure assets (culverts) valued at $1.360m for the first time in 2005-06.

The net value of cash assets (represented by cash on hand and short-term bank investments) peaked in 2005-06 when it reached $3.971m. Since then the amount of cash decreased to its current balance of $3.476m (net of the bank overdraft). The relatively high cash balance is attributed to Council's policy of cash backing its reserves (with the exception of the asset revaluation reserve). The balance of the main operating account was an overdraft of $0.141m at the end of the current reporting period due to timing of some payments and receipts.

The balance of Receivables was consistent in the first three years of the review period. The balance increased markedly in the current year by 44% or $0.133m when compared to 2006-07. The increase was due to a large outstanding invoice for private works at the end of June 2008 (payment was received in early July 2008). Inventories and Other assets were consistent over the review period.

As mentioned earlier, Property, plant and equipment increased by $7.370m or 16% since 2004-05 primarily due to:

- revaluation increments of $5.028m in relation to assets carried at fair value, mainly land, buildings and infrastructure assets
- the inclusion of culverts not previously recognised and valued at $1.365m for the first time in 2005-06
- addition of assets, including a sewerage treatment plant (2004-05, $0.116m) and a waste transfer station and waste bailer ($2006-07, $0.690m)
- upgrades to existing assets, mainly roads and airport infrastructure.

Also, in 2006-07 Council adopted the fair value basis for all of its long-lived infrastructure assets. The use of the fair value basis ensures Council makes decisions in relation to asset management based upon relevant and up-to-date financial information.

The decrease in Payables in the current period was due to a number of creditors being paid prior to year end. As mentioned previously, this was also the main reason why cash at bank moved into overdraft at 30 June 2008.

The increased Borrowings in 2004-05 was attributed to a loan of $0.420m for the construction of a new waste site. Similarly, the increase in Borrowings in 2006-07 was due to a new loan of $0.470m for the purchase of a waste bailer.

There was a slight drop in the balance of Provisions between the current year and previous three years of $0.100m or 15%, as some long-serving staff ceased employment. It is noted that Provisions included vested sick leave in accordance with Council's Enterprise Bargaining Agreement.

Other liabilities were fairly consistent over the first three years of the review period. The decrease in the current year was caused by a movement in monies held in trust, as Council became eligible to retain proceeds from the sale of properties with outstanding rates from three years ago (discussed in the Income Statement section).

Naracoopa Jetty

In 2007-08, Council took over the Naracoopa Jetty (the Jetty) from the Tasmanian Government. Under a lease agreement executed in May 2008:

- Council was granted a fifty year lease for the land on which the Jetty is situated at the rate of one dollar per year, with the option to extend for a further ten years
- all rights to title and interest in the Jetty were transferred to Council
- the Jetty will remain the property of Council and must be removed at the expiration of the lease.

Council was unable to reasonably measure the value of the Jetty at 30 June 2008 and consequently it was not recognised as an asset in the Balance Sheet. Similarly, there was uncertainty over the cost of removing the Jetty at the expiration of the lease and consequently no provision for make good costs was recognised at 30 June 2008.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 471	3 655	3 374	3 178
Cash flows from government	1 932	1 454	1 395	1 310
Payments to suppliers and employees	(4 468)	(4 449)	(3 579)	(3 161)
Interest received	226	215	191	147
Borrowing costs	(77)	(42)	(44)	(23)
Cash from operations	**1 084**	**833**	**1 337**	**1 451**
Capital grants and contributions	1 095	285	388	157
Proceeds from investments	0	613	0	0
Payments for investments	(630)	0	(932)	(761)
Payments for property, plant and equipment	(2 111)	(1 983)	(1 133)	(1 264)
Proceeds from sale of property, plant and equipment	97	100	196	235
Cash (used in) investing activities	**(1 549)**	**(985)**	**(1 481)**	**(1 633)**
Proceeds from borrowings	0	470	0	420
Repayment of borrowings	(134)	(78)	(74)	(54)
Cash from (used in) financing activities	**(134)**	**392**	**(74)**	**366**
Net increase (decrease) in cash	**(599)**	**240**	**(218)**	**184**
Cash at the beginning of the year	458	218	436	252
Cash at the end of the year	**(141)**	**458**	**218**	**436**

Comment

Council reported negative Cash of $0.141m at the end of 2007-08. As discussed earlier, this was due to timing of some payments and receipts at the end of June 2008. Total cash fell by $0.599m during the current year, however cash held in short-term investments increased by $0.477m to $3.617m during the same period.

Council record positive Cash from operations in each year under review, however the amount fluctuated between years. Payments to suppliers and employees exceeded Receipts from customers in each year of the review period. This indicated Council's reliance on Cash flows from government to fund its operations. The increase in Borrowing costs, due to additional borrowings, did not have a significant impact on the operating cash flow.

The level of Cash used in investing activities varied from year to year, depending on the extent of investment activities earmarked for the year. Payments for property, plant and equipment represented mainly spending on roads and other infrastructure assets as well as new plant and equipment. Capital grants and contributions, $0.700m, for Naracoopa Jetty were received in the current year from DPIW.

Movements in Proceeds from borrowings and Repayments of borrowings reflected comments made previously in the Balance Sheet section.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		128	(272)	(151)	139
Operating margin	>1.0	1.032	0.95	0.97	1.03
Underlying result ratio		2.4%	(5.6%)	(3.3%)	3.2%
Self financing ratio		20.2%	16.8%	29.2%	33.2%
Own source revenue ($'000s)		3 832	3 504	3 185	3 056
Financial Management					
Current ratio	>1	3.93	3.32	3.08	2.95
Indebtedness ratio		23.6%	30.3%	22.0%	24.9%
Cost of debt	7.5%	6.2%	4.5%	5.7%	3.7%
Debt service ratio		3.9%	2.4%	2.6%	1.8%
Debt collection	30 days	46	35	29	39
Creditor turnover	30 days	3	11	35	19
Capital expenditure/depreciation	>100%	167%	169%	96%	113%
Capital expenditure on existing assets/depreciation	100%	161%	106%	85%	80%
Other Information					
Employee costs expensed ($'000s)		1 501	1 343	1 264	1 201
Employee costs capitalised ($'000s)		121	158	59	n/a
Total employee costs ($'000s)		**1 622**	**1 501**	**1 323**	**1 201**
Employee costs as % of operating expenses		29%	26%	27%	28%
Staff numbers (FTEs)		32	28	26	27
Average staff costs ($'000s)		51	54	51	44
Average leave balance per FTE ($'000s)		18	20	25	24

Comment

Financial Performance ratios confirm comments made previously in respect of Council's operating results.

Self-financing ratio indicates a council's ability to fund the replacement of assets from cash generated from operations. In other words, an entity is expected to generate enough cash from its operations to meet depreciation expense in order to provide for future capital investments. The decrease in the ratio over the past two years reflected the drop in operating cash flow due to higher Payments to suppliers and employees. The ratio indicated that the amount generated from operations may not be sufficient to fund future capital expenditure. For example, in the current period Council generated $1.084m from its operations while Depreciation charges were $1.266m.

Current ratio was well above the benchmark in all years due to the high level of cash held indicating that Council was able to meet all short-term liabilities. Indebtedness ratio remained favourable over the past four years. Both the Current and Indebtedness ratios indicated Council's ability to meet its commitments.

Cost of debt ratio increased over the review period but remained below the 7.5% benchmark. The Debt service ratio also increased over the period of review and has doubled from 2004-05. In both cases this reflected the fact that Council increased its borrowings, as noted in the Balance Sheet section and incurred higher interest rates on new borrowings.

Debt collection, while appearing to have decreased from last year, reflected a large invoice outstanding at the end of June 2008, as discussed in the Balance Sheet section. Otherwise, the ratio would have been marginally lower than in pervious years.

Creditor turnover fluctuated over the review period but showed a significant decrease from 2006-07. As noted when discussing Payables in the Balance Sheet section, a number of creditors were paid before the end of June 2008. Adjusting for this, the ratio would have been marginally above last years but still below the benchmark.

Capital expenditure to depreciation ratio exceeded the benchmark for three of the four years under review. In the current year the increase in Payments for acquisition of property, plant and equipment and completion of major capital projects resulted in the benchmark being exceeded by 67%.

Capital expenditure on existing assets to depreciation ratio consistently increased over the review period. The benchmark was exceeded in both 2007-08 and 2006-07. When the ratio is below 100%, it indicates that a council's investment in infrastructure may be insufficient relative to the replacement cost of assets as represented by annual depreciation charges.

Employee costs expensed increased consistently over the review period and was discussed in the Income Statement section. Employee costs capitalised fluctuated over the last three years, as expected. Employee costs as a percentage of operating expenses were consistent over the review period.

Staff numbers (FTE's) remained relatively constant, while Average staff costs increased in line with Council's EBA and variations relating to casual employees (Total employee costs for 2004-05 do not include the amount of capitalised employee costs which was not available in that year).

The decrease in Average leave balances per FTE was due to Council encouraging employees to reduce leave balances and departure of some long-serving staff members. As mentioned previously, the amount of leave entitlements included vested sick leave in accordance with the EBA.

SOUTHERN MIDLANDS COUNCIL

INTRODUCTION

Southern Midlands Council was created in 1993 when the former municipalities of Oatlands and Green Ponds and the northern wards of the municipalities of Brighton and Richmond were amalgamated. The Southern Midlands area covers 2 561 square kilometres, including the townships of Oatlands, Tunbridge, Mangalore, Bagdad and Kempton. The Council services a population of approximately 5 900 people.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

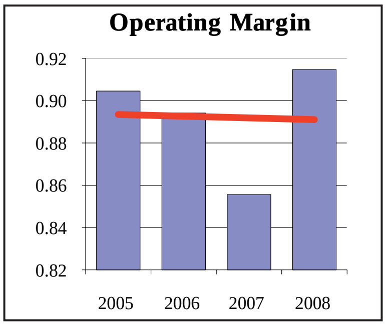
Initial signed financial statements were received on 29 September 2008, with amended statements received on 3 November 2008. An unqualified audit report was issued on 6 November 2008.

Council continues to incur deficits before capital grants. This suggests that Council is not raising income at levels sufficient to cover all of its operating costs including depreciation. While Council currently has a healthy net working capital position (see Financial Analysis section), in the long term, operating deficits are not sustainable and Council needs to consider ways to increase revenues or contain costs.

Apart from this, the audit was completed with satisfactory results and no other major issues outstanding..

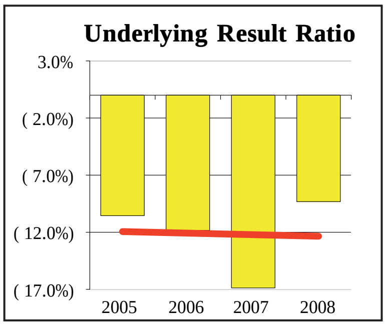
FINANCIAL RESULTS

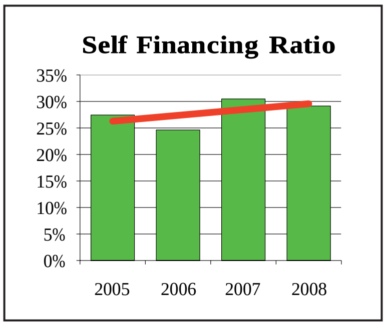
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was below the expected benchmark of one in all four years, which represented operating deficits before capital grants. An Operating margin below the benchmark indicates a council might not be generating sufficient revenue to fulfil its operating requirements.

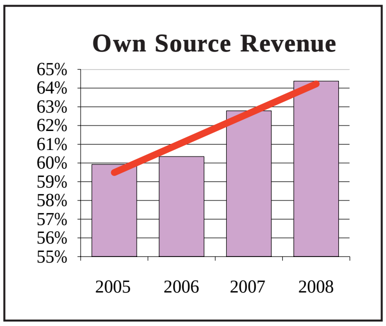
The negative Underlying result ratio over the period is due to the operating deficits incurred by Council. Although it is not unusual for a council to incur operating deficits, we note in its Estimates that Council budgeted for a significant deficit. To ensure long-term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result.

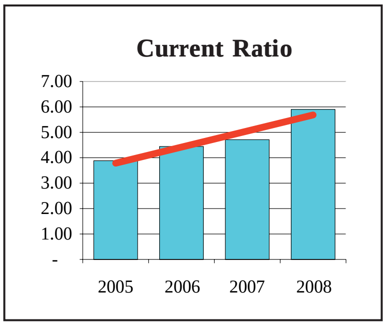




The Self financing ratio was fairly consistent at between 25 - 30% over the period under review. The ratio shows net operating cash flows generated by a council expressed as a percentage of operating revenue. A positive ratio indicates that a council is generating operating cash flows which are contributing towards its capital expenditure programs.

The Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and by 2007-08 was reliant on recurrent grant funding to the extent of 36% (2004-05, 40%).





The Current ratio was well above the benchmark in all four years indicating that Council was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	3 433	3 543	3 222	3 038	2 882
User charges	655	962	800	651	650
Grants	2 451	2 775	2 580	2 620	2 507
Other operating revenue	269	509	331	298	217
Total Revenue	**6 808**	**7 789**	**6 933**	**6 607**	**6 256**
Employee costs	2 764	2 598	2 246	2 148	1 949
Borrowing costs	74	85	83	92	99
Depreciation	3 030	3 085	3 092	2 473	2 446
Other operating expenses	2 903	2 747	2 682	2 676	2 422
Total Expenses	**8 771**	**8 515**	**8 103**	**7 389**	**6 916**
Deficit before:	**(1 963)**	**(726)**	**(1 170)**	**(782)**	**(660)**
Capital grants	523	1 087	1 910	1 068	662
Change in fair value of Hobart Water	0	197	894	57	0
Surplus (Deficit)	**(1 440)**	**558**	**1 634**	**343**	**2**

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

Comment

Council recorded Deficits before Capital grants and Changes in the fair value of Hobart Water in all four years under review. These deficits indicated Council was not generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. After including Capital grants and Changes in the fair value of Hobart Water, Council recorded surpluses for all four years. As noted previously, Council budgeted for an operating deficit of $1.963m in 2007-08 and an overall deficit of $1.440m. However, the actual result in 2007-08 was better than Estimate, with an overall surplus of $0.558m. The improved result was mainly due to higher than budgeted revenue from Grants and User charges. The main movements in revenue and expense items are discussed below.

Rates, as expected, represent the majority of Total Revenue, being 45.5% in 2007-08, with the preceding three years averaging 46.2%. Rates increased by $0.661m (or 22.94%) in the period under review and in 2007-08 was in line with Council's estimated rates income, excluding penalty and interest charges. The increase was mainly due to increased general rate revenue. Excluding supplementary rates, general rate revenue raised was $1.835m in 2004-05 compared with $2.285m in 2007-08. The general rate levied for the Oatlands district per dollar of AAV increased from 9.14 cents in 2004-05 to 10.30 cents in 2006-07 (an increase of 12.69%). In 2007-08, the general rate levied per dollar of AAV decreased to 7.25 cents due to the significant increase in the AAV following the application of adjustment factors effective 1 July 2007. Total AAV increased from $20.739m in July 2006 (date of raising rates for 2006-07) to $32.156m in August 2007, which represented an increase of 55.05%.

User charges represented 12.4% of Total Revenue in 2007-08 compared to an average of 10.6% for the preceding three years. The primary revenue sources were:

- water consumption charges (2007-08, \$0.260m; 2006-07, \$0.329m)
- planning and development fees (\$0.138; \$0.149m)
- private works income (\$0.135m; \$0.010m)
- dog registration fees (\$0.032m; \$0.033m).

The decrease in water consumption charges in 2007-08 was primarily due to a reduction in water consumed from 539 000 kilolitres in 2006-07 to 425 000 kilolitres in 2007-08. The increased revenue from private works in 2007-08 was mainly due to the reimbursement of wages relating to work undertaken on a forest conservation fund program.

The majority of Grant revenue represented Commonwealth tax sharing grant, \$2.400m for 2007-08 (2006-07, \$2.348m; 2005-06, \$2.246m; 2004-05, \$2.086m), which increased by \$0.314m (or 15.05%) during the period under review.

Employee costs increased by \$0.649m (or 33.30%) during the period under review mainly due to:

- pay rises under Council's Enterprise Agreement
- renegotiation of employee contracts and staff appraisals.

Depreciation expense increased by \$0.639m (or 26.38%) over the period under review, due mainly to an increase from 2005-06 to 2006-07 of \$0.619m. The increase was primarily due to the impact of revaluations of road and bridge infrastructure assets as at 1 July 2006.

Other operating costs increased by \$0.325m (or 13.42%) during the period under review. Major items included in Other operating costs were:

- water purchases (2007-08, \$0.314m; 2006-07, \$0.372m)
- contractor services (\$0.484m; \$0.268m).

Capital grants totalling \$4.727m over the period under review included the following major items:

- funding for the reconstruction of the historic Callington Mill and development of the associated precinct of \$1.200m in 2006-07
- Federal government funding under the AusLink and Roads to Recovery programs totalling \$2.529m. In 2007-08, the funding included \$0.587m for White Kangaroo Road
- State government funding for Woodsdale Road of \$0.600m in 2004-05
- funding for the makeover of the Oatlands Main St of \$0.160m in 2006-07.

In 2006-07, Council recognised its ownership interest in Hobart Water as a non-current investment. The ownership interest is calculated as Council's share of Hobart Water's total equity as at each balance date. Changes in the investment are recognised as revenue or expense in the Income Statement each year because Council accounts for its investment as a financial asset under AASB 139 *Financial Instruments: Recognition and Measurement*, rather than equity accounting this investment as is the case with other southern based councils with ownership interest in Hobart Water. Prior to 2006-07, Council's investment in Hobart Water was not recognised in Council's financial statements. The 2005-06 comparatives were adjusted to recognise the investment balance at 30 June 2006 of \$1.354m, the balance of \$1.297m at 30 June 2005 and the change in fair value in 2005-06 of \$0.057m.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	4 992	4 289	3 561	3 131
Receivables	699	537	621	513
Investments	1 000	500	0	0
Inventories	167	204	221	220
Total Current Assets	**6 858**	**5 530**	**4 403**	**3 864**
Payables	318	400	291	349
Borrowings	153	143	159	145
Provisions - employee benefits	691	631	541	501
Total Current Liabilities	**1 162**	**1 174**	**991**	**995**
Working Capital	**5 696**	**4 356**	**3 412**	**2 869**
Property, plant and equipment	79 683	74 908	66 503	65 859
Investment in Hobart Water	2 445	2 248	1 354	1 297
Receivables	46	51	86	80
Other	0	0	33	66
Total Non-Current Assets	**82 174**	**77 207**	**67 976**	**67 302**
Borrowings	1 073	1 225	1 199	1 290
Provisions - employee benefits	105	97	54	39
Other	0	0	0	33
Total Non-Current Liabilities	**1 178**	**1 322**	**1 253**	**1 362**
Net Assets	**86 692**	**80 241**	**70 135**	**68 809**
Reserves	49 970	43 890	35 316	33 783
Accumulated surpluses	36 722	36 351	34 819	35 026
Total Equity	**86 692**	**80 241**	**70 135**	**68 809**

Comment

Total Equity rose by $17.883m over the period under review due to:

- surpluses totalling $2.535m
- asset revaluation increments of $15.484m (2007-08, $5.893m; 2006-07, $8.608m; 2005-06, $0.983m)
- retrospective recognition of a provision for sick leave and gratuity payments on resignation of $0.136m as at 1 July 2006.

Cash at 30 June 2008, $4.992m (2006-07, $4.289m), comprised cash at bank and on hand of $0.369m ($0.336m) and term deposits of $4.623m ($3.953m). Council also held Current investments of $1.000m ($0.500m), which comprised floating rate and range accrual notes. Council maintained a strong cash and investment position over the period with an average balance of $4.368m. Council's 2008-09 capital budget includes $2.937m in carried forward projects, of which the majority relates to the Callington Mill precinct plan, $2.460m. Work on the Callington Mill precinct is scheduled to commence in 2008-09.

Payables was fairly consistent throughout the period. The increase in 2006-07, $0.109m, was primarily due to an increase in the amount of GST owing to the Australian Taxation Office as a result of the GST payable on the Callington Mill grant, $1.200m.

The majority of Property, plant and equipment asset classes are measured on the fair value basis. Plant, furniture and equipment, waste management and heritage assets are measured at cost. Property, plant and equipment increased by $13.824m during the period under review due primarily to revaluation increments totalling $15.484m, additions of $7.826m offset by depreciation charges of $8.650m.

The revaluation increment in 2007-08 of $5.893m comprised an indexation of road asset values of $5.555m and a revaluation of bridge assets of $0.338m. The revaluation increment in 2006-07 of $8.608m comprised a revaluation of road assets effective 1 July 2006 of $5.167m and a revaluation of bridge assets of $3.441m.

As noted in the Income Statement section of this Chapter, Council's investment in Hobart Water is calculated as Council's share of the Authority's total equity as at each balance date.

Provisions comprised employee entitlements relating to annual leave, long service leave and rostered days off. The provision balances at 30 June 2007 and 2008 also include sick leave and gratuity payments due on resignation under Council's Enterprise Agreement. These balances were recognised for the first time in the 2007-08 financial statements with retrospective adjustments made to the 2006-07 comparative figures. At 30 June 2008, the provision for these payments amounted to $0.154m (2006-07, $0.152m).

Total Borrowings decreased from $1.435m at 30 June 2005 to $1.226m at 30 June 2008. The decrease of $0.209m was net of new loans of $0.240m less principal repayments of $0.449m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 677	4 778	4 142	3 792
Cash flows from Government	2 675	2 580	2 695	2 507
Payments to suppliers and employees	(5 365)	(5 381)	(5 303)	(4 645)
Interest received	368	219	184	163
Borrowing costs	(85)	(83)	(91)	(100)
Cash from operations	**2 270**	**2 113**	**1 627**	**1 717**
Capital grants and contributions	1 105	2 031	1 068	662
Payments for investments	(500)	(500)	0	0
Payments for property, plant and equipment	(2 369)	(3 099)	(2 383)	(2 801)
Proceeds from sale of property, plant and equipment	339	173	195	511
Cash (used in) investing activities	**(1 425)**	**(1 395)**	**(1 120)**	**(1 628)**
Proceeds from borrowings	0	170	70	0
Repayment of borrowings	(142)	(160)	(147)	(152)
Cash from (used in) financing activities	**(142)**	**10**	**(77)**	**(152)**
Net increase (decrease) in cash	**703**	**728**	**430**	**(63)**
Cash at the beginning of the year	4 289	3 561	3 131	3 194
Cash at end of the year	**4 992**	**4 289**	**3 561**	**3 131**

Comment

Council generated positive Cash from operations in all years under review. Cash also increased from $3.194m at 30 June 2004 to $4.992m at 30 June 2008, an increase of $1.798m. The increase is predominantly due to the receipt of capital grant funding for the Callington Mill of $1.200m in 2006-07, the majority of which remained unspent at 30 June 2008.

Payments for property, plant and equipment totalled $10.652m for the four years under review. Major capital additions during this period included:

- plant and machinery purchases, $2.075m
- re-sheeting of gravel roads, $1.919m
- upgrade of Woodsdale Road, $1.330m
- upgrade of White Kangaroo Road, $0.635m
- High St, Oatlands underground cabling, $0.499m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(726)	(1 170)	(782)	(660)
Operating margin	>1.0	0.91	0.86	0.89	0.90
Underlying result ratio		(9.3%)	(16.9%)	(11.8%)	(10.5%)
Self financing ratio		29.1%	30.5%	24.6%	27.4%
Own source revenue ($'000s)		5 014	4 353	3 987	3 749
Financial Management					
Current ratio	>1	5.90	4.71	4.44	3.88
Indebtedness ratio		23.5%	30.4%	31.4%	36.3%
Cost of debt	7.5%	6.6%	6.1%	6.6%	6.6%
Debt service ratio		2.9%	3.5%	3.6%	4.0%
Debt collection	30 days	60	53	70	61
Creditor turnover	30 days	23	26	21	25
Capital expenditure/depreciation	>100%	77%	100%	96%	115%
Capital expenditure on existing assets/depreciation	100%	68%	95%	89%	102%
Other Information					
Employee costs expensed ($'000s)		2 598	2 246	2 148	1 949
Employee costs capitalised ($'000s)		167	195	231	266
Total employee costs ($'000s)		**2 765**	**2 441**	**2 379**	**2 215**
Employee costs as a % of operating expenses		31%	28%	29%	28%
Staff numbers (FTEs)		46	45	44	45
Average staff costs ($'000s)		60	54	54	50
Average leave balance per FTE ($'000s)		17	16	13	11

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded operating deficits in all years under review resulting in Operating margins below the benchmark and negative Underlying result ratios.

Self financing ratio was fairly consistent throughout the period under review. Own source revenue gradually increased over the period which is due to the increase in rates revenue and user charges noted in the Income Statement section.

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

Indebtedness ratio decreased from 36.3% in 2004-05 to 23.5% in 2007-08. The decrease was primarily due to the aforementioned increase in Council's Own source revenue.

Cost of debt was consistent across the period under review and was below benchmark in all years. Debt service ratio decreased from 4.0% in 2004-05 to 2.9% in 2007-08, reflecting loan repayments made by Council.

Debt collection was above the benchmark of 30 days in all years under review. The ratio indicates that debts are not being collected within the standard 30 day period. It should be noted that the ratio of 70 days in 2005-06 was impacted by grant debtors outstanding at 30 June 2006 totalling $0.129m, which were subsequently paid. Also, Council's debtor balances include two long-term debts that totalled $0.114m at 30 June 2008 (2006-07, $0.116m). Although the debtors have fallen behind in their repayment schedules, they are still considered collectable.

Creditor turnover figure was below the benchmark in all years under review, which reflects Council's policy of paying outstanding creditors within a 30-day period.

After removing the effect of expenditure on new assets, Capital expenditure on existing assets to depreciation was below benchmark in all years except 2004-05, which was slightly above benchmark at 102%. In the period under review, Capital expenditure on existing assets was $9.757m, compared with depreciation charges of $11.096m. This represents a ratio of 87.9%, indicating that Council may not have invested sufficiently in maintaining existing assets.

Employee costs as a % of operating expenses and Average staff costs increased in 2007-08 due to the increase in Employee costs noted in the Income Statement section. Average staff entitlements were higher in 2006-07 and 2007-08 due to the impact of recognising the provision balances for sick leave and gratuity payments due under Council's Enterprise Agreement.

TASMAN COUNCIL

INTRODUCTION

The Tasman area was first proclaimed a Municipality in 1907. In the 1993 amalgamation Council took over a part of the municipal area of Sorell Council. The municipal area includes both the Tasman and Forestier Peninsulas and starts just south of the Dunalley canal. The municipality covers an area of 659 square kilometres with a population of approximately 2 300 people.

On 1 July 2006, the Tasman Council entered into a Tripartite Agreement with the Commonwealth and State governments for the funding of the Tasman Multipurpose Service (MPS). The MPS is an internal business unit of Council and offers a range of hospital, aged care and community and health services. During 2005-06 Council transferred the MPS Nursing home and MPS upgrade assets valued at $3.812m to the Department of Health and Human Services (DHHS) who funded construction. DHHS hold the assets and services are provided by Council.

Financial results and comments provided below relate to the consolidated financial statements of Tasman Council and MPS.

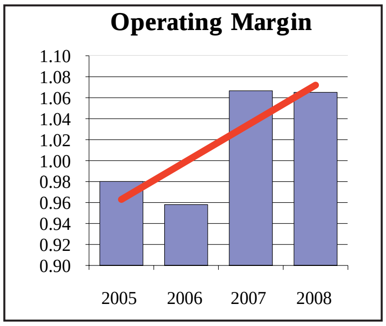
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2008, with amended signed statements received on 28 November 2008. An unqualified audit report was issued on 29 November 2008.

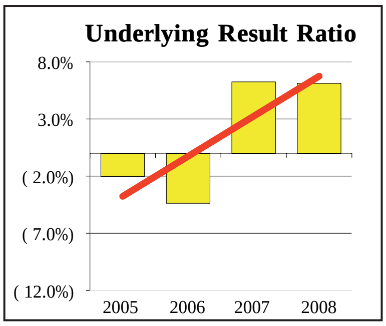
The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

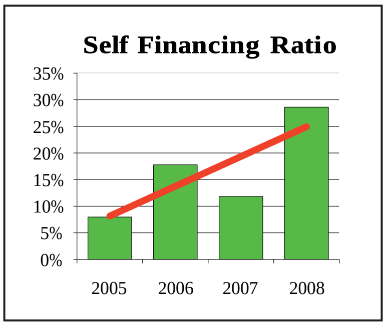
The following five graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In general, the ratios indicate:



The Operating margin exceeded the benchmark of one in the current and 2006-07 financial years due to surpluses before Capital grants. An Operating margin below one indicates that a council might not be generating sufficient operating surpluses to fulfil its operating requirements including its depreciation charges. The primary reason for the improvement in 2006-07 was a significant increase in Rates.

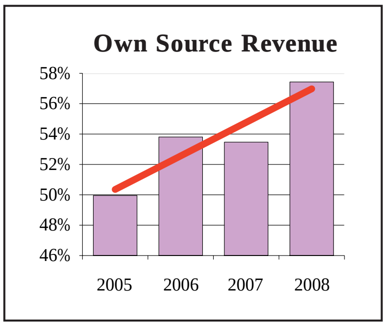


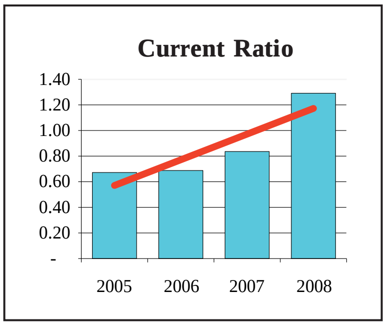
The 2007-08 Underlying results ratio remained the same as the prior year and has shown a marked improvement from the negative ratios in 2004-05 and 2005-06. It was pleasing to note that Council budgeted to break-even in 2007-08.



The Self financing ratio improved each year, over the period of review and significantly from 2006-07, reflecting a large net increase in operating cash flows. This ratio assists to measure Council's ability to fund the replacement of assets from operational cash flows.

Council's Own source revenue ratio improved steadily over the period of review, primarily from increases in rates revenue each year. This means Council was less reliant on external income such as grants to fund its operating activities. However, recurrent grants still represent a reasonably large proportion of Council's revenue being 42.6% in 2007-08 (2006-07, 46.5%; 2005-06, 46.2%; 2004-05, 50.0%).





The Current ratio was above the benchmark of one for the first time in 2007-08. This ratio is a measure of whether a council is able to meet all its short-term liabilities as and when they fall due. The improvement was due mainly to a large increase in Cash and Investments which more than offset an increase in Payables.

INCOME STATEMENT

	2007-08 Estimate* $'000s	2007-08 Actual $'000s	2006-07 Actual $'000s	2005-06 Actual $'000s	2004-05 Actual $'000s
Rates	2 789	2 838	2 734	2 009	1 743
User charges	829	907	811	859	467
Grants	2 931	3 126	3 381	2 870	2 839
Other operating revenue	295	526	311	406	579
Gain/(Loss) on disposal of assets	0	27	(23)	(8)	5
Share of profit (loss) in associates	0	(81)	52	77	40
Total Revenue	**6 844**	**7 343**	**7 266**	**6 213**	**5 673**
Employee costs	3 360	3 373	3 235	3 356	2 909
Borrowing costs	110	118	107	94	80
Depreciation	854	846	795	750	731
Other operating expenses	2 519	2 557	2 675	2 285	2 068
Total Expenses	**6 843**	**6 894**	**6 812**	**6 485**	**5 788**
Surplus (Deficit) before:	**1**	**449**	**454**	**(272)**	**(115)**
Capital grants	0	2 128	123	204	26
Contributions of non current assets	0	0	0	236	0
Assets transferred to State government	0	0	0	(3 812)	0
Surplus (Deficit)	**1**	**2 577**	**577**	**(3 644)**	**(90)**

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

Comment

Over the four year period under review Council recorded a total surplus of $0.516m, before Capital grants, Contributions of non-current assets and Asset transfers to the State Government. This was mainly due to increases in Rate and Grant revenues.

In the current year Council recorded a surplus of $0.449m which was slightly less than the prior year's result but a significant improvement on the deficit, in 2005-06 and 2004-05.

Rates revenue rose $1.095m (63%) in the period under review and exceeded budget in 2007-08. The increase over the period was primarily due to the flow on effect of the revaluation of properties, increasing the value of properties overall and subsequently rate charges. Other factors contributing to increased revenue were higher revenue from waste collection services and price increases from contractors which were passed on.

User charges related principally to residents' contributions to MPS together with other MPS and Council services. User charges increased by $0.440m (94%), mainly due to an increase in the use of MPS and Council services over the period.

Operating grant revenue, $3.126m, decreased by $0.255m (8%) from last year but over the period of review increased by $0.287m (10%). Additional grants this year included the MPS childcare centre upgrade, $0.044m which was classed as an operating grant because the centre is owned by DHHS.

Other operating revenue, $0.526m, increased by $0.215m from last year and has fluctuated over the period. It includes interest income which increased by $0.106m to $0.229m due to higher cash balances and increases in investment rates.

Employee costs of $3.373m were reasonably steady since 2005-06 after experiencing a 15% increase in 2004-05 associated with a 10% increase in staff numbers and CPI wage rises.

Borrowing costs consistently increased over the period and from 2004-05 have risen $0.038m (48%). This reflects the increase in borrowings over the period as noted in the Balance Sheet section of this Chapter. Interest charges for replacement borrowings also increased in this period.

Depreciation, increased by $0.115m from 2004-05 to 2007-08. Over the period fluctuations arose due to factors such as the value of assets acquired and disposed, and revaluations of buildings, roads, bridges and other infrastructure.

Other operating expenses increased by $0.489m over the period. In 2007-08 $0.040m in bad debts were written off and the full year operating costs of the new childcare centre were included. The majority of the increase in Other operating expense in 2006-07 was a one-off cost of $0.390m attributable to the upgrade and fit-out of the childcare centre. The cost of the fit-out was treated as an expense because the centre is owned by the DHHS.

Capital grant of $2.128m in 2007-08 was the largest amount recorded over the four year period, mainly due to a one-off grant for the Pirates Bay Visitor Zone of $1.300m.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	474	28	315	128
Receivables	388	336	311	327
Investments	1 814	650	400	86
Total Current Assets	**2 676**	**1 014**	**1 026**	**541**
Payables	1 323	488	517	304
Borrowings	248	231	217	161
Provisions-employee benefits	346	275	273	239
Other	156	219	485	146
Total Current Liabilities	**2 073**	**1 213**	**1 492**	**850**
Working Capital	**603**	**(199)**	**(466)**	**(309)**
Property, plant and equipment	15 930	14 283	13 844	14 928
Investment	600	0	0	0
Investments in Joint Ventures	71	154	104	0
Other	56	26	23	0
Total Non-Current Assets	**16 657**	**14 463**	**13 971**	**14 928**
Borrowings	1 427	1 233	1 463	1 290
Provisions - employee benefits	36	66	97	69
Other	78	89	101	0
Total Non-Current Liabilities	**1 541**	**1 388**	**1 661**	**1 359**
Net Assets	**15 719**	**12 876**	**11 844**	**13 260**
Accumulated surpluses	10 737	8 193	7 649	11 357
Reserves	4 982	4 683	4 195	1 903
Total Equity	**15 719**	**12 876**	**11 844**	**13 260**

Comment

Equity, $15.719m, increased significantly by $2.843m (22%) from 2006-07 reflecting the current year surplus of $2.577m. The decrease in 2005-06 was due to transfer of MPS Nursing Home to DHHS of $3.812m.

The increases in reserves in the period of $3.079m or 162% was principally due to the revaluation of roads and bridges in 2006-07, $0.455m and land and buildings in 2005-06, $2.268m.

Total cash and investments, $2.888m, increased from last year by $2.210m principally due to unspent Capital grant revenue ($1.310m) and increased payables balance ($0.835m). The unspent Capital grants relate to projects including Pirates Bay Visitors Zone ($1.182m), Roads to Recovery ($0.096m) and Envirofund ($0.032m). Without these funds, Cash and Investment would have been $0.743m.

Receivable, $0.388m, was marginally higher than last year due to outstanding GST Input Tax Credits and amounts invoiced for the Pirates Bay projects. It has been reasonably consistent over the period of review.

Payables, $1.323m, increased $0.835m from last year and included unpaid accounts relating to the Cripps Creek Bridge project ($0.350m), Port Arthur Streetscape ($0.148m), roads in general

($0.101m) and acquisition of office equipment ($0.057m). This was the largest Payables balance over the four year period and appeared to indicate that Council did not pay year-end creditors in a timely manner. This is also a major reason why Council's cash balance increased.

Total Borrowings were $1.675m, an increase of $0.211m (14%) from last year. Over the period of review total borrowings increased by $0.224m (15%). Borrowings this year included a new loan of $0.460m in relation to Cripps Creek Bridge project. This was offset by repayments of $0.249m.

Property, plant and equipment, $15.930m, increased by $1.647m (12%) from last year but only $1.002m (7%) over the period of review. New assets capitalised during the current year included Port Arthur Streetscape ($0.302m), Taranna Jetty ($0.170m), Judd Park Public Toilets ($0.116m), and Tasman Civic Centre ($0.082m). Major works in progress included White Beach Road - New Cripps Creek Bridge ($0.427m), Pirates Bay Visitor Zone ($0.143m), Nubeena Sewage Plant ($0.134m), Nubeena Road – Restrainers ($0.077m) and Nubeena Back Road ($0.063m). In addition infrastructure and other structures were revalued upwards by $0.226m. The decrease between 2004-05 and 2005-06 was primarily due to the transfer of the MPS Nursing home and MPS upgrade assets valued at $3.812m to the DHHS.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 124	3 716	3 303	2 970
Cash flows from government	3 354	3 404	3 293	2 838
Payments to suppliers and employees	(5 488)	(6 277)	(5 451)	(5 302)
Interest received	229	123	54	26
Borrowing costs	(118)	(107)	(94)	(80)
Cash from operations	**2 101**	**859**	**1 105**	**452**
Capital grants and contributions	2 128	123	204	26
Payments for property, plant and equipment	(2 356)	(849)	(1 216)	(1 013)
Proceeds from sale of property, plant and equipment	126	46	179	125
Cash (used in) investing activities	**(102)**	**(680)**	**(833)**	**(862)**
Proceeds from borrowings	460	0	400	400
Repayment of borrowings	(249)	(216)	(171)	(149)
Cash from (used in) financing activities	**211**	**(216)**	**229**	**251**
Net increase (decrease) in cash	**2 210**	**(37)**	**501**	**(159)**
Cash at the beginning of the year	678	715	214	373
Cash at end of the year	**2 888**	**678**	**715**	**214**

Comment

Council generated positive Cash from operations in the period under review. It is noted that Payments to suppliers and employees exceeded Receipts from customers in each year and indicated a heavy reliance on government grants. Movements are consistent with explanations provided in the Income Statement section of this Chapter.

Payments for property, plant and equipment totalled $5.434m in the period which included a significant increase in 2007-08. Reasons for the high expenditure in 2007-08 relate to increased capital works discussed in the Balance Sheet section of this Chapter. The $5.434m was funded by a combination of Capital grants, $2.481m, net borrowings, $0.475m and cash generated from operations. Funding from Capital grants included Roads to Recovery ($0.381m), Port Arthur Streetscape ($0.082m), Taranna Jetty ($0.085) and a Black spot Grant ($0.085m).

The Council's Net cash position appears to have improved significantly from last year and over the period of review. The improvement is a one-off and is due to unexpended grants and the higher than normal level of unpaid creditors.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		449	454	(272)	(115)
Operating margin	>1.0	1.07	1.07	0.96	0.98
Underlying result ratio		6.1%	6.2%	(4.4%)	(2.0%)
Self financing ratio		28.6%	11.8%	17.8%	8.0%
Own source revenue ($'000s)		4 217	3 885	3 343	2 834
Financial Management					
Current ratio	>1	1.29	0.84	0.69	0.67
Indebtedness ratio		36.5%	35.7%	49.7%	49.0%
Cost of debt	7.5%	7.5%	6.8%	6.0%	6.0%
Debt service ratio		5.0%	4.5%	4.3%	4.1%
Debt collection	30 days	28	31	35	43
Creditor turnover	30 days	63	66	83	54
Capital expenditure/depreciation	>100%	278%	107%	162%	139%
Capital expenditure on existing assets/depreciation	100%	186%	91%	135%	135%
Other Information					
Employee costs expensed ($'000s)		3 373	3 235	3 356	2 909
Employee costs capitalised ($'000s)		0	0	0	0
Total employee costs ($'000s)		**3 373**	**3 235**	**3 356**	**2 909**
Employee costs as % of operating expenses		49%	47%	52%	50%
Staff numbers (FTEs)		58	54	56	55
Average staff costs ($'000s)		58	60	60	53
Average leave balance per FTE ($'000s)		7	6	7	4

Comment

Financial Performance ratios show Council has reversed the position of operating deficits early in the period and in the past two years produced surpluses.

Indebtedness ratio improved over the period of review and appears to have stabilised over the past two years.

Debt collection continually improved over the period of review and for the current year was below the benchmark the first time.

Creditor turnover, while improving from 2005-06 was double the benchmark in 2007-08. As noted in the Balance Sheet section of this Chapter, the Payables balance was the highest it has been over the four year review period. Council states it aims to improve this ratio and pay outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was above benchmark for all years under review, reflecting Council's significant investments in property, plant and equipment in particular for the current year when the ratio was 278%.

Capital expenditure on existing assets/depreciation doubled from last year and was above the benchmark for three of the four years under review.

INDEX

T

U

V

W

Our Vision

STRIVE | LEAD | EXCEL | *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

Availability of reports

Auditor-General's reports are available from the Tasmanian Audit Office, HOBART. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

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Cover picture: Launceston City Council by Rebecca Clarke
Back cover picture: Burnie City Council

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 produced by the Australian Auditing and Assurance Standards Board.

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