Tasmanian
Audit Office

# Report of the Auditor-General
# No. 4 of 2012-13

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

## Volume 4 Part II

Local Government Authorities 2011-12

November 2012

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# The Role of the Auditor-General

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

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

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. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

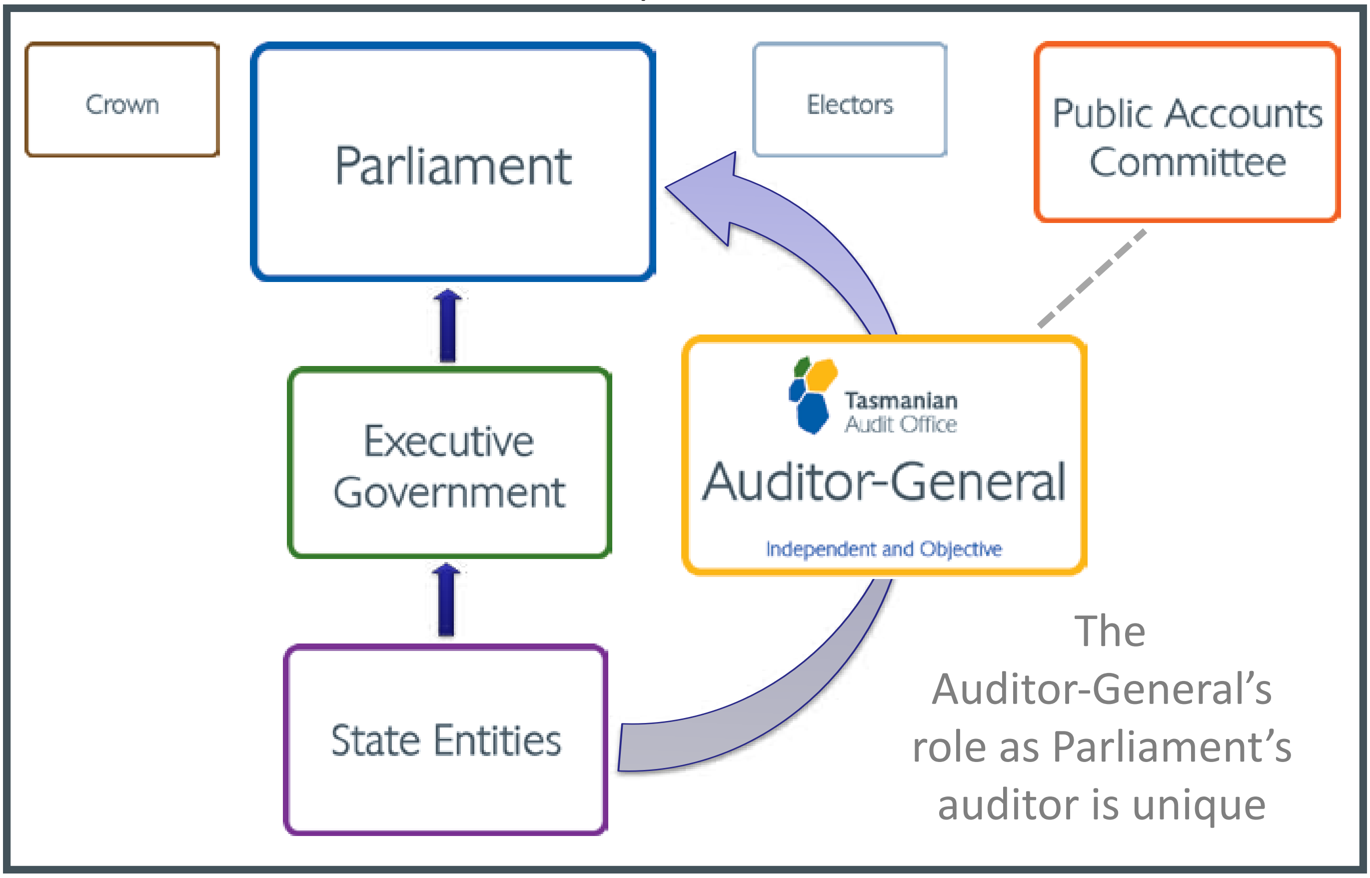
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property.

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.

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

**The Auditor-General's Relationship with the Parliament and State Entities**



2012 (No. 30)

TASMANIA

# 2012
# PARLIAMENT OF TASMANIA

## REPORT OF THE AUDITOR-GENERAL
## No. 4 of 2011-12

## Volume 4
## Part II

## Local Government Authorities 2011-12

**November 2012**

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

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# TABLE OF CONTENTS

## PART I



## PART II

# MAJOR CITY COUNCILS

# CLARENCE CITY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012, with amended financial statements received on 30 August 2012. An unqualified audit report was issued on 7 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

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

## FINANCIAL RESULTS

Our analysis shows that Council generated a Net Operating Deficit of $0.935m in 2011-12, compared to a deficit of $1.213m reported the year before. On a before net interest revenue basis, Council's deficit was significantly larger, $4.210m ($4.418m), which shows Council's dependency on investment revenues. Interest earned in 2011-12 was $3.338m and averaged $3.320m per annum over the past four years.

Council generated a Net Surplus of $3.823m (2010-11, $3.406m) and a Comprehensive Surplus of $5.343m ($10.907m). The Comprehensive Surplus included the net impacts of upward asset revaluations of $1.078m and an increase in Council's interest in Southern Water of $0.442m.

Consistent with the Comprehensive Surplus of $5.343m, Council's Net Assets increased to $664.207m, from $658.861m in the previous year. As at 30 June 2012 Council's Net Working Capital was $46.036m, up from $44.398m, due mainly to higher cash holdings. Council's cash and investment balances totalled $50.548m, with $33.734m subject to external and/or internal restrictions. The majority of the restricted cash was held in Council's discretionary reserves and primarily represented funds for future infrastructure renewal.

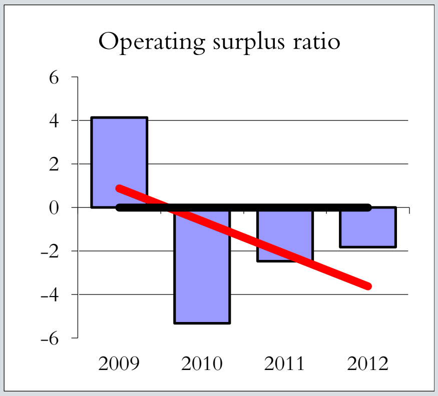
## Assessment of financial sustainability

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

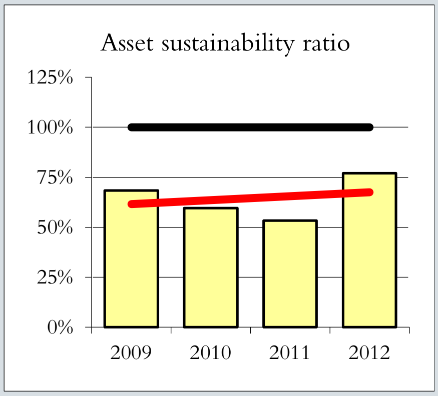
### Relevant financial sustainability ratios

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

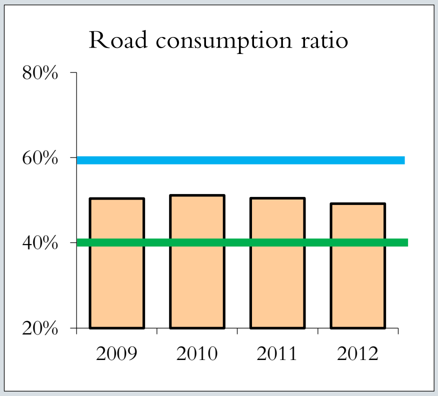
In general, the ratios indicate:



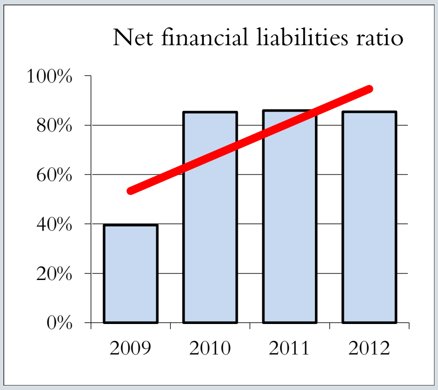

Council recorded operating deficits in each of the past three years. Over the four year period, Council averaged an Operating deficit of $0.495m. This indicates that over the period under review, Council did not generate sufficient revenue to fulfil its operating requirements, including depreciation charges. However since 2010 the deficits have been steadily reducing.




The asset sustainability ratio was below the 100% benchmark in all four years under review, but rose to 77% in 2012. This indicates that, subject to levels of maintenance expenditure and the long-term asset management plan, and based on our 100% benchmark, Council was under investing in existing assets. However, the improvement this year indicates that Council is addressing this investment shortfall. The trend indicates that Council is progressively increasing the amount allocated for renewal funding.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2012 Council had used (consumed) approximately 50% of the service potential of its road assets. This ratio shows that Council's road infrastructure has reached the half-way point of its life cycle, indicating moderate financial sustainability risk.




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

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

### Governance

A review of Council's governance arrangements indicated that it has an audit committee with membership consisting of two Aldermen and three external members. The audit committee:

- influences and manages an internal audit program and follows up internal audit work done
- scrutinises and recommends adopting long-term asset management and financial management plans
- reviews Council's annual financial statements, focusing on accounting policies, areas of significant accounting estimates, compliance with accounting standards and other reporting requirements, adjustments arising from the audit process and material variances from prior years
- liaises with the external auditors.

However, based on our assessment, Council could achieve a better governance result if its audit committee charter included a requirement for the committee to review Council's annual financial statements and recommend signing by the General Manager prior to their submission to the Auditor-General. While the audit committee reviews accounting policies and practices adopted in Council's preparation of the financial statements prior their submission, the remaining aspects of the review are undertaken after the completion of the audit.

Council's long-term asset management has recently been reviewed and updated. A ten-year financial management plan is being finalised.

## Conclusion as to financial sustainability

Taken together these ratios provide differing messages when considering Council's financial sustainability. From a financial operating perspective, Council's operating result was below the benchmark for three of the four years of the analysis, indicating moderate financial sustainability risk.

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

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

Council's audit committee achieved a low risk rating. However greater involvement of the audit committee in finalising Council's annual financial statements would further strengthen existing governance arrangements.

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council was at moderate financial sustainability risk from operating and asset management perspectives but low financial sustainability risk from a net financial liabilities and governance perspective.

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

Long term factors are not captured within the short time frame of this analysis (four years) which are critical to a full understanding of Council's financial position. In relation to operational results, Council's revenue has been artificially restricted due to legislation surrounding the transfer of water and sewerage operations. Council has received no material dividends from Southern Water due to temporary legislative provisions, meaning it has an investment in excess of $200 million on which it is receiving no return.

The effect of this is clear from the operating surplus ratio above which shows a healthy ratio of +4% prior to the transfer and -5% following the transfer. In recent years, Council has followed a financial strategy to restore this ratio over time and the success of this strategy is evident from the three year trend.

Following the expiration of legislative restrictions on the payment of dividends, Council will receive a substantial annual dividend payment which is expected to restore its operating result to a strong positive position.

The short retrospective time frame is also unable to capture long-term strategies in place to fund and manage asset renewal. These strategies include the application of future dividends to asset renewal, significant increase in real rating effort for renewal purposes, and appropriate timing of asset replacements in accordance with asset management plans and ongoing condition assessments. Interest revenue is noted within this report as being a potential risk for Council, however this revenue source primarily relates to Council's renewal funding strategy – rather than recurrent operations - and is integral to the strategy's long-term outcomes.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 38 403 | 38 657 | 36 949 | 35 120 |
| Fees and charges | 4 213 | 4 202 | 4 251 | 4 178 |
| Grants ** | 5 166 | 4 609 | 4 272 | 4 948 |
| Other revenue | 627 | 496 | 324 | 685 |
| **Total Revenue** | **48 409** | **47 964** | **45 796** | **44 931** |
| Employee costs | 13 608 | 13 625 | 13 367 | 12 664 |
| Depreciation | 13 010 | 12 943 | 12 513 | 12 271 |
| Other expenses | 25 874 | 25 606 | 24 334 | 25 195 |
| **Total Expenses** | **52 492** | **52 174** | **50 214** | **50 130** |
| **Net Operating Deficit before** | **(4 083)** | **(4 210)** | **(4 418)** | **(5 199)** |
| Finance costs | (94) | (63) | (88) | (114) |
| Interest revenue | 2 123 | 3 338 | 3 293 | 2 774 |
| **Net Operating Surplus (Deficit)** | **(2 054)** | **(935)** | **(1 213)** | **(2 539)** |
| Capital grants | 0 | 87 | 664 | 1 524 |
| Financial assistance grant received in advance ** | 1 368 | 1 368 | 656 | 625 |
| Offset Financial assistance grant in advance ** | (1 368) | (656) | (625) | (570) |
| Share of interest in associate | 0 | 159 | (64) | (74) |
| Gain/loss on disposal of equipment | 0 | (703) | (469) | 151 |
| Profit from part sale of share of Copping | 0 | 0 | 0 | 74 |
| Contribution non current assets | 380 | 4 503 | 4 457 | 10 954 |
| **Net Surplus** | **(1 674)** | **3 823** | **3 406** | **10 145** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non current assets | 0 | 1 078 | 6 343 | 40 458 |
| Fair value initial adjustment in Southren Water | 0 | 0 | 0 | (40 878) |
| Current year fair value adjustment in Southern Water | 0 | 442 | 1 158 | 0 |
| **Total comprehensive income items** | **0** | **1 520** | **7 501** | **(420)** |
| **Comprehensive Surplus** | **(1 674)** | **5 343** | **10 907** | **9 725** |

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

** *Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

### Comment

In 2011-12 Council recorded a Net Operating Deficit before Finance cost and Interest revenue of $4.210m, compared with the $4.418m deficit in 2010-11. The decrease in the deficit of $0.208m was impacted by:

- increased Rates revenue of $1.708m related to a higher general rate and other charges
- increased Grant revenue of $0.337m, due predominantly to an increase in Financial Assistance Grants.

These were partly offset by:

- higher Employee costs, $0.258m, due to a 3% increase in salaries and wages under Council's Enterprise Agreement, which was partly offset by cost savings achieved by reduced staffing. At 30 June 2012, Council's workforce was 212 FTEs compared to 220 FTEs at the end of 2011
- higher Depreciation expense, $0.430m, which reflected the increased value of Property, plant and equipment due to capital additions and revaluation of parks and recreation equipment
- increased Other expenses, $1.272m, due to higher maintenance and operating costs, including Council elections held in October 2011.

After accounting for net finance revenue, $3.275m, Council's deficit reduced to $0.935m, highlighting the importance of interest revenue to Council's annual operating performance.

Council recorded a Net Surplus of $3.823m compared to $3.406m in 2010-11. This increase was mainly attributed to the receipt of an advance Financial Assistance Grant payment of $1.368m paid to local governments before 30 June 2012, from the 2012-13 allocation (2010-11, $0.656m). The advance payment in 2011-12 was for half of next year's allocation, compared to one quarter paid in advance in 2010-11. The additional Financial Assistance Grant revenue was partly offset by a decrease in Capital grants, $0.577m, due to the winding-down of projects under the Nation Building – Economic Stimulus Plan programs.

Overall, Council recorded a Comprehensive Surplus of $5.343m for 2011-12, compared to a surplus of $10.907m in 2010-11. The prior year's result included a revaluation increment of $6.343m, the majority of which related to the revaluation of Council's stormwater assets. Council also recorded an increment in its investment in Southern Water in 2010-11, amounting to $1.158m. In the current year, the revaluation increment, which related to Council's stormwater and parks and recreation equipment, was only $1.078m and the increase in its investment in Southern Water was also lower, at $0.442m.

Excluding non-operating items, 2011-12 deficit of $0.935m was lower that an estimated deficit of 2.054m. The favourable budget variance, $1.119m, was mainly due to actual interest revenue earned being $1.215m greater than the budgeted figure, other expenses being $0.268m less than budgeted and rates income greater than the estimate by $0.254m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 50 548 | 49 331 | 46 893 |
| Receivables | 2 826 | 3 031 | 2 723 |
| Inventories | 139 | 134 | 144 |
| Other | 683 | 586 | 654 |
| **Total Current Assets** | **54 196** | **53 082** | **50 414** |
| Payables | 4 958 | 5 771 | 4 262 |
| Borrowings | 145 | 137 | 674 |
| Provisions - employee benefits | 3 057 | 2 776 | 2 392 |
| **Total Current Liabilities** | **8 160** | **8 684** | **7 328** |
| **Net Working Capital** | **46 036** | **44 398** | **43 086** |
| Property, plant and equipment | 414 222 | 413 170 | 405 507 |
| Investments in associates | 395 | 236 | 301 |
| Investment in water corporation | 202 167 | 201 725 | 200 567 |
| Receivables | 2 794 | 865 | 123 |
| **Total Non-Current Assets** | **619 578** | **615 996** | **606 498** |
| Borrowings | 856 | 1 001 | 1 138 |
| Provisions - employee benefits | 551 | 532 | 490 |
| **Total Non-Current Liabilities** | **1 407** | **1 533** | **1 628** |
| **Net Assets** | **664 207** | **658 861** | **647 956** |
| Reserves | 274 313 | 274 715 | 265 744 |
| Accumulated surpluses | 389 894 | 384 146 | 382 212 |
| **Total Equity** | **664 207** | **658 861** | **647 956** |

### Comment

As outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $5.346m.

Movements between Accumulated surplus and Reserves were mainly due to the surplus for the year and the revaluation of fixed assets being recorded within the Asset Revaluation Reserve. Transfers to other reserves were also made to provide for future infrastructure renewal.

Net Assets increased by $5.346m to $664.207m. Reasons for line items movements included:

- increased Cash and financial assets up $1.217m, which is discussed in the Statement of Cash Flows section of this Chapter
- higher Property, plant and equipment, up $1.052m, reflecting:
    - upward revaluation of parks and recreation equipment, $0.633m,
    - indexation of stormwater assets, $0.445m

    - newly commissioned items, mainly roads, stormwater and buildings, $16.294m, offset by the written-down value of assets disposed of or retired, $2.927m, partly offset by
    - annual Depreciation expense, $12.943m
    - written down value of disposals/retirements of $2.927m
- increased value of Council's investment in Southern Water, $0.442m
- higher non-current receivables of $1.929m, which included a deferred receivable of $1.975m due from Southern Cross Homes as part of the agreement for the development of an aged care facility in Rosny
- lower Payables, $0.813m, mainly due to Council having a significant capital invoice for $0.484m outstanding at the end of the prior year for pavement reconstruction and a reduction in infrastructure and landscaping bonds of $0.427m held by Council
- higher employee benefit provisions of $0.300m, influenced by increased wage rates as per Council's Enterprise Agreement and application of lower discount rates in the long service leave liability calculation.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 47 376 | 44 774 | 46 822 |
| Cash flows from government | 5 408 | 4 967 | 5 003 |
| Payments to suppliers and employees | (43 263) | (39 077) | (42 875) |
| Interest received | 3 321 | 3 192 | 2 590 |
| Finance costs | (63) | (90) | (279) |
| **Cash from operations** | **12 779** | **13 766** | **11 261** |
| Capital grants and contributions | 0 | 0 | 1 524 |
| Payments for property, plant and equipment | (11 672) | (10 319) | (13 878) |
| Proceeds from sale of property, plant and equipment | 247 | 465 | 403 |
| **Cash (used in) investing activities** | **(11 425)** | **(9 854)** | **(11 951)** |
| Repayment of borrowings | (137) | (674) | (647) |
| Loans advanced | 0 | (800) | 0 |
| **Cash (used in) financing activities** | **(137)** | **(1 474)** | **(647)** |
| **Net increase (decrease) in cash** | **1 217** | **2 438** | **(1 337)** |
| Cash at the beginning of the year | 49 331 | 46 893 | 59 709 |
| Less cash transferred to Southern Water | 0 | 0 | (11 479) |
| **Cash at end of the year** | **50 548** | **49 331** | **46 893** |

### Comment

Council's cash balance increased by $1.217m to $50.548m as at 30 June 2012. The main contributing factor was Cash from operations, which exceeded the combined payments for Property, plant and equipment and Repayments of borrowings.

At 30 June 2012, Council reported $33.734m (2010-11, $33.226m) of its cash balance was subject to internal and/or external restrictions. The majority of the restricted cash, $27.830m ($27.508m), was held in Council's discretionary reserves and primarily represented funds for future infrastructure renewal.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, cash from operations decreased by $0.987m to $12.779m which included:

- Council's operating deficit of $0.935m adjusted for depreciation, $12.943m, providing $12.008m in operating cash flows
- cash inflows related to the advanced payment for Financial Assistance Grant, $0.712m.

Movements between Payables, Provisions and Receivables largely offset each other and did not impact significantly the balance of Cash from operations.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (935) | (1 213) | (2 539) | 2 708 |
| Operating surplus ratio * | >0 | (1.82) | (2.47) | (5.32) | 4.13 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 77% | 53% | 60% | 68% |
| Asset renewal funding ratio** | 90%-100% | n/a | n/a | n/a | n/a |
| Road asset consumption ratio * | >60% | 49.2% | 50.4% | 51.1% | 50.4% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 43 807 | 42 145 | 40 660 | 25 920 |
| Net financial liabilities ratio*** | 0%-(50%) | 85.4% | 85.9% | 85.2% | 39.6% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 10.46 | 8.86 | 10.05 | 2.88 |
| Current ratio | 1:1 | 6.64 | 6.11 | 6.88 | 2.62 |
| Interest Coverage | | 201.84 | 151.96 | 39.36 | 16.41 |
| Asset investment ratio | >100% | 90% | 82% | 113% | 144% |
| Self financing ratio | | 24.9% | 28.0% | 23.6% | 37.8% |
| Own source revenue | | 91.0% | 91.3% | 89.6% | 89.6% |
| Debt collection | 30 days | 24 | 27 | 25 | 21 |
| Creditor turnover | 30 days | 22 | 21 | 10 | 24 |
| Rates per capita ($) | | 732 | 705 | 677 | 927 |
| Rates to operating revenue | | 75.4% | 75.3% | 73.6% | 72.7% |
| Rates per rateable property ($) | | 1 637 | 1 568 | 1 447 | 2 028 |
| Operating cost to rateable property ($) | | 2 212 | 2 135 | 2 071 | 2 674 |
| Employee costs expensed ($'000s) | | 13 625 | 13 367 | 12 664 | 14 104 |
| Employee costs capitalised ($'000s) | | 1 374 | 1 479 | 1,198 | 1,199 |
| **Total employee costs ($'000s)** | | **14 999** | **14 846** | **13 862** | **15 303** |
| Employee costs as a % of operating expenses | | 26% | 27% | 25% | 22% |
| Staff numbers (FTEs) | | 212 | 220 | 217 | 250 |
| Average staff costs ($'000s) | | 71 | 67 | 64 | 61 |
| Average leave balance per FTE ($'000s) | | 17 | 15 | 13 | 12 |

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

## Comment

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

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

Asset investment ratio increased slightly to 90% but was still below the benchmark of 100% as Council's total capital expenditure was below its depreciation expense, indicating that Council is not investing enough in its asset base.

Council's rate statistics were relatively consistent over the period under review. Rates per rateable property was trending upwards and corresponds with rate increases over the period under review. Rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

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

Total employee costs increased slightly by $0.153m due to an annual increase in salaries and wages, which was offset by savings due to lower staffing. This was reflected in Average staff costs, which increased by 3.0% in line with the increase under Council's Enterprise Agreement. Staff numbers decreased by 8 FTEs between 2010-11 and 2011-12.

The remaining ratios in the table above are consistent with the results obtained in the prior years.

# GLENORCHY CITY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012. Following the audit, the financial statements were re-signed on 6 September 2012 and an unqualified audit report was issued on the following day.

## KEY FINDINGS AND DEVELOPMENTS

### Provision of landfill restoration

Council recognises a provision for decommissioning and rehabilitating its landfill site at Jackson Street and to manage the site after closure. The amount of the provision is a combination of estimated restoration costs and the useful life of the landfill. Currently, the restoration cost estimate is based on internal costing. We recommended in 2010-11 that Council obtain an independent estimate of the cost for capping, rehabilitation and on-going maintenance of the landfill site and its useful life. An independent valuation will be undertaken in 2012-13.

The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit before Capital grants and Asset adjustments of $3.210m in 2012 (2010-11, Deficit $3.376m). The Net Operating Deficit in 2011-12 was consistent with the budgeted deficit of $3.301m. Despite a budgeted deficit again this year, steps have been taken to address Council's long-term sustainability, including increasing the general rate by 7.4% and restructuring operations to facilitate efficiencies and cost savings.

Council recorded a Net Surplus of $23.358m (2010-11, $7.724m), which included Capital grants of $20.966m, net additional Financial Assistance Grants of $0.627m and contributions of non-monetary assets, $5.275m.

The Comprehensive Surplus of $37.521m included the impact of upward asset revaluations, $13.729m, and fair value adjustment of Council's interest in Southern Water, $0.434m.

Consistent with the Comprehensive Surplus of $37.521m, Council's Net Assets increased to $713.678m from $676.157m the previous year. As at 30 June 2012 Council had Net Working Capital of $48.078m up from $20.328m in the previous year, predominantly due to higher cash holdings from significant Capital grants received in 2011-12 much of which remained unspent at 30 June 2012.

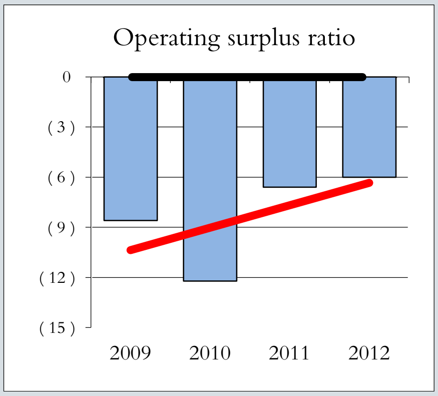
### Assessment of financial sustainability

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

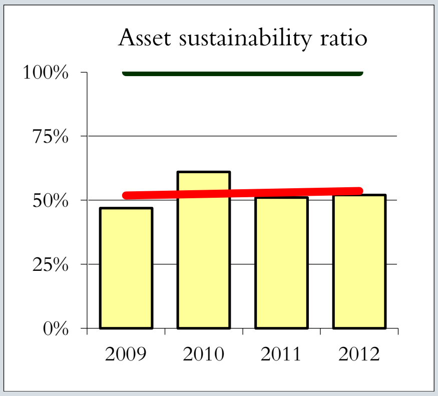
#### Relevant financial sustainability ratios

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

In general, the ratios indicate:



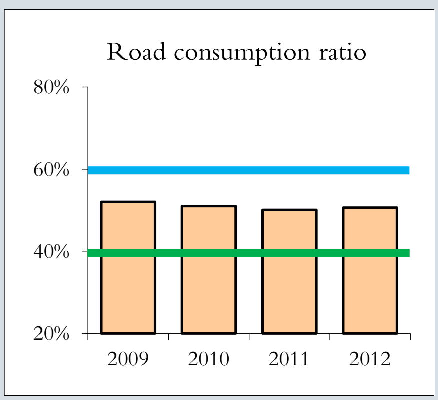

Council's operating surplus ratios reflect operating deficits in all four years. The negative ratios indicate that Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. The average ratio for the four years was negative 8.4 placing Council in the moderate risk range.



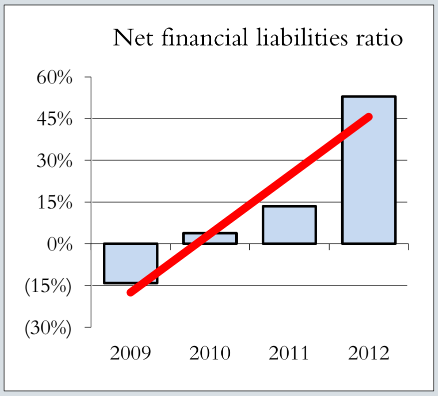

Asset sustainability ratio, although improving, was below benchmark in all four years under review. Council's average ratio was 53% which is well below the 100% benchmark, indicating, subject to levels of maintenance expenditure and its long-term asset management plan, Council was under investing in existing assets.

## Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 78% at 30 June 2012, based on planned asset replacement expenditure. This is below our benchmark of between 90% and 100%. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2022-23. Its financial plan covers a 10-year period.




The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2012 Council used (consumed) approximately 50% of the service potential of its road infrastructure assets. This indicates a moderate financial sustainability risk.




Net financial liabilities ratio indicated a strong liquidity position, with Council able to meet its commitments. Performance in 2011-12 was boosted by in excess of $16.000m in unspent capital grants received prior to year end, without which the ratio would have been 22%.

### Governance

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

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

In addition, Council had long-term asset management and financial management plans. The asset management plan covers a period from 2012-13 to 2022-23, is detailed, regularly reviewed and covers all the elements required in relation to Council's key infrastructure assets. The long-term financial plan covers a 10-year period. Both plans are formally adopted by Council.

## Conclusion as to financial sustainability

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

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

Asset sustainability ratio of 52% indicates Council is not sufficiently investing in its existing assets although its road consumption ratio was in the moderate risk range at around 50%. These ratios were mitigated to an extent by Council's 78% asset renewal funding ratio, which, while below our benchmark, indicated the existence of long-term plans aimed at addressing infrastructure investment.

Council's governance arrangements are sound.

Based on these ratios we concluded that at 30 June 2012, Council was at moderate risk from an operating and asset management perspective but low financial sustainability risk from financial liabilities and governance perspectives.

Management comments on this assessment of its financial sustainability

Council continues to work on the following short, medium and long-term strategies to strengthen financial sustainability, and operating and asset management:

- a strategic plan focussed on attracting private and public investment into the city, which is intrinsically linked to the long-term financial plan;
- any new investment will consider the whole of life cost analysis and use the long-term financial plan to understand the long-term impacts of today's investments;
- a review of service levels to ensure appropriate service standards are delivered across the municipality, and an organisation-wide review of systems and processes to improve efficiency of service delivery and identify cost savings;
- increasing dependence on income sources other than rates income;
- a gradual increase in Council's asset replacement and renewal program spend over the next 5 years to continue the improving trend of our asset renewal funding ratio;
- •matching future borrowing to new infrastructure investments so that funding is shared between current and future generations;
- introducing a new asset management system to improve asset management information, which is expected to improve the accuracy of the depreciation expenditure; and
- improving financial management through integrating financial and asset management systems; increasing monitoring of month and year to date financial positions; and more regular forecasting of end of year operating and capital expenditure for impacts during the year.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 24 929 | 24 843 | 23 112 | 19 810 |
| Fees and charges | 9 754 | 9 876 | 10 670 | 9 416 |
| Grants ** | 5 089 | 5 462 | 5 375 | 5 323 |
| Other revenue | 13 562 | 11 522 | 10 558 | 12 096 |
| **Total Revenue** | **53 334** | **51 703** | **49 715** | **46 645** |
| Employee costs | 19 958 | 18 951 | 17 908 | 18 186 |
| Depreciation | 15 396 | 14 747 | 14 506 | 13 881 |
| Other expenses | 21 899 | 22 286 | 21 392 | 20 670 |
| **Total Expenses** | **57 253** | **55 984** | **53 806** | **52 737** |
| **Net Operating (Deficit) before** | **(3 919)** | **(4 281)** | **(4 091)** | **(6 092)** |
| Finance costs | (711) | (646) | (686) | (655) |
| Interest revenue | 1 329 | 1 717 | 1 401 | 938 |
| **Net Operating (Deficit)** | **(3 301)** | **(3 210)** | **(3 376)** | **(5 809)** |
| Capital grants | 8 492 | 20 966 | 4 714 | 2 674 |
| Financial assistance grant received in advance ** | 0 | 1 224 | 597 | 571 |
| Offset Financial assistance grant in advance ** | 0 | (597) | (571) | 0 |
| Insurance recovery | 0 | 0 | 0 | 2 186 |
| Contributions of non-current assets | 0 | 5 275 | 2 564 | 2 016 |
| Net gain (loss) on disposal of property, plant and infrastructure | (536) | (300) | 385 | (172) |
| Gain on revalution of investment properties | 0 | 0 | 3 411 | 0 |
| **Net Surplus (Deficit)** | **4 655** | **23 358** | **7 724** | **1 466** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 13 729 | 36 013 | 18 799 |
| Fair value initial adjustment Southern Water | 0 | 0 | 0 | (74 093) |
| Current year fair value adjustment Southern Water | 0 | 434 | 1 136 | 0 |
| **Total comprehensive income items** | **0** | **14 163** | **37 149** | **(55 294)** |
| **Comprehensive Surplus (Deficit)** | **4 655** | **37 521** | **44 873** | **(53 828)** |

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

** *Grants received in advance have been shown separately after Net Operating Deficits.*

*The Offset figure enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenue of $4.281m, compared with the $4.091m deficit in 2010-11. Reasons for major line item movements were:

- increased Rates revenue, $1.731m, related mainly to a higher general rate
- higher Employee costs, $1.043m, attributed to a combination of redundancies paid as part of an organisational restructure which reduced the number of departments from six to four, annual salaries and wages increments in accordance with Council's Enterprise Agreement and higher staffing in operational and project management areas. These were partly offset by higher capitalised wages, $0.543m, reflecting the increased level of capital projects, namely the Derwent Park Stormwater Harvesting and Reuse Project
- higher Other expenses, $0.894m, due to an increase in the amount of assets written-off due to these being replaced, mainly roads and stormwater infrastructure, $0.536m, and an increase in other expenses, $0.123m, including land tax and bad debts.

After accounting for net interest revenues Council recorded an Operating Deficit of $3.210m (2010-11, $3.376m) highlighting the importance of interest revenue to Council's annual operating performance. Interest revenue averaged $1.266m a year over the past four years. Interest revenue increased by $0.316m, 22%, in 2011-12 due to higher cash holdings as a result of unspent funding received for major projects.

Council reported a Net Surplus of $23.358m in 2011-12 compared to $7.724m last year. The increase, $15.634m, was mainly due to:

- higher Capital grants, $16.252m, due to funding received for a number of large projects, including Derwent Park Stormwater Harvesting and Reuse Project, $6.518m, upgrade to the King George V infrastructure, $8.700m, and redevelopment of the Moonah Arts Centre, $4.000m
- receipt of an advance Financial Assistance Grant of $1.224m received in June 2012 from the 2012-13 allocation (2010-11, $0.597m). The advance payment in 2011-12 was for half of next year's allocation, compared to one quarter paid in advance in 2010-11
- Contributions of non-current assets, $5.275m, comprising infrastructure take-up adjustments representing assets identified by Council and brought to account for the first time as well as subdivision assets taken over by Council during the year
- lower Gain on revaluation of investment properties, $3.411m, recognised in 2010-11 following a revaluation of land and buildings classified as investments properties.

Total Comprehensive Surplus totalled $37.521m in 2011-12 (2010-11, $44.873m) comprising:

- fair value revaluations of non-current assets of $13.729m which included roads and bridges, $6.550m, stormwater and drainage, $4.708m, land, $1.035m, buildings, $1.422m, and equipment and furniture, $0.014m
- an increase in the investment in Southern Water, $0.434m, due to an increase in the water corporations net assets.

Council budgeted for a Net Operating Deficit of $3.301m and generated an actual Net Operating Deficit of $3.210m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| Cash and financial assets | 52 512 | 24 045 | 20 119 | 18 490 |
| Receivables | 1 363 | 2 835 | 1 331 | 2 372 |
| Inventories | 133 | 147 | 122 | 96 |
| Other | 4 108 | 1 989 | 3 573 | 1 774 |
| **Total Current Assets** | **58 116** | **29 016** | **25 145** | **22 732** |
| Payables | 3 553 | 2 228 | 2 618 | 3 918 |
| Borrowings | 1 482 | 1 200 | 1 374 | 30 |
| Provisions - employee benefits | 3 851 | 4 151 | 4 397 | 3 902 |
| Other | 1 152 | 1 109 | 928 | 1 467 |
| **Total Current Liabilities** | **10 038** | **8 688** | **9 317** | **9 317** |
| **Net Working Capital** | **48 078** | **20 328** | **15 828** | **13 415** |
| Property, plant and equipment | 478 136 | 463 147 | 427 776 | 412 589 |
| Investment in water corporation | 198 474 | 198 040 | 196 904 | 270 612 |
| Investment properties | 4 970 | 6 487 | 3 059 | 3 059 |
| Other | 1 | 3 | 7 | 10 |
| **Total Non-Current Assets** | **681 581** | **667 677** | **627 746** | **686 270** |
| Borrowings | 13 224 | 9 266 | 9 787 | 11 915 |
| Provisions - employee benefits | 1 686 | 1 510 | 1 431 | 1 512 |
| Other | 1 071 | 1 072 | 1 072 | 1 146 |
| **Total Non-Current Liabilities** | **15 981** | **11 848** | **12 290** | **14 573** |
| **Net Assets** | **713 678** | **676 157** | **631 284** | **685 112** |
| Reserves | 377 265 | 304 345 | 265 460 | 246 622 |
| Accumulated surpluses | 336 413 | 371 812 | 365 824 | 438 490 |
| **Total Equity** | **713 678** | **676 157** | **631 284** | **685 112** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $37.521m. Net Assets increased by the same amount to $713.678m. Major line item movements included:

- higher Cash and financial assets of $28.467m. Refer to the Statement of Cash Flows section of this Chapter for further explanation
- lower Receivables, $1.472m, mainly due to the prior year including significant debtor balances, including the Derwent Park Stormwater Harvesting and Reuse Project grant,$0.924m
- higher Other current assets, $2.119m, predominantly due to a reclassification of land, $2.327m, earmarked for sale
- additional Payables outstanding at 30 June 2012, $1.325m, due to timing of payments
- higher total borrowings, $4.240m, due to additional borrowings to finance the Derwent Park Stormwater Harvesting and Reuse Project, $5.100m, less repayments of existing loans, $1.200m
- increased Property, plant and equipment, $16.134m, reflecting mainly a revaluation increment of $13.729m, newly commissioned items largely roads, buildings and stormwater costing $17.850m, less the Depreciation charge, $14.747m, and assets written-off due to being sold or replaced, $2.627m
- decreased Investment properties, $1.517m, as items were reclassified as Property, plant and equipment.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 39 895 | 37 922 | 35 833 |
| Cash flows from government | 6 593 | 5 670 | 5 984 |
| Payments to suppliers and employees | (39 176) | (41 297) | (41 112) |
| Interest received | 1 717 | 1 558 | 687 |
| Finance costs | (652) | (686) | (655) |
| **Cash from operations** | **8 377** | **3 167** | **737** |
| Capital grants and contributions | 20 966 | 4 714 | 2 674 |
| Distributions received - Southern Water | 8 749 | 8 922 | 7 375 |
| Payments for property, plant and equipment | (14 156) | (12 572) | (10 839) |
| Proceeds from sale of property, plant and equipment | 290 | 385 | 277 |
| Insurance recovery | 0 | 0 | 2 186 |
| **Cash from investing activities** | **15 849** | **1 449** | **1 673** |
| Proceeds from borrowings | 5 440 | 680 | 680 |
| Repayment of borrowings | (1 199) | (1 370) | (1 461) |
| **Cash used in financing activities** | **4 241** | **(690)** | **(781)** |
| **Net increase in cash** | **28 467** | **3 926** | **1 629** |
| Cash at the beginning of the year | 24 045 | 20 119 | 18 875 |
| Less cash transferred to Southern Water | 0 | 0 | (385) |
| **Cash at end of the year** | **52 512** | **24 045** | **20 119** |

### Comment

At 30 June 2012, Council's total cash balance of $52.512m comprised cash at bank, on hand and short-term investments. Council's cash position improved by $28.467m during 2011-12, mainly due to a significant increase in Capital grants and contributions, $16.252m, a large part of which remained unspent at 30 June 2012.

At 30 June 2012, Council reported that $38.732m of its cash balance (2011, $15.175m) was subject to internal and/or external restrictions. The majority of the restricted cash, $27.030m ($9.125m) was held in revenue reserves to fund capital expenditure commitments. In addition, $18.125m of the total cash related to unspent grants with Council committed to expend the funding in accordance with funding agreements and $5.100m represented the balance of a loan drawn down to part-finance the Derwent Park Stormwater Harvesting and Reuse Project.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $5.210m to $8.377m which included:

- Council's operating deficit of $3.210m adjusted for a non-cash items, depreciation, $14.747m, assets written off, $2.025m, providing $13.562m in operating cash inflows, offset mainly by:
    - cash inflows from distributions received from Southern Water, $8.749m, being recorded as an investing activity for cash flow purposes
    - decrease in Receivables, $1.473m, and increase in Payables, $1.325m, both having a favourable effect on operating cash flow.

Details of Payments for property, plant and equipment have been provided in the Statement of Financial Position section of this Chapter, with the majority spent on roads, stormwater drains to address flooding issues, completion of the first stage of the GASP! Project and preliminary works on the Derwent Park Stormwater Harvesting and Reuse Project.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (3 210) | (3 376) | (5 809) | (5 592) |
| Operating surplus ratio * | >0 | (6.01) | (6.60) | (12.21) | (8.59) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 52% | 51% | 61% | 47% |
| Asset renewal funding ratio* ** | 90% - 100% | 78% | 91% | n/a | n/a |
| Road asset consumption ratio * | >60% | 50.6% | 50.0% | 51.0% | 52.1% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 28 265 | 6 882 | 1 853 | 10 086 |
| Net financial liabilities ratio*** | 0 - (50%) | 52.9% | 13.5% | 3.9% | 15.5% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 7.84 | 5.28 | 4.93 | 3.06 |
| Current ratio | 1:1 | 5.79 | 3.34 | 2.70 | 1.90 |
| Interest Coverage | | 11.85 | 3.62 | 0.13 | 8.28 |
| Asset investment ratio | >100% | 96% | 87% | 78% | 61% |
| Self financing ratio | | 15.7% | 6.2% | 1.5% | 19.1% |
| Own source revenue | | 89.8% | 89.5% | 88.8% | 91.5% |
| Debt collection | 30 days | 14 | 31 | 17 | 16 |
| Creditor turnover | 30 days | 32 | 5 | 14 | 13 |
| Rates per capita ($) | | 554 | 518 | 446 | 941 |
| Rates to operating revenue | | 46.5% | 45.2% | 41.6% | 64.3% |
| Rates per rateable property ($) | | 1 189 | 1 096 | 947 | 2 016 |
| Operating cost to rateable property ($) | | 2 710 | 2 584 | 2 553 | 3 405 |
| Employee costs expensed ($'000s) | | 18 951 | 17 908 | 18 186 | 20 615 |
| Employee costs capitalised ($'000s) | | 3 728 | 3 185 | 2 175 | 2 417 |
| **Total employee costs ($'000s)** | | **21 348** | **21 093** | **20 361** | **23 032** |
| Employee costs as a % of operating expenses | | 33% | 33% | 34% | 29% |
| Staff numbers (FTEs) | | 269 | 299 | 254 | 297 |
| Average staff costs ($'000s) | | 79 | 71 | 80 | 78 |
| Average leave balance per FTE ($'000s) | | 21 | 19 | 23 | 21 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*

**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive, as is the case with Glenorchy City Council, liquid assets exceed total liabilities.*

## Comment

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

Asset investment ratios showed a trend over the four years of increased total capital expenditure by Council as a percentage of its depreciation expense.

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

Interest coverage ratios increased significantly in 2011-12 due to improved cash from operations, mentioned earlier and significant cash from investing activities as a result of major capital grants received. The drop in 2009-10 followed the transfer of debt to Southern Water.

Debt collection days were better than benchmark in all years except 2010-11 which was the result of high outstanding debts at 30 June 2011 mentioned previously. Creditor turnover days increased significantly in 2011-12 due to material creditor balances at 30 June 2012 mentioned previously.

Council's positive Self-financing ratios indicate it generated operating cash flows which contributed towards its capital expenditure programs. The reduction in 2009-10 was likely to have related to the loss of water and sewerage rating income. The increase in 2011-12 was a result of the increased cash from operations mentioned earlier.

Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources over the four year period.

Rates statistics were comparatively consistent over the final three years of review, with a steady increase that reflected higher general rates and municipal revaluations. The change in 2009-10 was mainly due to the transfer of the water and sewerage activities and Council not rating for these services.

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

In 2011-12, Staff numbers decreased by 30 FTEs as Council restructured its operations by reducing the number of executive and administration positions, which was partly offset by employing additional staff in operational and project management areas. Average staff costs increased, however Employee cost as a % of operating expenses remained steady. Average staff costs in 2010-11 were low due to an increase in casual staff in that year.

# HOBART CITY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 10 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major issues outstanding.

### Net defined benefit superannuation liability

At 30 June 2012 Council reported a net defined benefit superannuation liability of $15.954m compared with a liability of $13.915m at 30 June 2011, an increase of $2.039m. The value of the superannuation liability and movements recognised in the financial report are based on an annual valuation carried out by Council's actuary. This valuation is based upon a number of assumptions and the use of discount rates, all of which are volatile.

To address this risk, we engaged an independent expert to review the work of Council's actuary.

Our expert was satisfied that the data, assumptions and methodology used by Council's actuary to determine the value of the Council's Defined Benefit Fund liability as at 30 June 2012 were reasonable and concluded that the:

- data used was relevant and appropriate for the purpose of the valuation
- assumptions and methodology used were consistent with relevant accounting and professional standards and had been determined in a manner consistent with prior periods
- assumptions were consistent with industry practice
- methods and calculations applied were appropriate.

### Superannuation interest expense

Council records the interest cost component of the superannuation expense as part of its employee costs. We acknowledge there is no specific requirement in AASB 119 Employee Benefits for Council to amend its current disclosure. However, we consider recognising the change in value that reflects the passage of time as a borrowing cost is clearly stated in paragraph 60 of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. It is our view that this principle is applicable to all situations where discounting is used.

We recommended that Council report the interest cost component as a financing cost in future years. Management agreed to adopt this approach in 2012-13.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit before non-operating items of $0.589m in 2011-12, (2010-11, deficit $2.202m). This result was $0.863m worse than the budgeted Net Operating Surplus of $0.274m. As we noted last year, it is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis. Council has not operated above break-even and achieved a result worse than its budgeted surplus. Its 20 year long-term financial management plan indicates a targeted breakeven for its underlying operating result.

The plan reports overall small surpluses from 2012 onwards with one year in the period, 2019, projecting a $1.037m deficit and five years in this period projecting small deficits of $0.251m or less.

After accounting for Capital grants and other non-operating items, Council reported a Net Surplus of $7.350m (2010-11, $0.243m) and after accounting for fair value movements in its infrastructure, investment in Southern Water and its defined benefit superannuation obligations it reported a Comprehensive Surplus of $46.713m (Deficit $7.052m).

Consistent with the Comprehensive Surplus of $46.713m, Council's Net Assets increased to $910.664m, up from $863.951m at 30 June 2011. As at 30 June 2012 Council had net Working Capital of $20.420m and was in a strong position to meet its commitments. Its Cash and financial assets totalled $37.192m, with $9.811m identified as restricted as it represented unspent grants or monies earmarked for specific purposes.

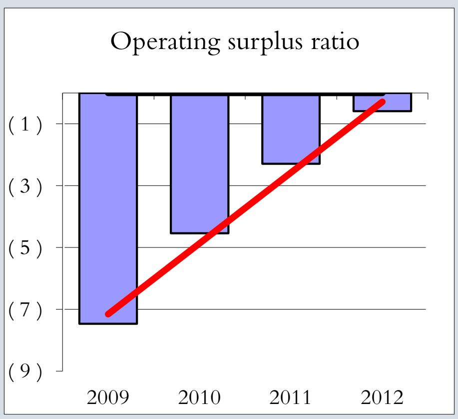
## Assessment of financial sustainability

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

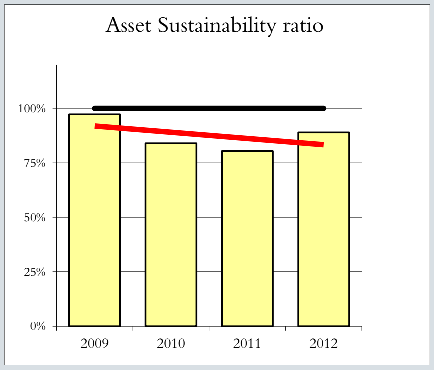
### Relevant financial sustainability ratios

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

In general, the ratios indicate:




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

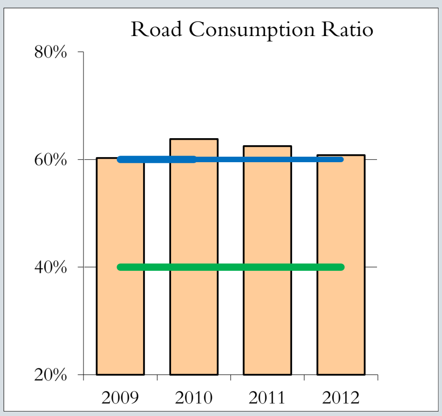



The asset sustainability ratio was below the 100% benchmark in all four years under review with the trend line heading downwards. In its long-term financial management plan Council reports that it aims for an average ratio of 77% over the 20 year period commencing 2012.

At this point in time Council considers that it is not under-investing in its assets and creating a burden for future generations. Council's view is that over the next 20 years, relative to the long-term nature of its assets, asset renewal requirements are lower. Asset planning by Council indicates that asset renewal requirements will eventually increase beyond the 20 year period and this will be prudently factored in with updates to the financial plan.

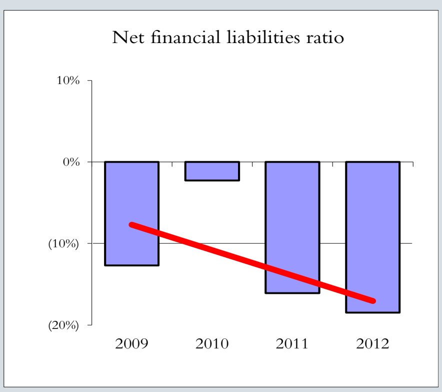
## Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 100% at 30 June 2012 which satisfies our 90% to 100% benchmark. This is based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's Long-Term Financial Management Plan 2012 -2032. Renewal forecasts were completed by Council's Asset Services and included in an Overarching Asset Management Plan 2011, which was endorsed by the Asset Management Steering Committee in April 2012.




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

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 39% of its road assets. This indicates Council had low financial sustainability risk as this relates to its road infrastructure.




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

### Governance

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

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

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

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

## Conclusion as to financial sustainability

Taken together these ratios provide consistent messages when considering Council's financial sustainability. From a financial operating perspective, Council's operating surplus was below the benchmark for all four years of the analysis, although the trend was indicating a move towards a break-even or surplus position. The target breakeven in 2012 was not acheived. This indicates moderate financial sustainability risk.

Council's net financial liabilities ratio was negative but well within our 0% to -50% benchmark indicating a strong liquidity position, with Council able to meet its commitments and having a capacity to borrow.

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

Council's governance arrangements are satisfactory indicating low risk on this criteria.

Based on these assessments we concluded that at 30 June 2012, Council was at low financial sustainability risk from an asset management, net financial liabilities and governance perspective but moderate risk from an operating perspective.

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

Hobart City Council strongly believes it is financially sustainable and agrees with the low risk assessment for the asset management, net financial liabilities and governance criteria. Council is working toward a breakeven/surplus operating result which will enable a low risk assessment for this category also. Though achieving a low risk assessment for asset management, Council, for the reasons set out above in the asset sustainability ratio, does not agree with the comment it is under investing in its assets.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 62 734 | 62 985 | 58 455 | 55 051 |
| Fees and charges | 29 208 | 26 475 | 26 314 | 25 922 |
| Grants ** | 3 230 | 3 450 | 4 552 | 3 490 |
| Other revenue | 4 553 | 5 017 | 4 635 | 4 080 |
| **Total Revenue** | **99 725** | **97 927** | **93 956** | **88 543** |
| Employee costs | 46 596 | 47 324 | 44 605 | 41 543 |
| Depreciation | 17 611 | 15 974 | 15 764 | 15 918 |
| Other expenses | 36 205 | 36 097 | 37 234 | 36 302 |
| **Total Expenses** | **100 412** | **99 395** | **97 603** | **93 763** |
| **Net Operating (Deficit) before** | **(687)** | **(1 468)** | **(3 647)** | **(5 220)** |
| Finance costs | (937) | (883) | (773) | (844) |
| Interest revenue | 1 898 | 1 762 | 2 218 | 1 952 |
| **Net Operating Surplus (Deficit)** | **274** | **(589)** | **(2 202)** | **(4 112)** |
| Capital grants | 0 | 9 081 | 1 977 | 1 532 |
| Financial assistance grant received in advance ** | 0 | 1 518 | 719 | 672 |
| Offset Financial assistance grant in advance ** | 0 | (719) | (672) | (617) |
| Lenah Valley Water Supply Augmentation Project | 0 | (1 959) | 0 | 0 |
| Contribution from Southern Water to repay loan debt | 0 | 0 | 0 | 5 067 |
| Contributions of non-current assets | 0 | 18 | 421 | 0 |
| **Net Surplus** | **274** | **7 350** | **243** | **2 542** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 43 867 | (4 223) | (62 332) |
| Fair value revaluation (decrease) of investment in Southern Water | 0 | 434 | 1 135 | (119 852) |
| Actuarial gain (loss) defined benefit superannuation plan | 0 | (4 938) | (4 207) | 1 776 |
| **Total comprehensive income items** | **0** | **39 363** | **(7 295)** | **(180 408)** |
| **Comprehensive Surplus (Deficit)** | **274** | **46 713** | **(7 052)** | **(177 866)** |

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

** *Grants received in advance have been shown separately after Net Operating Deficit.*

*The Offset enables the above table to balance with Council's own Statement of Comprehensive Income*

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenue and non-operating items of $1.468m, a $2.179m improvement on the $3.647m deficit reported in 2010-11. The improved result included:

- an increase in Rates of $4.530m or 7.7%, reflecting a higher general rate and waste management charges, including the introduction of a fixed $50 landfill rehabilitation works charge for each rateable property

- lower Grants revenue, \$1.102m. In 2010-11, Council received a grant \$1.191m from the Australian Government to upgrade the Domain Tennis Centre, including the construction of new grandstands
- increases in Employee costs, \$2.719m or 6.1%, due to higher staff numbers and indexation of salaries and wages and other increments in line with the Council's Enterprise Agreement
- lower Other expenses, \$1.137m, due to the inclusion of costs associated with the upgrade of the Domain Tennis Centre in 2010-11.

After accounting for net finance revenue Council Operating Deficit improved to \$0.589m (2010-11, Deficit \$2.202m) illustrating that Council relies, to some extent, on interest revenue to fund its operations.

Overall, Council reported a Net Surplus of \$7.350m due to:

- receipt of Capital grants, \$9.081m, comprising funding for Accelerated Energy-efficient Street-light Roll out, \$3.375m, New Town Bay Sport and Recreation Facilities, \$2.500m, Taste Festival Cooking Kiosks, \$1.300m, Wellesley Park Sport and Recreation Facilities, \$1.200m, and other projects
- receipt of an advance Financial Assistance Grant payment of \$1.518m received in June 2012 from the 2012-13 allocation (2010-11, \$0.719m). The advance payment in 2011-12 was for half of next year's allocation, compared to one quarter paid in advance in 2010-11, offset by
- the Lenah Valley Water Supply Augmentation Project, \$1.959m, mainly representing the construction cost of a water reservoir storage tank to service part of Lenah Valley, \$1.192m, paid to Southern Water.

After excluding capital grants and other non-operating items, Council budgeted for a small surplus of \$0.274m in 2012 compared to budget deficits in the preceding three years. The actual result was an unfavourable variance of \$0.863m, due to lower Fees and charges and higher employee costs offset by increased grant funding, Other revenue and lower than budgeted Depreciation.

Other Comprehensive Income totalled \$39.363m in 2011-12 comprising:

- fair value revaluation increment of non-current assets of \$43.867m, represented by an increase in the value of buildings, \$2.023m, roads and bridges, \$2.935m, pipes, drains and rivulets, \$49.359m, offset by a decrease in the value of land improvements, \$10.917m
- increased investment in Southern Water, \$0.434m,reflecting the increase in Southern Water's net assets
- an Actuarial loss of \$4.938m, on the Council's Superannuation Fund.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 37 192 | 30 295 | 38 661 |
| Receivables | 2 655 | 3 109 | 3 222 |
| Inventories | 287 | 331 | 334 |
| Other | 95 | 22 | 200 |
| **Total Current Assets** | **40 229** | **33 757** | **42 417** |
| Payables | 6 222 | 5 204 | 6 477 |
| Borrowings | 774 | 352 | 201 |
| Provisions – employee benefits | 9 727 | 9 457 | 8 460 |
| Other | 3 086 | 3 336 | 2 927 |
| **Total Current Liabilities** | **19 809** | **18 349** | **18 065** |
| **Net Working Capital** | **20 420** | **15 408** | **24 352** |
| Property, plant and equipment | 705 653 | 656 586 | 651 160 |
| Investment in water corporation | 198 290 | 197 856 | 196 721 |
| Investment property | 24 538 | 24 414 | 24 407 |
| Other | 220 | 226 | 244 |
| **Total Non-Current Assets** | **928 701** | **879 082** | **872 532** |
| Borrowings | 11 829 | 7 603 | 6 105 |
| Provisions – employee benefits | 3 159 | 1 321 | 1 401 |
| Superannuation liability | 15 954 | 13 915 | 10 655 |
| Other | 7 515 | 7 700 | 7 720 |
| **Total Non-Current Liabilities** | **38 457** | **30 539** | **25 881** |
| **Net Assets** | **910 664** | **863 951** | **871 003** |
| Reserves | 527 949 | 479 184 | 485 254 |
| Accumulated surpluses | 382 715 | 384 767 | 385 749 |
| **Total Equity** | **910 664** | **863 951** | **871 003** |

### Comment

Total Equity increased by $46.713m at 30 June 2012 which was Council's Comprehensive Surplus for the year as reported in the Statement of Comprehensive Income section of this Chapter.

The corresponding increase in Net Assets was a result of:

- an increase in Cash and financial assets, $6.897m, discussed in the Statement Cash Flows section of this Chapter
- higher Payables, $1.018m, mainly due to an increase in accrued capital expenditure
- a net increase in Borrowings, $4.648m, due to a new $5.000m loan to fund the construction of a waste transfer station and improvements to McRobies Gully Waste Management Centre
- a net increase in Provisions for employee benefits and Superannuation liability, $4.147m, comprising an increase of $3.518m in the defined benefit superannuation plan net liability and an increase of $0.629m in other employee entitlements, mainly annual and long service leave. These increases were driven predominantly by lower discount rates caused by a reduction in yields on Australian Government bonds.

- increased Property, plant and equipment, $49.067m, representing new additions, $23.879m, including Argyle Street Car Park, $15.550m, roads and bridges, $3.276m, and plant and equipment, $4.544m, less Depreciation, $15.974m, disposals, $2.705m, and increases in asset values arising from asset revaluations, $43.867m
- an increase in the value of Council's investment in Southern Water, $0.434m, representing Council's share of an increase in Southern Water's net assets.

## Defined Benefit Superannuation Plan

Council has a defined benefit superannuation plan. Based on an actuary's advice, Council increased its level of contributions from 10.5% to 13.0% of wages and salaries in 2010–11. In addition, Council agreed to make additional lump sum payments, with $1.200m paid in 2011–12 and $0.750m to be paid in the following two years. Council also agreed to make additional contributions equal to 7.0% of benefit payment for members exiting the scheme from 1 July 2012. Members of the scheme continue to contribute 6.0% of their wages and salaries.

## STATEMENT OF CASH FLOWS

| | **2011–12** | **2010–11** | **2009–10** |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 96 687 | 92 402 | 85 470 |
| Cash flows from government | 4 826 | 4 717 | 3 594 |
| Payments to suppliers and employees | (89 311) | (85 136) | (79 785) |
| Interest received | 1 985 | 2 123 | 1 999 |
| Finance costs | (502) | (402) | (458) |
| **Cash from operations** | **13 685** | **13 704** | **10 820** |
| Capital grants and contributions | 9 081 | 1 977 | 1 588 |
| Distributions received – Hobart Water | 0 | 0 | 1 860 |
| Distributions received – Southern Water | 2 119 | 2 096 | 1 936 |
| Payments for property, plant and equipment | (23 278) | (28 213) | (20 274) |
| Proceeds from sale of property, plant and equipment | 642 | 421 | 652 |
| **Cash (used in) investing activities** | **(11 436)** | **(23 719)** | **(14 238)** |
| Proceeds from borrowings | 5 000 | 1 850 | 1 750 |
| Contribution from Southern Water to repay loan debt | 0 | 0 | 5 067 |
| Repayment of borrowings | (352) | (201) | (5 020) |
| **Cash from financing activities** | **4 648** | **1 649** | **1 797** |
| **Net increase (decrease) in cash** | **6 897** | **(8 366)** | **(1 621)** |
| Cash at the beginning of the year | 30 295 | 38 661 | 40 282 |
| **Cash at end of the year** | **37 192** | **30 295** | **38 661** |

## Comment

Council's cash balance increased by $6.897m to $37.192m at 30 June 2012. The main contributing factor being grants received but yet to be expended, at the end of 2011-12, $8.292m, compared to $2.038m at the same time last year.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.019m to $13.685m which included:

- Council's Net Operating Deficit of $0.589m adjusted for depreciation of $15.974m, providing $15.385m in operating cash inflows, offset by
- cash inflows from dividends received from Southern Water $2.119m being recorded as an investing activity for cash flow purposes.

Net Cash used in investing activities decreased by $12.283m due to:

- an increase in capital grants funding, $7.104m, for projects such as the Accelerated Energy-efficient Street-light roll-out, $3.375m, New Town Bay Sport and Recreation Facilities, $2.500m, Taste Festival Cooking Kiosks, $1.300m, and Wellesley Park Sport and Recreation Facilities, $1.200m
- lower Payments for property, plant and equipment, $4.935m, as the Argyle Street Car Park development was nearing completion.

Net Cash from financing activities was $4.648m as Council borrowed $5.000m to fund the construction of a waste transfer station and improvements to McRobies Gully Waste Management Centre.

At 30 June 2012, Council reported that $9.811m (2010-11, $3.503m) of its cash balance was restricted relating to unspent capital grants or held for specific purposes, such as heritage funding. The remainder of the cash balance, $27.381m ($26.792m) was "earmarked" for specific purposes, mainly replacement of assets, provision of parking facilities and other capital works.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (589) | (2 202) | (4 112) | (7 592) |
| Operating surplus ratio * | >0 | (0.59) | (2.29) | (4.54) | (7.47) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 89% | 80% | 84% | 97% |
| Asset renewal funding ratio* ** | 90% - 100% | 100% | 100% | N/A | N/A |
| Road asset consumption ratio * | | 60.8% | 62.5% | 63.8% | 60.3% |
| Building consumption ratio | | 65.6% | 66.3% | 65.4% | 65.3% |
| Drainage consumption ratio | | 58.9% | 33.9% | 34.2% | 34.3% |
| Parks and recreation consumption ratio | | 46.6% | 47.7% | 52.6% | 49.7% |
| Total asset comsumption ratio * | | 64.7% | 59.3% | 60.1% | 59.5% |
| ***Liquidity*** | | | | | |
| Net Financial liabilities ($'000s) | | (18 419) | (15 484) | (2 063) | (12 901) |
| Net financial liabilities ratio*** | | (18.5%) | (16.1%) | (2.3%) | (12.7%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 4.12 | 3.96 | 4.55 | 3.19 |
| Current ratio | 1:1 | 2.03 | 1.84 | 2.35 | 2.00 |
| Interest Coverage | | 26.26 | 33.09 | 22.62 | 13.09 |
| Asset investment ratio | >100% | 146% | 179% | 127% | 140% |
| Self financing ratio | | 13.7% | 14.2% | 12.0% | 14.1% |
| Own source revenue | | 96.5% | 95.3% | 96.1% | 97.0% |
| Debt collection | 30 days | 10 | 12 | 13 | 14 |
| Creditor turnover | 30 days | 26 | 19 | 31 | 21 |
| Rates per capita ($) | | 1 263 | 1 172 | 1 104 | 1 368 |
| Rates to operating revenue | | 63.2% | 60.8% | 60.8% | 66.8% |
| Rates per rateable property ($) | | 2 676 | 2 484 | 2 339 | 2 894 |
| Operating cost to rateable property ($) | | 4 186 | 4 114 | 4 020 | 4 656 |
| Employee costs expensed ($'000s) | | 47 324 | 44 605 | 41 543 | 40 426 |
| Employee costs capitalised ($'000s) | | 2 600 | 2 110 | 1,787 | 2,907 |
| **Total employee costs ($'000s)** | | **49 924** | **46 715** | **43 330** | **43 333** |
| Employee costs as a % of operating expenses | | 48% | 46% | 44% | 37% |
| Staff numbers (FTEs) | | 615 | 596 | 591 | 597 |
| Average staff costs ($'000s) | | 81 | 78 | 73 | 73 |
| Average leave balance per FTE ($'000s) | | 21 | 18 | 17 | 16 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive liquid assets exceed total liabilities.*

## Comment

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

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

Asset investment ratio was above benchmark in all years under review, reflecting significant capital projects, involving new and existing assets, undertaken by Council, including the expansion of Centrepoint and Argyle Street Car Parks, redevelopment of Council's administration building and CBD revitalisation.

Council's positive Self financing ratio indicated it was generating operating cash flows which contributed towards its capital expenditure programs. Own source revenue showed Council generated the majority of its operating revenue from its own sources. Both ratios remained relatively stable throughout the period.

Council's policy is to pay outstanding creditors within a 30 day period and it met this benchmark in all years under review except for 2009-10, when the Creditor turnover reached 31 days. The increase in the days in 2009-10 was due to large capital creditors outstanding at year end.

Rates ratios fell in 2009-10 due to the transfer of water and sewerage assets. The increase in 2011-12 reflected the increase in general rate and waste management charges.

The increase in Total employee costs was a combination of an increase in Staff numbers, up 19 FTEs, annual indexation of salaries and wages and other increments. Average staff costs increased by 3.8%, which was in line with Council's Enterprise Agreement.

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2012 and an unqualified audit report was issued on 14 September 2012. In addition, an unqualified audit report was issued on Council's summary financial report on 18 October 2012.

The audit was completed satisfactorily with no major matters outstanding.

## KEY FINDINGS AND DEVELOPMENTS

### Invermay flood protection enhancement project

The Invermay flood protection enhancement project was once again a significant capital project during the year. The initial project budget was $39.000m funded equally by the State and Commonwealth Governments and Council. In 2010-11, the budgeted project cost was revised to $58.300m, with the State and Commonwealth Governments committing an additional $6.750m each to the project.

At 30 June 2012, Council committed, both in current and future costs and including funds provided by the State and Commonwealth, approximately $42.000m to the project, which included an amount estimated to finalise the compulsory acquisition of properties in the flood levee area. Currently, only one property settlement remains uncompleted.

Council is confident the total project cost will meet the revised budgeted of $58.300m when completed.

### Possible liability carbon pricing

The *Commonwealth's Clean Energy Act 2011* (the Act), introduced a carbon pricing mechanism, effective 1 July 2012.

In anticipation of the Act, Council reviewed the impact of a carbon price on its operations. It was considered that carbon tax implications would arise from the disposal of waste in Council's landfill facility. Council expects it will be liable to pay a carbon price on its landfill emissions. The amount payable will depend on the level of overall landfill emissions above the 25,000 tonne annual threshold within the Act. At 30 June 2012 Council had no liability but one may be evident at 30 June 2013.

### Net defined benefit superannuation liability

At 30 June 2012 Council reported a net defined benefit superannuation liability of $9.560m compared with a liability of $3.623m at 30 June 2012, an increase of $5.937m. The value of the superannuation liability and movements recognised in the financial report are based on an annual valuation. This valuation is based upon a number of assumptions and the use of discount rates, all of which are volatile.

To address this risk, we engaged an independent expert to review the work of Council's actuary.

Our expert was satisfied that the data, assumptions and methodology used by Council's actuary to determine the value of the Launceston City Council Defined Benefit Fund's liability as at 30 June 2012 were reasonable and concluded that the:

- data used was relevant and appropriate for the purpose of the valuation
- assumptions and methodology used are consistent with relevant accounting and professional standards and have been determined in a manner consistent with prior periods
- assumptions are consistent with industry practice
- methods and calculations applied are appropriate.

Council records the interest cost component of the superannuation expense as part of its salary and wages expense. We acknowledge there is no specific requirement in AASB 119 Employee Benefits for Council to amend its current disclosure. However, we consider recognising a change in value that reflects the passage of time as a borrowing cost is clearly stated in paragraph 60 of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. It is our view that this principal is applicable to all situations where discounting is used.

We recommend Council consider amending the disclosure of its superannuation interest expense and recording it as a borrowing cost.

## Museum Collection

Collections belonging to the Queen Victoria Museum and Art Gallery have been recognised on Council's Statement of Financial Position at $231.903m since 2009-10. At that time the value was based on an independent valuation. As at 30 June 2012, the value of the collections is still shown at the 2009-10 valuation. The key issues for the valuation of the collections are twofold:

### Currency of the valuation

We acknowledge that as the collection is not subject to depreciation, the currency of the valuation is not as significant as other infrastructure asset classes held by Council.

### Additions to collections

In the past two years, new items were acquired and added to the collection. However, the value of these additions has not been recognised.

We recommend that Council adopts a revaluation model for these assets and develops a policy on their recognition.

## FINANCIAL RESULTS

Council recorded an adjusted Net Operating Deficit after net financing revenue of $1.647m in 2011-12 (2010-11, $0.623m). We acknowledge this result was considerably better than the estimated deficit of $4.337m. The deficit of $1.647m represented 1.92% of operating revenues (including interest revenue). We also note that Council continues to generate growing operating cash flows.

Council generated a Net Surplus of $16.337m (2010-11, $8.774m) and a Comprehensive Surplus of $33.317m ($137.017m). The Comprehensive Surplus included the net impact of asset revaluations, $21.806m, an increase in Council's interest in Ben Lomond Water of $1.588m, offset by an Actuarial loss of $6.414m on the City of Launceston Employees Superannuation Fund. The Actuarial loss was adversely affected by the low discount rates used in the present value calculations.

Consistent with the Comprehensive Surplus of $33.317m, Council's Net Assets increased to $1.449bn, up from $1.416bn the previous year. As at 30 June 2012 Council had Net Working Capital of $40.699m and was in a strong position to meet its short-term commitments. Council's cash and investment balances totalled $62.544m, with $5.189m restricted or held as deposits. A further $7.312m is held for capital expenditure commitments and $27.982m for capital works currently in progress.

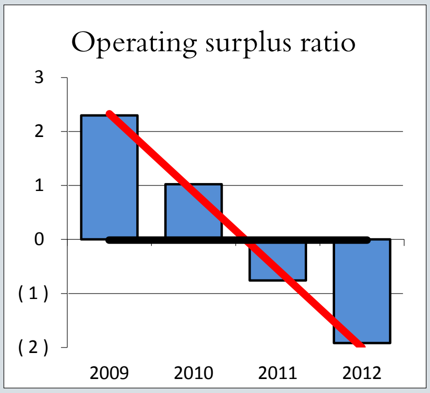
## Assessment of financial sustainability

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

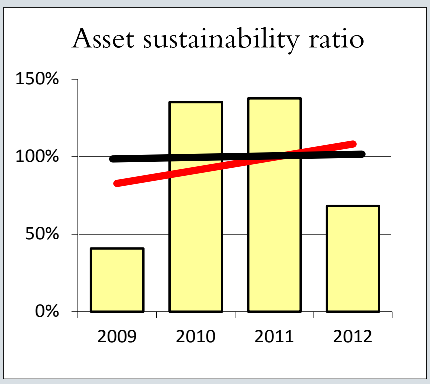
### Relevant financial sustainability ratios

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

In general, the ratios indicate:




Council recorded operating deficits in 2010-11 and 2011-12 compared with surpluses in the prior two years. Over the four year period, Council averaged an Operating surplus of $0.211m. This indicates that over the period under review, Council generated sufficient revenue to fulfil its operating requirements, including depreciation charges, which have increased significantly in recent years. However, the trend line indicates a deteriorating ratio which is a situation Council will need to monitor.

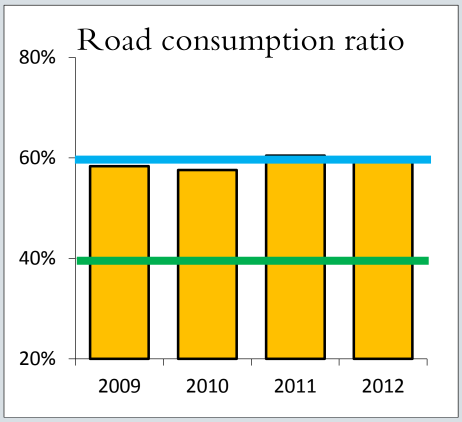



The ratio shows Council's capital expenditure on maintaining its current capacity to provide services was above benchmark in 2009-10 and 2010-11, but well below in the other two years. The average over the period was 96%, slightly below our 100% benchmark. The lower ratio in 2008-09 and 2011-12 was partly due to the large proportion of capital expenditure on new assets in those years which included the Launceston aquatic centre, Museum upgrade and Invermay flood protection enhancement project; both projects were enhancements on existing infrastructure.

### Asset renewal funding ratio

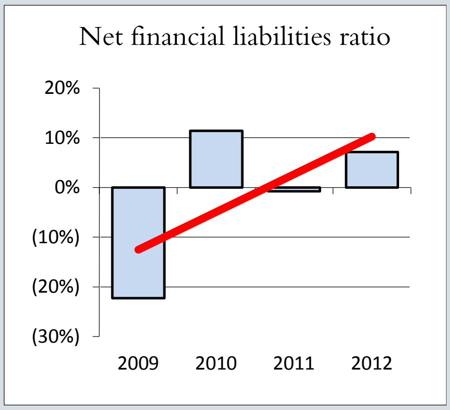
Council's long-term asset management plan indicated the asset renewal funding ratio was 100% at 30 June 2012, stronger than our benchmark, not less than 90%. This is based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's capital expenditure database for the period 2013 to 2022. The database completed by Council details all renewals works required to maintain services to ratepayers. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.

In addition, Council has a rolling ten year asset management plan, currently covering the period 2013 to 2022, for road infrastructure and is currently completing plans for other asset classes. Council's long-term financial management plan also covers the same ten year period.




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

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 40% of the service potential of its road infrastructure assets. This indicates a low financial sustainability risk, with Council at 30 June 2012, having sufficient capacity to continue to provide services to its ratepayers.




Council recorded a positive ratio at 30 June 2012, with liquid assets exceeding total liabilities by $6.090m. The positive ratio is well within our benchmark of nil to negative 50%. Council was in a sound liquidity position and able to meet existing commitments. The high negative ratio in 2008-09 was mainly due to current liabilities at 30 June 2009 including a deposit liability for $20.000m related to funding for the flood protection enhancement project. State and Commonwealth funding was received in 2007-08 and 2008-09 but recorded as a deposit liability until the grant conditions were met in August 2009.

## Governance

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

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

Council is in the process of updating the structure of the Audit Committee to include independent members. Although the Committee reviews quarterly financial reports, it does not take an active role in the review of Council's annual financial statements. Based on our review, Council's audit committee could be improved if the Committee played a role in reviewing the annual financial statements prior to their submission to the General Manager for signature.

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

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded a small average annual surplus over the four years under review and therefore generated sufficient revenue to meet operating requirements including depreciation.

Asset sustainability ratio indicated Council, based on our 100% benchmark, invested adequately in existing assets over the past four years. Council's Road asset consumption ratio remained steady at around 60% over the four year period meaning this infrastructure had sufficient service potential to meet the requirements of the community. In addition, Council's asset renewal funding ratio met our minimum 90% target.

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

From a governance perspective, Council has an active audit committee which might benefit by playing an active role in reviewing Council's financial statements prior to signature. Council has both long-term asset management and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at low financial sustainability risk in all respects.

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

The Council is currently reviewing its Strategic Financial Plan to address the operating deficit. A significant factor in the financial result is a significant increase in the depreciation expense due to the revaluation of existing assets and the addition of significant new assets in recent years.

The low interest rates that presently prevail have resulted in low discount rates that have increased the present value of the liability for leave and superannuation. A return to more normal discount rates will reduce the valuation of the liability.

The Council has a very sound financial position supported by strong cash flows.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 51 944 | 51 986 | 50 228 | 47 013 |
| Fees and charges | 17 485 | 17 774 | 16 959 | 17 495 |
| Grants ** | 5 957 | 7 072 | 6 443 | 6 997 |
| Ben Lomond Water investment revenue | 2 705 | 2 534 | 2 107 | 0 |
| Other revenue | 1 830 | 2 765 | 2 326 | 2 409 |
| **Total Revenue** | **79 921** | **82 131** | **78 063** | **73 914** |
| Employee costs | 32 111 | 30 391 | 29 607 | 26 128 |
| Depreciation | 19 556 | 19 778 | 16 254 | 15 855 |
| Other expenses | 34 106 | 35 345 | 35 701 | 33 878 |
| **Total Expenses** | **85 773** | **85 514** | **81 562** | **75 861** |
| **Net Operating (Deficit) before** | **(5 852)** | **(3 383)** | **(3 499)** | **(1 947)** |
| Finance costs | (1 260) | (1 970) | (1 078) | (899) |
| Interest revenue | 2 775 | 3 706 | 3 954 | 3 639 |
| **Net Operating Surplus (Deficit)** | **(4 337)** | **(1 647)** | **(623)** | **793** |
| Capital grants | 7 445 | 13 684 | 8 333 | 27 282 |
| Financial assistance grant received in advance ** | 0 | 2 282 | 1 031 | 990 |
| Offset Financial assistance grant in advance ** | 0 | (1 031) | (990) | (908) |
| Infrastructure take-up adjustments | 0 | 3 049 | 1 023 | (1 950) |
| Museum collections take up | 0 | 0 | 0 | 231 913 |
| **Net Surplus** | **3 108** | **16 337** | **8 774** | **258 120** |
| **Other Comprehensive Income** | | | | |
| Actuarial gains (losses) | 0 | (6 414) | (715) | 2 307 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | 0 | (132 648) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | (16 580) | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 1 588 | 2 730 | 0 |
| Asset revaluations | 0 | 21 806 | 142 808 | 0 |
| **Total comprehenive income items** | **0** | **16 980** | **128 243** | **(130 341)** |
| **Comprehensive Surplus** | **3 108** | **33 317** | **137 017** | **127 779** |

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

## Comment

In 2011-12 Council recorded a Net Operating Deficit before Finance cost and Interest revenue of $3.383m, compared with a $3.499m deficit in 2010-11. The slight reduction in the deficit was impacted by:

- increased Rates revenue, $1.758m, 3.5%, related to a higher general rate and waste management charges
- higher Fees and charges, $0.815m, predominantly from increased activity
- higher grant revenue, $0.629m, offset by
- greater depreciation expenses of $3.524m, due to higher depreciable amounts resulting from the revaluation of roads, bridges and buildings
- increased Employee costs up $0.784m, 2.6%. This increase was mainly due to pay rises under Council's Enterprise Agreement.

After accounting for net finance revenue Councils Operating Deficit improved to $1.647m (2010-11, $0.623m) highlighting the importance of interest revenue to Council's annual operating performance. Interest revenue was $0.931m more than budget. Finance costs increased by $0.892m and included an expense of $0.759m related to the unwinding of Council's provision for rehabilitation of its refuse disposal area. The balance was impacted by lower discount rates applicable at 30 June 2012.

After Capital grants, Infrastructure take-up adjustments and the impact of extra financial assistance grants in advance, Council recorded a Net Surplus of $16.337m in 2011-12. The surplus was considerably higher than the 2010-11 result of $8.774m, mainly due to $5.351m in additional capital grants. The balance included $5.750m in funding received in June 2011 for the Invermay flood protection enhancement project, which was recorded as a deposit liability at 30 June 2011.

Capital grants totalled $13.684m (2010-11, $8.333m) and included $11.750m for the Invermay flood protection enhancement project.

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

Other Comprehensive Income totalled $16.980m in 2011-12, comprising:

- fair value revaluation of Council's building assets of $21.806m
- increased investment in Ben Lomond Water of $1.588m being Council's 51.9% interest in higher net assets of Ben Lomond Water at 30 June 2012
- an Actuarial loss of $6.414m on the City of Launceston Employees Superannuation Fund.

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

| | **2011-12** | **2010-11** | **2009-10** | **2008-09** |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| Budgeted net surplus (deficit) | 3 108 | 4 593 | 24 891 | 7 250 |
| Budgeted capital grants | (7 445) | (8 542) | (27 656) | (6 458) |
| **Budgeted surplus (deficit) less capital grants** | **(4 337)** | **(3 949)** | **(2 765)** | **792** |

Council budgeted for a deficit before capital grants in all years except 2008-09. It is our expectation that Council should budget, as a minimum, to break-even.

At 30 June 2012, Council managed two controlled authorities set up under section 29 of the *Local Government Act 1993*, being the Launceston Flood Authority and the York Park and Inveresk Precinct Authority. The Upper Tamar River Improvement Authority (UTRIA) was wound up on 27 October 2008 and its operations and activities taken over by the Launceston Flood Authority which was established on the same date. The revenues and expenses of these authorities, as disclosed in Council's financial statements, were:

| | **2011-12** | **2010-11** | **2009-10** | **2008-09** |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| **Upper Tamar River Improvement Authority*** | | | | |
| Revenues | 0 | 0 | 0 | 254 |
| Expenses | 0 | 0 | 0 | (399) |
| | **0** | **0** | **0** | **(145)** |
| **Launceston Flood Authority** | | | | |
| Revenues | 1 139 | 730 | 1 136 | 1 193 |
| Expenses | (496) | (310) | (1 094) | (715) |
| | **643** | **420** | **42** | **478** |
| **York Park and Inveresk Precinct Authority** | | | | |
| Revenues | 1 402 | 1 258 | 1 275 | 863 |
| Expenses | (3 211) | (2 604) | (2 531) | (2 000) |
| | **(1 809)** | **(1 346)** | **(1 256)** | **(1 137)** |

* *Authority wound up during 2008-09*

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

The result for the Launceston Flood Authority for 2011-12 is distorted, as it includes a grant of $0.286m for 2012-13 which was received in late 2011-12.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 62 544 | 60 395 | 67 746 |
| Receivables | 4 648 | 4 711 | 4 103 |
| Inventories | 660 | 611 | 615 |
| Other | 279 | 409 | 1 003 |
| **Total Current Assets** | **68 131** | **66 126** | **73 467** |
| Payables | 16 754 | 22 206 | 26 225 |
| Borrowings | 2 573 | 2 336 | 1 754 |
| Provisions - employee benefits | 6 079 | 5 636 | 5 408 |
| Other | 2 026 | 7 529 | 2 574 |
| **Total Current Liabilities** | **27 432** | **37 707** | **35 961** |
| **Net Working Capital** | **40 699** | **28 419** | **37 506** |
| Property, plant and equipment | 952 664 | 927 567 | 766 671 |
| Investment in water corporation | 257 388 | 255 800 | 269 650 |
| Museum collection | 231 913 | 231 913 | 231 913 |
| Other | 258 | 258 | 258 |
| **Total Non-Current Assets** | **1 442 223** | **1 415 538** | **1 268 492** |
| Borrowings | 12 797 | 13 042 | 13 327 |
| Provisions - employee benefits | 772 | 782 | 735 |
| Superannuation liability | 9 560 | 3 623 | 2 667 |
| Other | 10 541 | 10 575 | 10 351 |
| **Total Non-Current Liabilities** | **33 670** | **28 022** | **27 080** |
| **Net Assets** | **1 449 252** | **1 415 935** | **1 278 918** |
| Reserves | 592 459 | 554 221 | 402 987 |
| Accumulated surpluses | 856 793 | 861 714 | 875 931 |
| **Total Equity** | **1 449 252** | **1 415 935** | **1 278 918** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $33.317m at 30 June 2012. Net Assets increased by the same amount to $1.449bn. Major line item movements included:

- Cash and financial assets decreased by $2.149m. Refer to the Statement of Cash Flows section of this Chapter for further explanation
- Payables decreased by $5.458m primarily due to Council finalising the purchase of several properties acquired for the Invermay flood protection enhancement project
- Other current liabilities decreased by $5.497m as Council recorded a liability, $5.750m, for additional State Government funding received in June 2011 for the Invermay flood protection enhancement project

- Property, plant and equipment increased by $25.097m due primarily to:
  - asset revaluations of $21.806m, for buildings
  - capital additions of $25.871m, which included roads urban, $4.336m, roads rural, $2.493m, Launceston Waste Centre – cell development $3.030m, flood levee program, $2.944m, work undertaken on the Aurora Stadium northern stand and other stadium related projects, $1.778m, Queen Victoria Museum Royal Park refurbishment, $1.767m, stormwater reticulation, $1.687m, sports facilities including the redevelopment of NTCA ground number two, $1.469m, and plant fleet management additions, $1.083m, offset by
  - Depreciation expense of $19.778m
  - Disposal of assets totalling $1.222m
- Council's investment in Ben Lomond Water increasing by $1.588m
- Council's non-current superannuation liability increasing by $5.937m, due to the assessment undertaken by an independent Actuary. The liability was affected by a decrease in discount rates applied to the liability calculation between June 2011 and June 2012.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 76 779 | 73 044 | 70 086 |
| Cash flows from government | 8 323 | 6 484 | 7 080 |
| Payments to suppliers and employees | (69 709) | (66 445) | (65 679) |
| Interest received | 3 364 | 3 638 | 3 639 |
| Finance costs | (907) | (871) | (628) |
| **Cash from operations** | **17 850** | **15 850** | **14 498** |
| Capital grants and contributions | 7 933 | 7 753 | 5 282 |
| Grants received in advance | 0 | 5 750 | 580 |
| Distributions from investments | 2 533 | 2 107 | 709 |
| Payments for property, plant and equipment | (26 670) | (39 787) | (28 033) |
| Proceeds from sale of property, plant and equipment | 510 | 679 | 538 |
| **Cash (used in) investing activities** | **(15 694)** | **(23 498)** | **(20 924)** |
| Proceeds from borrowings | 2 340 | 2 076 | 6 000 |
| Repayment of borrowings | (2 347) | (1 779) | (1 532) |
| **Cash from (used in) financing activities** | **(7)** | **297** | **4 468** |
| **Net increase (decrease) in cash** | **2 149** | **(7 351)** | **(1 958)** |
| Cash at the beginning of the year | 60 395 | 67 746 | 70 873 |
| Less cash transferred to Ben Lomond Water | 0 | 0 | (1 169) |
| **Cash at end of the year** | **62 544** | **60 395** | **67 746** |

## Comment

At 30 June 2012, Council's total cash balance of $62.544m comprised cash at bank and on hand, $0.667m, special committees, $0.140m, and bank guaranteed bills and deposits, $61.737m. The bills and deposits were included within the definition of cash as they all had short-term maturities.

At 30 June 2012, Council reported $5.189m (2010-11, $16.027m) of its investment balance was restricted (being held for specific purposes or recorded as prepaid deposits). In addition, Council noted $7.312m was held for capital expenditure commitments, $27.982m for net capital works carried forward and $26.132m was held to cover current liabilities (excluding deposits).

Council's cash position improved by $2.149m at 30 June 2012. This was due to Cash from operations, $17.850m, capital grants and contributions, $7.933m, and distributions from Ben Lomond Water, $2.533m, being sufficient to meet Payments for property, plant and equipment totalling $26.670m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $2.000m to $17.850m which included:

- Council's operating deficit of $1.647m adjusted for depreciation of $19.778m and the loss on disposal of assets $0.712m, both non-cash items, providing $18.843m in operating cash inflows
- additional financial assistance grants in advance of $1.251m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011, offset by
- cash inflows related to returns from Ben Lomond Water, $2.534m, being recorded as an investing activity for cash flow purposes.

Movements between Payables, Provisions and Receivables offset each other and did not impact the balance of Cash from operations.

Details of Payments for property, plant and equipment have been provided in the Statement of Financial Position section of this Chapter.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus/ (deficit) ($'000s) | | (1 647) | (623) | 793 | 2 323 |
| Operating surplus ratio * | > 0 | (1.92) | (0.76) | 1.02 | 2.30 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 68% | 138% | 135% | 41% |
| Asset renewal funding ratio* ** | 90% - 100% | 100% | 100% | n/a | n/a |
| Road asset consumption ratio * | >60% | 59.6% | 60.5% | 57.6% | 58.4% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 6 090 | (623) | 8 808 | (22 507) |
| Net financial liabilities ratio * *** | 0 - (50%) | 7.1% | (0.8%) | 11.4% | (22.3%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.26 | 2.08 | 2.39 | 1.29 |
| Current ratio | 1:1 | 2.48 | 1.75 | 2.04 | 1.17 |
| Interest Coverage | | 18.68 | 17.20 | 22.09 | 26.36 |
| Asset investment ratio | >100% | 135% | 245% | 177% | 188% |
| Self financing ratio | | 20.8% | 19.3% | 18.7% | 24.8% |
| Own source revenue | | 91.8% | 92.1% | 91.0% | 93.8% |
| Debt collection | 30 days | 24 | 26 | 23 | 25 |
| Creditor turnover | 30 days | 32 | 28 | 26 | 28 |
| Rates per capita ($) | | 774 | 763 | 717 | 1,015 |
| Rates to operating revenue | | 60.6% | 61.2% | 60.6% | 65.5% |
| Rates per rateable property ($) | | 1 716 | 1 678 | 1 605 | 2 282 |
| Operating cost to rateable property ($) | | 2 887 | 2 761 | 2 620 | 3 402 |
| Employee costs expensed ($'000s) | | 30 391 | 29 607 | 26 128 | 30 980 |
| Employee costs capitalised ($'000s) | | 2 009 | 2 021 | 1,563 | 2,317 |
| **Total employee costs ($'000s)** | | **32 400** | **31 628** | **27 691** | **33 297** |
| Employee costs as a % of operating expenses | | 35% | 36% | 34% | 31% |
| Staff numbers (FTEs) | | 432 | 426 | 397 | 475 |
| Average staff costs ($'000s) | | 75 | 74 | 70 | 70 |
| Average leave balance per FTE ($'000s) | | 16 | 15 | 15 | 16 |

* For commentary on these indicators refer to the Financial Results section of this chapter.

** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.

*** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.

Where the ratio is positive, as is the case with Launceston City Council, liquid assets exceed total liabilities.

## Comment

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

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

Asset investment ratio shows Council's total capital expenditure was well above its depreciation expense in all years. This ratio should be read in conjunction with the Asset sustainability ratio shown in graphical format in the Financial Results section of this Chapter.

Council's positive Self financing ratios indicate it was generating operating cash flows which contributed towards its capital expenditure programs. The reduction in 2009-10 mainly related to the loss of water and sewerage rating income. Own source revenue percentage shows Council generated the majority of its operating revenue from its own sources and in 2011-12 was reliant on recurrent grant funding to the extent of only 8% (2010-11, 8%).

Creditor turnover was better than benchmark in all years under review, except for 2011-12 when it was slightly above 30 days. Council's policy is to pay outstanding creditors within a 30 day period, however, creditor balances at 30 June historically include invoices for large capital projects causing some distortions.

Council's rate statistics were relatively consistent over the period under review. Rates per rateable property are trending upwards, but corresponds with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

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

Average staff costs and Average leave balances increased over the period, mainly due to pay rises under Council's Enterprise Agreement. Council's staff numbers increased in 2010-11 due to the filling of vacancies in infrastructure operations, planning and administration. In addition, new employees were appointed in information technology, parks and administration.

# MEDIUM COUNCILS

# BRIGHTON COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 26 September 2012.

## KEY FINDINGS AND DEVELOPMENT

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

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

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.789m in 2011-12 (2010-11, $1.419m). It reported a Net Surplus of $5.397m ($2.304m) and a Comprehensive Surplus of $25.916m ($4.335m). The Comprehensive Surplus was after bringing to account an increment associated with a revaluation of non-current physical assets, $20.396m, and the fair value adjustment of Council's investment in Southern Water, $0.123m.

Consistent with the Comprehensive Surplus of $25.916m, Council's Net Assets increased to $192.494m from $166.577m the previous year. At 30 June 2012 Council had Net Working Capital of $3.458m, an increase of $0.191m from the prior year, $3.267m, mainly due to higher Cash and Cash equivalents.

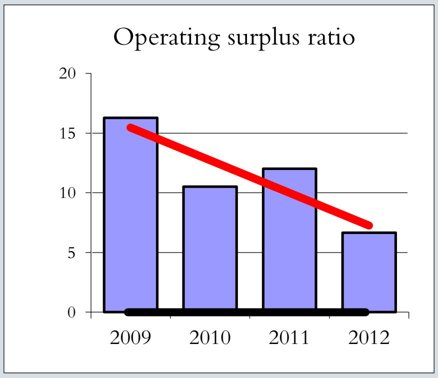
### Assessment of financial sustainability

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

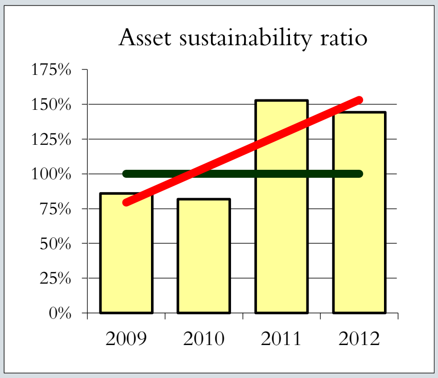
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



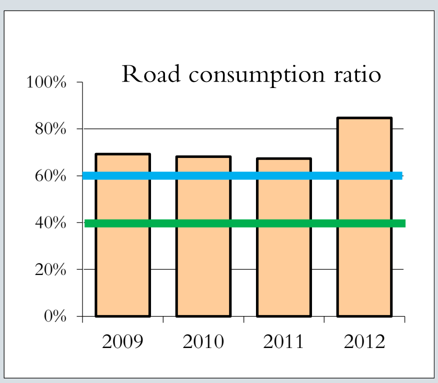

The positive operating surplus ratios reflected Council's operating surpluses for the past four years. There is a downward trend over the period of review as operating expenditure, including deprecation, increased at rates greater than the growth in revenues. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges for those years. However, Council will need to monitor the declining trend.




Asset sustainability ratio was below the 100% benchmark in the initial two years under review but improved substantially to be above the benchmark in 2011 and 2012. Over the four year period, Council's average ratio was 116%. This indicated Council had invested sufficient capital in sustaining existing assets.

## Asset renewal funding ratio

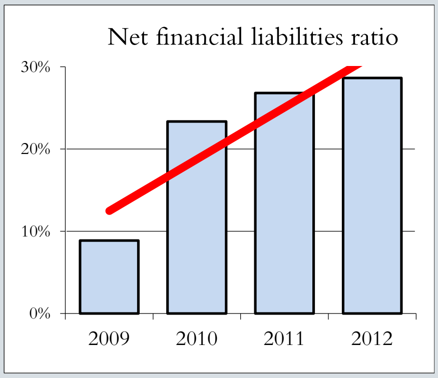
Based upon Council's long-term asset management plan the asset renewal funding ratio was 166% at 30 June 2012, well above our benchmark of not less than 90%. This was based on planned asset replacement expenditure for the next ten years exceeding future asset replacement expenditure actually required. Council's long-term asset management plan is based upon current projections and being a long-term plan will be subject to volatility and change.




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

The graph indicates that at 30 June 2012 Council had maintained the service potential of its road infrastructure to the point where, at this date, only approximately 15% had been consumed.

The ratio increased in 2012 becasue Council undertook a revaluation of roads in June 2012. The revaluation resulted in a reassesment of useful lives and the implementation residual values.




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

Council's total liabilities at 30 June 2012 consisted of payables, employee provisions, and deposits held in trust.

### Governance

A review of Council's governance arrangements indicated Council:

- did not have an audit committee
- had both long-term asset management and long-term financial management plans.

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

Council had long-term asset management and financial management plans covering the next ten years. These plans were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council

## Conclusion as to financial sustainability

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

Asset sustainability ratio indicated Council had increased its expenditure on existing assets in the last two year such that, over the period, expenditure reached an average of 116%, above our benchmark. Council's Road asset consumption ratio varied between 67% and 85% over the period which indicated this asset was in a sound position to continue to provide ongoing service to ratepayers.

Asset renewal funding ratio was positive, showing Council plans to fund its capital expenditure requirements for the next ten years.

Council's net financial liabilities ratio was positive over the four years under review indicating low financial sustainability risk. Therefore Council was in a sound position to meet short-term commitments and may have capacity to borrow should the need arise.

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

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council had moderate risk from a governance perspective but low financial sustainability risk from an operating, asset management and financial liabilities perspective.

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

Management supports the Audtor-General's positive assesment of Brighton Council's financial sustainability.

## STATEMENT OF COMPREHENSIVE INCOME

| | **2011-12** Estimate* $'000s | **2011-12** Actual $'000s | **2010-11** Actual $'000s | **2009-10** Actual $'000s |
|---|---|---|---|---|
| Rates | 6 703 | 6 872 | 6 470 | 6 095 |
| Fees and charges | 1 173 | 1 155 | 936 | 911 |
| Grants ** | 2 133 | 1 876 | 2 173 | 2 311 |
| Other revenue | 1 677 | 1 672 | 1 930 | 2 511 |
| **Total Revenue** | **11 686** | **11 575** | **11 509** | **11 828** |
| Employee costs | 2 626 | 2 697 | 2 491 | 2 748 |
| Depreciation | 2 312 | 2 400 | 2 459 | 2 429 |
| Other expenses | 5 734 | 5 952 | 5 424 | 5 593 |
| **Total Expenses** | **10 672** | **11 049** | **10 374** | **10 770** |
| **Net Operating Surplus before:** | **1 014** | **526** | **1 135** | **1 058** |
| Finance costs | 0 | 0 | (28) | (77) |
| Interest revenue | 260 | 263 | 312 | 294 |
| **Net Operating Surplus** | **1 274** | **789** | **1 419** | **1 275** |
| Capital grants | 155 | 155 | 155 | 155 |
| Financial assistance grant received in advance ** | 0 | 831 | 419 | 402 |
| Offset Financial assistance grant in advance ** | 0 | (419) | (402) | (397) |
| Land and buildings identified | 0 | 0 | 195 | 904 |
| Contributions of non-current assets | 4 000 | 4 041 | 518 | 618 |
| **Net Surplus** | **5 429** | **5 397** | **2 304** | **2 957** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 20 396 | 20 396 | 1 709 | 10 429 |
| Fair value initial adjustment Southern Water | 123 | 123 | 0 | 4 475 |
| Current year fair value adjustment Southern Water | 0 | 0 | 322 | 0 |
| **Total comprehensive income items** | **20 519** | **20 519** | **2 031** | **14 904** |
| **Comprehensive Surplus** | **25 948** | **25 916** | **4 335** | **17 861** |

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

** *Grants received in advance has been shown separately after net Operating Surplus.*

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenues of $0.526m (2011-12, $1.135m). The lower surplus, $0.609m, was due to the following factors:

- decreased Grants revenue of $0.297m because of the timing of the grants received
- increased Employee costs, $0.206m, mainly due to salary increases relating to Council's Enterprise Bargaining Agreement and training expenditure
- higher Other expenses, $0.528m, as a result of higher materials and contracts expenses, $0.636m, and Contributions, $0.021m, which were slightly offset by lower professional services and private works expenses, $0.072m, and donations, $0.062m
- decreased Other revenue, $0.258m, mainly due to reduced revenue generated by Microwise, $0.212m. The Microwise result is discussed later in this Chapter.

These were partially offset by:

- increased Rates revenue, $0.402m, due to increases in line with the consumer price index
- higher Fees and charges, $0.219m, for various reimbursements including the Community Development Officer, animal control, health licences and ground hire.

After accounting for Interest revenue and Finance costs, Council made a Net Operating Surplus of $0.789m ($1.419m). While Interest revenue was not high, it was significant in terms of the result.

Council's Net Surplus in 2011-12 was $5.397m ($2.304m). This increase was attributable to Contribution of non-current assets, $4.041m, ($0.518m) and the net Financial assistance grant, $0.412m. Contributions of non-current assets related to subdivision infrastructure handed to Council by developers.

Other comprehensive income totalled, $20.519m, comprising:

- fair value revaluation of non-current assets, $20.396m, which represented a road revaluation increment
- Council's investment in Southern Water, $0.123m, being its 6.1% interest in the net assets of Southern Water at 30 June 2012.

The Net Operating Surplus for 2011-12 was $0.485m less than the estimate of $1.274m, mainly due to lower than expected grants, $0.257m, and higher actual than budgeted Material/Contracts expenditure, $0.160m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 4 492 | 4 202 | 5 139 |
| Receivables | 275 | 269 | 579 |
| Other | 196 | 260 | 283 |
| **Total Current Assets** | **4 963** | **4 731** | **6 001** |
| Payables | 680 | 669 | 1 196 |
| Borrowings | 0 | 0 | 296 |
| Provisions – employee benefits | 762 | 678 | 663 |
| Other | 63 | 117 | 162 |
| **Total Current Liabilities** | **1 505** | **1 464** | **2 317** |
| **Net Working Capital** | **3 458** | **3 267** | **3 684** |
| Property, plant and equipment | 132 790 | 107 220 | 103 538 |
| Investment in Southern Water | 56 311 | 56 188 | 55 866 |
| Other | 0 | 0 | 12 |
| **Total Non-Current Assets** | **189 101** | **163 408** | **159 416** |
| Borrowings | 0 | 0 | 765 |
| Provisions – employee benefits | 68 | 99 | 93 |
| **Total Non-Current Liabilities** | **68** | **99** | **858** |
| **Net Assets** | **192 493** | **166 577** | **162 242** |
| Reserves | 86 496 | 65 978 | 63 947 |
| Accumulated surpluses | 105 997 | 100 599 | 98 295 |
| **Total Equity** | **192 493** | **166 577** | **162 242** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $25.916m. Net Assets increased by the same amount to $192.493m. Major line item movements included:

- increased Cash and financial assets, $0.290m, reasons for which are outlined in the Cash flow section of this Chapter
- higher Property, plant and equipment of $25.570m due to:
  - capital additions, $7.799m
  - revaluation increment of $20.396m mainly due to the revaluation of roads
  - offset by depreciation expense, $2.400m, and disposals of $0.244m
- increased Investment in Southern Water of $0.123m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 9 436 | 9 556 | 9 920 |
| Cash flows from government | 2 288 | 2 190 | 2 316 |
| Payments to suppliers and employees | (9 376) | (9 423) | (9 376) |
| Interest received | 263 | 312 | 294 |
| Finance costs | 0 | (28) | (77) |
| **Cash from operations** | **2 611** | **2 607** | **3 077** |
| Capital grants and contributions | 155 | 155 | 155 |
| Distributions received - Southern Water | 1 066 | 1 026 | 953 |
| Payments for property, plant and equipment | (3 535) | (4 469) | (3 591) |
| Proceeds from sale of property, plant and equipment | (6) | 794 | 520 |
| Other | 0 | 12 | 4 |
| **Cash used in investing activities** | **(2 320)** | **(2 482)** | **(1 959)** |
| Repayment of borrowings | 0 | (1 061) | (443) |
| **Cash (used in) financing activities** | **0** | **(1 061)** | **(443)** |
| **Net increase (decrease) in cash** | **290** | **(936)** | **675** |
| Cash at the beginning of the year | 4 202 | 5 139 | 4 464 |
| **Cash at end of the year** | **4 492** | **4 202** | **5 139** |

### Comment

Overall cash increased, by $0.290m mainly because cash generated from operations and the Southern Water dividends were sufficient to fund Council's capital expenditure program. Council's total cash balance at 30 June 2012 of $4.492m comprised cash at bank and on hand, $0.659m, and term deposits, $3.834m. The deposits were included within the definition of cash as they had short-term maturities.

Cash at end of year consisted of restricted, $1.603m (2010-11, $1.440m) and unrestricted funds, $2.889m ($2.762m). Restricted funds represented leave provisions, $0.829m, and amounts owing to Microwise, $0.774m.

Cash from operations increased slightly to $2.611m which included:

- Council's Operating surplus of $0.789m adjusted for Depreciation of $2.400m, a non-cash item, providing $3.189m in operating cash inflows
- additional net Financial assistance grants in advance of $0.412m, mainly due to 50% of the 2012-13 FAGs grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011, offset by
- cash inflows from dividends received from Southern Water $1.066m which are recorded for cash flow purposes as an investing activity.

Payments for Property, plant and equipment of $3.535m mainly included capital works on bridges, drainage assets and roads including:

- Eastern Derwent Highway, $0.345m
- Briggs Road, $0.437m
- Racecourse Road, $0.204m
- Millvale Road, $0.202m
- Seymour Street, $0.182m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 789 | 1 419 | 1 275 | 2 599 |
| Operating surplus ratio * | >0 | 10.52 | 12.00 | 10.52 | 16.28 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 144% | 153% | 82% | 86% |
| Asset renewal funding ratio* ** | 90%-100% | 166% | 100% | N/A | N/A |
| Road asset consumption ratio * | >60% | 84.7% | 67.4% | 68.2% | 69.2% |
| ***Liquidity*** | | | | | |
| Net financial assets ($'000s) | | 3 390 | 3 168 | 2 826 | 1 411 |
| Net financial liabilities ratio* *** | 0 - (50%) | 28.6% | 26.8% | 23.3% | 8.8% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.42 | 5.69 | 3.46 | 2.02 |
| Current ratio | 1:1 | 3.30 | 3.23 | 2.59 | 1.75 |
| Interest Coverage **** | | N/A | 92.11 | 38.96 | 22.22 |
| Asset investment ratio | >100% | 147% | 182% | 148% | 148% |
| Self financing ratio | | 22.1% | 22.1% | 25.4% | 27.6% |
| Own source revenue | | 84.2% | 81.6% | 80.9% | 84.8% |
| Debt collection | 30 days | 13 | 13 | 30 | 31 |
| Creditor turnover | 30 days | 4 | 7 | 9 | 13 |
| Rates per capita ($) | | 438 | 396 | 386 | 583 |
| Rates to operating revenue | | 58.1% | 54.7% | 50.3% | 55.5% |
| Rates per rateable property ($) | | 1 003 | 933 | 882 | 1 361 |
| Operating cost to rateable property ($) | | 1 612 | 1 499 | 1 569 | 2 052 |
| Employee costs expensed ($'000s) | | 2 697 | 2 491 | 2 748 | 2 514 |
| **Employee costs capitalised ($'000s)** | | 393 | 339 | 416 | 1,122 |
| **Total employee costs ($'000s)** | | **3 090** | **2 830** | **3 164** | **3 636** |
| Employee costs as a % of operating expenses | | 24% | 24% | 25% | 19% |
| Staff numbers (FTEs) | | 53 | 53 | 52 | 54 |
| Average staff costs ($'000s) | | 61 | 52 | 61 | 67 |
| Average leave balance per FTE ($'000s) | | 16 | 14 | 15 | 15 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Brighton Council, liquid assets exceed total liabilities.*
**** *Brighton Council did not have any borrowings and finance costs for 2011-12*

## Comment

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

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

Asset investment ratio was above the benchmark over the last four years and indicated Council more than adequately invested in new and existing assets.

Self-financing ratio declined over the four year period. The decrease was primarily due to lower Cash from operations.

Own source revenue was constant over the last three years of the four year period under review with Council generating approximately 87% of its operating revenue from its own sources, such as rates and fees and charges.

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

Rates statistics fluctuated over the four years under review. Council has a policy of limiting rate increases to changes in the consumer price index. Rates to operating revenue increased in 2011-12 as Rate revenue increased whilst Grant and Other revenue items decreased.

Total Employee costs increased by $0.260m mainly because of Enterprise Bargaining Agreement increases and higher salary on-costs. In 2010-11, Employee costs fell due to the completion of a short-term contract and cessation of the hire of professional staff.

Employee costs as a percentage of operating costs is consistent with 2010-11. There was an increase in 2009-10 primarily due to offsetting impacts of savings from the transfer of employees to Southern Water.

## RESULT OF SUBSIDIARY ENTITY

### Microwise Australia Pty Ltd

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

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

## FINANCIAL PERFORMANCE

| | **2011-12** | **2010-11** | **2009-10** |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Revenue | 276 | 488 | 730 |
| Expenditure | 60 | 186 | 291 |
| **Net Profit** | **216** | **302** | **439** |
| **Brighton Council Equity** | **774** | **664** | **483** |
| *Excludes financial transactions with Council* | | | |

### Comment

Microwise recorded a net profit of $0.216m, lower by $0.86m from the previous year. The lower profit was mainly attributable to the completion of a short-term contract with Onstream in the prior year. The contract was in place until 23 January 2011, resulting in higher Revenue and Expenditure in the prior year.

During 2011-12 Microwise entered into a contract to supply its Propertywise software to Rous Water (NSW Regional Water Supply Authority). This resulted in initial revenue of $0.020m, and ongoing fees of $0.010m per year, indexed at the CPI rate. The contract is renewed on an annual basis.

# BURNIE CITY COUNCIL

## INTRODUCTION

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

- Burnie Airport Corporation Unit Trust (BAC) - On 1 February 2002 Council purchased a 51% interest in BAC, which operates the Burnie Airport, for $0.510m. At 30 June 2012, Council's investment interest was recorded at cost being $0.813m.
- Tas Communications Unit Trust (TCU) - During 2002-03, Council created an incorporated body with share capital of one hundred dollars issued to Council. At 30 June 2012, Council's investment interest was recorded at cost being $2.103m.
- Burnie Sports and Events Unit Trust (BSE) – During 2006-07, Council established a 100% ownership interest in BSE at a cost of ten dollars, which represented the issued units of the Trust. At 30 June 2012, Council's investment interest was recorded at cost being $0.320m.

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2012 and an unqualified audit report was issued on 28 September 2012. In addition, an unqualified audit report was issued on Council's summary financial report on 18 October 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Asset revaluations

In response to our recommendation in 2010-11, Council completed a full revaluation of its road and drainage assets in 2011-12.

### Contingent liability

In the notes to Council's financial statements for the year ended 30 June 2011, it included a contingent liability that detailed its involvement in an on-going legal dispute related to the proposed sale of Camdale foreshore land. Financial settlement depended on the success of an appeal which was listed to come before the Tasmanian Supreme Court. In October 2011, the Full Court ruled in favour of the appellant. Council is liable for damages and legal costs, which have not yet been determined.

During 2011-12, Council made a payment to settle the appellant's legal costs on the failed land purchase. At that time Council was unsure whether it would be liable to make a common law settlement.

In July 2012, Council made a payment into the Supreme Court as an offer of settlement. Council are currently waiting on a response and have noted that it will not be able to recover any costs under insurance and any possible recovery action in relation to professional advice received on the matter is unclear.

## Provision for impairment of debtors

At 30 June 2012, Council's trade and other receivables totalled $2.582m, including parking and traffic offences debtors, $1.253m. The provision for impairment, $0.304m included $0.270m allocated towards the parking and traffic offences debtors. The provision for impairment of parking and traffic offences debtors was calculated on a percentage basis based on the age of the debts. There was no sufficient objective evidence to support the existing method of impairment.

The existing method of estimating provision for impairment in relation to parking and traffic offences debtors did not appear to be based on objective evidence and therefore did not comply with AASB 139 Financial Instruments: Recognition and Measurement. The variance was not considered material.

Council will review its current methodology and expects, in the future, the provision for impairment of debtors to be supported by objective evidence.

## Comparing budget to actual financial performance

Council's financial report is prepared on a consolidated basis. However, its budget is based on Council's operations excluding its subsidiaries. Consequently, comparison in the Statement of Comprehensive Income section of this Chapter between actual and budget is impractical and difficult and lowering accountability. Council should consider preparing a budget covering all of its activities.

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

## FINANCIAL RESULTS

Council generated a Net Operating Deficit after net financing revenue of $1.007m in 2011-12 (2010-11, $0.514m Surplus). The poorer result was primarily due to higher Employee costs of $0.893m, greater depreciation expenses of $0.650m, higher Other expenses of $0.347m and a $0.600m net loss on the sale of assets, offset by higher Rates of $0.882m. Over the past four years Council averaged an operating result ratio of 0.93 meaning that it was making, on average small annual deficits over this period. Council budgeted for a small surplus this year.

Council achieved a Net Surplus of $4.262m (2010-11, $4.150m) and a Comprehensive Surplus of $13.912m ($18.631m). The Comprehensive Surplus included asset revaluation increments, $9.588m and an increase in Council's interest in Cradle Mountain Water, $0.062m.

Consistent with the Comprehensive surplus of $13.912m, less an adjustment for the minority interest ownership of BAC, Council's Net Assets increased to $347.208m, up from $333.367m on the previous year. As at 30 June 2012 Council had Net Working Capital of $7.916m, up from $7.021m in 2011 due mainly to increased cash.

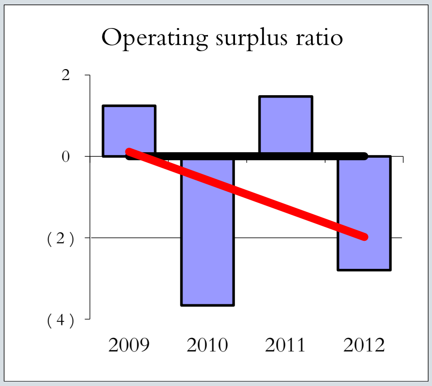
## Assessment of financial sustainability

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

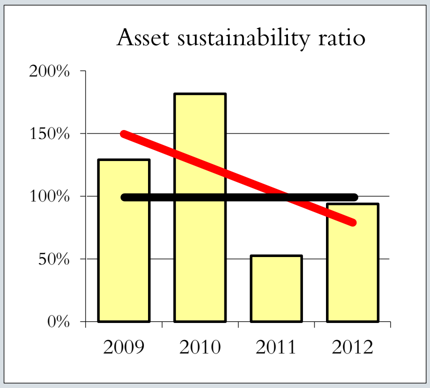
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



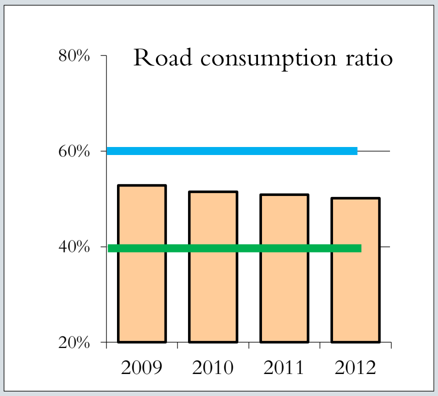

Council recorded both positive and negative Operating surplus ratios over the four year period under review. Overall, Council averaged a ratio over the four year period of 0.93, which is below our benchmark indicating it did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. However, on average over the period the shortfall was not significant.




Asset sustainability ratio was below benchmark in the past two years under review but over the four year period it averaged 114%, which was above benchmark. This indicated adequate investment over the period in existing assets.

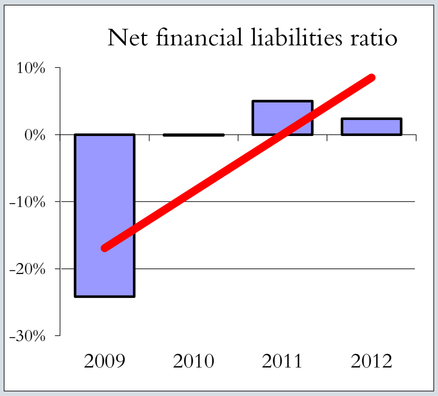
## Asset renewal funding ratio

Council's long-term asset management plan information, included in its financial management strategy, indicated an asset renewal funding ratio of 100% based on planned asset replacement expenditure. This compares favourably with our benchmark of not less than 90%. Council's asset management plan forecasts expected and required renewal expenditure to 2028-29 and covers transport, bridges and culverts, parks, reserves and cemetery assets. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.




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

The graph indicates at 30 June 2012 Council had used (consumed) approximately 50% of the service potential of its road infrastructure assets. This indicates a moderate financial sustainability risk. Overall, at this point in time, Council's assets had sufficient capacity to continue to provide services to ratepayers. However, we note a slight downward trend which seems consistent with the lower Asset sustainability ratio in each of the past two years.




Council recorded a positive net financial liabilities position with liquid assets in excess of current and non-current liabilities, at 30 June 2012. The significant improvement in 2010 was a direct result of Council transferring loan debt of $16.481m to Cradle Mountain Water. The situation at 30 June 2012 indicates low risk.

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

### Governance

Council appointed an audit committee in 2011-12 comprising two Aldermen and three independent members. The Committee reviews quarterly financial reports and takes an active role in the review of Council's annual financial statements. However, Council does not operate an internal audit function.

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

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

## Conclusion as to financial sustainability

From a financial operating perspective, Council's operating result deteriorated, with an operating deficit in 2011-12, compared to a surplus in 2010-11. The average for the four years under review was marginally below benchmark.

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

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

From a governance perspective, Council introduced an audit committee and has asset management plans for all major asset classes and a financial management strategy.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at a moderate sustainability risk from a governance perspective but low sustainability risk from operating, asset management and net financial liabilities perspectives.

Management comments on this assessment of its financial sustainability

Burnie City Council's financial performance and position for 2011/12 continues to be sustainable and consistent with the objectives and targets set in its Financial Management Strategy. The strategy ensures that Council's finances and operations are being managed to support the community's aspirations into the future while ensuring financial sustainability.

Council's modest reported operating result of $0.020m is marginally less than budget of $0.322m. Council's original budget was adopted 19 June 2011. The assumptions used in developing the budget were significantly affected by a number of factors including state and federal government decisions including new grant programs, changing economic activity, the weather and decisions by Council.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 18 700 | 18 792 | 17 910 | 17 217 |
| Fees and charges | 8 217 | 11 954 | 11 872 | 9 964 |
| Grants ** | 3 729 | 3 968 | 3 778 | 2 927 |
| Other revenue | 854 | 909 | 915 | 1 371 |
| **Total Revenue** | **31 500** | **35 623** | **34 475** | **31 479** |
| Employee costs | 11 937 | 14 245 | 13 352 | 11 742 |
| Depreciation | 7 178 | 7 920 | 7 270 | 7 314 |
| Other expenses | 12 403 | 14 547 | 13 600 | 13 856 |
| **Total Expenses** | **31 518** | **36 712** | **34 222** | **32 912** |
| **Net Operating Surplus (Deficit) before** | **(18)** | **(1 089)** | **253** | **(1 433)** |
| Finance costs | 0 | (368) | (183) | (163) |
| Interest revenue | 361 | 450 | 444 | 429 |
| **Net Operating Surplus (Deficit)** | **343** | **(1 007)** | **514** | **(1 167)** |
| Capital grants | 2 817 | 5 683 | 3 245 | 7 981 |
| Financial assistance grant received in advance ** | 0 | 1 303 | 572 | 521 |
| Offset Financial assistance grant in advance ** | 0 | (572) | (521) | (486) |
| Fair value adjustment to investment in associate | 0 | 0 | 0 | (252) |
| Revaluation decrement | 0 | (110) | 0 | 0 |
| Non-Current asset recognition adjustment | 0 | 0 | 0 | 411 |
| Capital works expensed | 0 | (2 061) | 0 | 0 |
| Contributions of non-current assets | 0 | 1 026 | 340 | 0 |
| **Net Surplus** | **3 160** | **4 262** | **4 150** | **7 008** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 9 588 | 18 913 | 4 838 |
| Impairment of non-current assets | 0 | 0 | (4 638) | 0 |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | 0 | (35 496) |
| Current year fair value adjustment Cradle Mountain Water | 0 | 62 | 206 | 0 |
| **Total comprehensive income items** | **0** | **9 650** | **14 481** | **(30 658)** |
| **Comprehensive Surplus (Deficit)** | **3 160** | **13 912** | **18 631** | **(23 650)** |

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

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

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income*

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenues of $1.089m, compared to a surplus of $0.253m in the prior year, a deterioration of $1.342m. The worse result was predominantly due to:

- higher Employee costs of $0.893m, due to the impact of Council's Enterprise Bargain Agreement (EBA) increases in October 2011 of 3.0% and in April 2012 of 2.0%, plus an increase in long service leave expense related to a decrease in discount rates
- greater depreciation expenses of $0.650m due to the indexation of major asset classes at 30 June 2011
- increased Other expenses of $0. 347m in part due to legal and other costs incurred in relation to the dispute referred to earlier.
- the net loss on disposal of assets of $0.600m, with Council replacing road, parks and reserve assets that had not been fully depreciated.

These increased costs were partially offset by higher Rates of $0.882m, largely due to general rate and waste service charge rises.

Council generated a Net Operating Deficit after net financing income of $1.007m compared to a surplus of $0.514m in the previous year. Interest expense increased by $0.185m in 2011-12 due to a $0.190m finance cost relating to the unwinding of Council's rehabilitation liability.

Council recorded a Net Surplus of $4.262m in 2011-12, an improvement of $0.112m. The Net Surplus included:

- Capital grants of $5.683m, which included $4.250m for a Stormwater Infrastructure Regional Development Project, that is expected to be completed by June 2015
- increased Financial assistance grants in advance of $0.731m, with the Commonwealth Government paying 50% of the 2012-13 grant to Council in June 2012. In June 2011, Council received 25% of the grant in advance
- Contributions of non-current assets of $1.026m (2010-11, $0.340m), offset by
- Capital works expensed of $2.061m relating predominantly to work undertaken on the redevelopment of the West Park intersection, which included work on road assets controlled by the Department of Infrastructure, Energy and Resources. This means that, because the work was performed by Council on assets belonging to the Department, costs had to be expensed rather than capitalised.

Other Comprehensive Income of $9.650m included:

- fair value revaluation of non-current assets of $9.588m which mainly represented the revaluation of roads, footpaths and drainage assets
- an increase in Council's interest in the net assets of Cradle Mountain Water at 30 June 2012 of $0.062m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 9 009 | 6 408 | 6 064 |
| Receivables | 3 098 | 3 499 | 3 684 |
| Non-current assets held for resale | 593 | 663 | 752 |
| Inventories | 314 | 316 | 276 |
| Other | 219 | 198 | 13 |
| **Total Current Assets** | **13 233** | **11 084** | **10 789** |
| Payables | 2 936 | 2 054 | 4 228 |
| Provisions - employee benefits | 1 675 | 1 776 | 1 571 |
| Other | 157 | 153 | 413 |
| Provision for rehabilitation | 391 | 80 | 0 |
| Borrowings | 158 | 0 | 0 |
| **Total Current Liabilities** | **5 317** | **4 063** | **6 212** |
| **Net Working Capital** | **7 916** | **7 021** | **4 577** |
| Property, plant and equipment | 287 070 | 272 331 | 255 766 |
| Investment in water corporation | 58 150 | 58 088 | 57 882 |
| Receivables | 0 | 16 | 18 |
| **Total Non-Current Assets** | **345 220** | **330 435** | **313 666** |
| Borrowings | 3 735 | 2 110 | 2 193 |
| Provisions - employee benefits | 475 | 274 | 246 |
| Provision for rehabilitation | 1 718 | 1 705 | 1 132 |
| **Total Non-Current Liabilities** | **5 928** | **4 089** | **3 571** |
| **Net Assets** | **347 208** | **333 367** | **314 672** |
| Reserves | 91 778 | 82 116 | 65 360 |
| Accumulated surpluses | 251 981 | 247 865 | 243 653 |
| Outside equity interest | 3 449 | 3 386 | 5 659 |
| **Total Equity** | **347 208** | **333 367** | **314 672** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Council's Comprehensive surplus was $13.912m whereas Council's Total Equity increased by $13.841m. The difference of $0.071m, in the main, represents outside equity interests 49% in BAC.

Net Assets increased to $347.208m. Major line item movements included:

- increased Cash and financial assets, $2.601m, discussed later in the Cash Flow Statement section of this Chapter. The balance at 30 June 2012 includes the $4.250m grants for a Stormwater Infrastructure Regional Development Project, that is expected to be completed by June 2015 and the borrowings of $2.000m drawn in June 2012 – refer comment below
- increased Payables of $0.882m mainly due to the balance at 30 June 2012 including several large amounts related to various major projects
- higher Property, plant and equipment of $14.739m due to:
    - revaluations, $9.588m, of roads, footpaths and drainage assets
    - additions, $14.211m, offset by
    - Depreciation, $7.920m, disposals, $0.853m, and impairment of waste management assets $0.300m
- increased Borrowings arising from $2.000m drawn down by Council in June 2012.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 33 742 | 31 958 | 30 196 |
| Cash flows from government | 5 424 | 4 212 | 3 476 |
| Payments to suppliers and employees | (30 069) | (30 677) | (29 058) |
| Interest received | 451 | 536 | 673 |
| Finance costs | (178) | (183) | (181) |
| **Cash from operations** | **9 370** | **5 846** | **5 106** |
| Capital grants and contributions | 5 683 | 3 570 | 8 779 |
| Insurance recovery | 0 | 0 | 1 574 |
| Payments for investment in controlled entities | (193) | (157) | (24) |
| Disributions received - Cradle Mountain Water | 308 | 208 | 129 |
| Payments for property, plant and equipment | (14 681) | (9 470) | (22 688) |
| Proceeds from sale of property, plant and equipment | 327 | 434 | 132 |
| **Cash (used in) investing activities** | **(8 556)** | **(5 415)** | **(12 098)** |
| Repayment of borrowings | (217) | (83) | 0 |
| New borrowings | 2 000 | 0 | 0 |
| Trust funds | 4 | 0 | 0 |
| **Cash (used in) financing activities** | **1 787** | **(83)** | **0** |
| **Net increase (decrease) in cash** | **2 601** | **348** | **(6 992)** |
| Cash at the beginning of the year | 6 408 | 6 060 | 13 056 |
| **Cash at end of the year** | **9 009** | **6 408** | **6 064** |

### Comment

Council's cash balance at 30 June 2012, $9.009m, comprised cash at bank and on hand, $4.697m and short-term deposits of $4.312m. Its cash position improved by $2.601m during 2011-12 with Cash from operations $9.370m, Capital grants and contributions, $5.683m, Proceeds from sale of property, plant and equipment, $0.327m,and New borrowings, $2.000m being more than sufficient to fund Payments for property, plant and equipment, $14.681m, and Repayment of borrowings, $0.217m.

At 30 June 2012, Council's cash balance of $9.009m included $4.250m in capital grant funds received for a Stormwater Infrastructure Regional Development Project and Financial assistance grants funds in advance, $1.303m. The $2.000m in Borrowings received in June 2012 repaid surplus cash used to fund several capital projects undertaken in 2011-12, including works on the Burnie Arts and Function Centre, and Aquatic Centre. Excluding cash held for specific purposes, Council's uncommitted cash balance would be $3.456m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $3.524m to $9.370m which included:

- Council's Net operating deficit, $1.007m, adjusted for depreciation, $7.920m and the loss on disposal of non-current assets, $0.600m both non-cash item, provided $7.513m in operating cash inflows,
- the positive impact of an increase in Payables of $0.882m and decrease in Receivables of $0.401m at 30 June 2012
- the net impact of Financial assistance grants in advance, $0.731m recorded as Cash from operations but excluded from the net operating deficit, offset by
- cash inflows from Cradle Mountain Water, $0.308m, recorded as an investing activity for cash flow purposes.

Payments for property, plant and equipment of $14.681m included:

- Roads, $5.281m, with major expenditure on the Upper Natone flood restoration, $0.954m, Heybridge Hamlets subdivision, $0.457m and the South Riana Road retaining wall, $0.333m
- Parks and reserves, $5.267m, including the waterfront development – stage 2, $3.324m
- plant, computer equipment, vehicle purchases and plant replacements, $0.990m
- Buildings, $0.856m, including work on the Burnie Arts and Function Centre, Aquatic Centre and West Park Grandstand.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (1 007) | 514 | (1 167) | 487 |
| Operating surplus ratio * | >0 | (2.79) | 1.47 | (3.66) | 1.24 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 94% | 53% | 182% | 129% |
| Asset renewal funding ratio* ** | 90% - 100% | 100% | 100% | n/a | n/a |
| Road asset consumption ratio * | >60% | 50.2% | 50.9% | 51.5% | 52.8% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 862 | 1 755 | (35) | (9 476) |
| Net financial liabilities ratio * *** | 0% - (50%) | 2.4% | 5.0% | (0.1%) | (24.2%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 2.68 | 4.33 | 2.10 | 2.55 |
| Current ratio | 1:1 | 2.49 | 2.73 | 1.74 | 2.25 |
| Interest Coverage | | 51.64 | 30.95 | 27.21 | 8.76 |
| Asset investment ratio | >100% | 185% | 130% | 310% | 199% |
| Self financing ratio | | 26.0% | 16.7% | 16.0% | 33.7% |
| Own source revenue | | 89.0% | 89.2% | 90.8% | 93.0% |
| Debt collection | 30 days | 36 | 39 | 48 | 35 |
| Creditor turnover | 30 days | 31 | 28 | 41 | 62 |
| Rates per capita ($) | | 930 | 900 | 866 | 1 235 |
| Rates to operating revenue | | 52.1% | 51.3% | 54.0% | 62.1% |
| Rates per rateable property ($) | | 1 970 | 1 891 | 1 828 | 2 607 |
| Operating cost to rateable property ($) | | 3 886 | 3 633 | 3 511 | 4 146 |
| Employee costs expensed ($'000s) | | 14 245 | 13 352 | 11 742 | 12 563 |
| Employee costs capitalised ($'000s) | | 740 | 1 082 | 1 636 | 1 683 |
| **Total employee costs ($'000s)** | | **14 985** | **14 434** | **13 378** | **14 246** |
| Employee costs as a % of operating expenses | | 38% | 39% | 36% | 32% |
| Staff numbers (FTEs) | | 189 | 192 | 188 | 210 |
| Average staff costs ($'000s) | | 79 | 75 | 71 | 68 |
| Average leave balance per FTE ($'000s) | | 11 | 11 | 10 | 9 |

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

## Comment

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

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

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

Asset investment ratio indicates Council invested strongly in new and existing assets over the period. This ratio should be read in conjunction with the Asset sustainability ratio shown in graphical format in the Financial Results section of this Chapter.

Self financing ratio increased in 2011-12 for reasons outlined in the Cash Flow Statement section of this Chapter.

Own source revenue ratio shows Council generated the majority of its operating revenue from its own sources and, in 2011-12, was reliant on grant funding to the extent of only 11% (2010-11, 11%).

Debt collection ratio was worse than benchmark in all years under review. This was due to the debtor balance including a large proportion related to car park fines, traffic offences and metered parking debtors. At 30 June 2012 these items totalled \$1.252m (2010-11, \$1.248m) of which only \$0.304m was assessed as impaired. The nature of these debts is such that settlement may take an extended period of time. When these are excluded, the ratio was within benchmark.

Creditor turnover was worse than benchmark in all years except 2010-11 due to high amounts of capital creditors outstanding at the end of those financial years. Council's policy to settle supplier invoices by the due date remains unchanged.

Council's rate statistics were relatively consistent over the period under review. Rates per rateable property is trending upwards, but corresponds with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

We note that Council's Operating cost to rateable property is relatively high in comparison to other councils. This is due to:

- the use of consolidated figures when calculating operating costs
- Council's relatively significant child care and autism services and associated costs. These services are fully funded from user fees and government grants.

If the above factors had been adjusted in our calculations, Council's Operating cost to rateable property for 2011-12 would have been \$3,098.

Employee costs as a percentage of operating have been fairly stable over the past three years under review. The lower percentage in 2009-10 was due to this being the last year water and sewerage services were operated directly by Council, prior to their transfer to Cradle Mountain Water. The increase in 2010-11 was mainly due to the impact of a full year of operations of the Autism Centre, with additional wages of \$0.509m.

Average staff costs increased over the period under review due to enterprise bargaining increases.

## RESULTS OF SUBSIDIARY ENTITIES

### Burnie Airport Corporation Unit Trust

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Total Revenue | 1 304 | 1 277 | 1 160 |
| Total Expenses | 1 118 | 1 089 | 1 035 |
| **Net Surplus (Deficit)** | **186** | **188** | **125** |
| Total Assets | 8 993 | 9 246 | 14 059 |
| Total Liabilities | 2 021 | 2 267 | 2 385 |
| **Net Assets** | **6 972** | **6 979** | **11 674** |
| **Total Equity** | **6 972** | **6 979** | **11 674** |

### Comment

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

BAC generated operating surpluses in all three years under review and was in a stable financial position at balance date. Total Revenue increased marginally in 2011-12, by $0.027m. Revenue was not affected by a change in carriers during October 2011, when Airlines of Tasmania replaced TasAir.

Total Expenses increased by $0.029m, primarily due to a loss incurred on disposal of a farm shed, lost in a fire.

The decrease in Total Equity of $7 000 comprised the surplus of $0.186m offset by dividend payments of $0.193m.

The main items in the balance sheets included:

- Assets held for sale, $0.593m
- Property, infrastructure, plant and equipment, $8.056m
- Interest bearing borrowings, $1.893m.

### Tas Communications Unit Trust

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Total Revenue | 1 960 | 2 165 | 1 498 |
| Total Expenses | 1 741 | 1 899 | 1 589 |
| **Net Surplus (Deficit)** | **219** | **266** | **(91)** |
| Total Assets | 1 819 | 1 593 | 1 525 |
| Total Liabilities | 238 | 231 | 429 |
| **Net Assets** | **1 581** | **1 362** | **1 096** |
| **Total Equity** | **1 581** | **1 362** | **1 096** |

### Comment

TCU is an IT integrator for commercial and local government entities based in Burnie. In addition, it provides internet services, application service hosting and service desk services to its clients. With a fibre and wireless network between Smithton and Hobart, TCU is capable of servicing most of the major population centres in Tasmania.

TCU recorded a Net Surplus of $0.219m in 2011-12 compared to a Surplus of $0.266m in 2010-11, a decrease of $0.047m. This was primarily due to:

- lower sales revenue, $0.205m, due to software updates in 2010-11 resulting in higher product sales
- higher increased employee costs, $0.048m, due to an increase in staff numbers
- higher depreciation, $0.054m, due to a reassessment of useful lives, offset by
- decreased materials and services expenses, $0.247m.

The majority of TCU's sales consisted of service level agreements with Burnie City Council, other regional councils, Cradle Mountain Water and local private companies. Approximately 50% of its revenue was derived from external sources and the balance from Burnie City Council. TCU is dependent on income from Burnie City Council.

Total Equity and Net Assets increased in line with the Net surplus of $0.219m. Major line item movements included:

- decreased cash, $0.119m, primarily due to the repayment of borrowings
- increased plant and equipment assets, $0.284m, due to an expansion of TCU's service delivery infrastructure
- higher payables, $0.133m, due to software licensing fees not paid at year end
- repayment of borrowing of $0.100m.

## Burnie Sports and Events Unit Trust

| | **2012** | **2011** | **2010** |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Total Revenue | 2 741 | 2 648 | 2 453 |
| Total Expenses | 2 733 | 2 643 | 2 444 |
| **Net Surplus (Deficit)** | **8** | **5** | **9** |
| Total Assets | 534 | 571 | 627 |
| Total Liabilities | 350 | 395 | 456 |
| **Net Assets** | **184** | **176** | **171** |
| **Total Equity** | **184** | **176** | **171** |

## Comment

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

BSE derives revenue from a service agreement with Burnie City Council of $0.685m (2010-11, $0.579m), bar and catering sales, room hire and sponsorship. Expenditure included maintenance of the facilities, inventory purchases, payments to sporting clubs and sponsorship.

The main items in the balance sheets included:

- cash and cash equivalents, $0.209m
- trade receivables, $0.147m
- plant and equipment, $0.110m
- trade payables, $0.154m
- employee provisions, $0.167m.

# CENTRAL COAST COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 September 2012 and an unqualified audit report was issued on 20 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

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

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $0.568m in 2011-12, an improved result from the $0.513m Deficit in the previous year. The Surplus of $0.569m represented 2.52% of operating revenues (including interest).

Council achieved a Net Surplus, after Capital grants, grants in advance and contributions of $5.859m (2010-11, $3.779m) and a Comprehensive Surplus of $28.523m ($46.475m). The Comprehensive Surplus included upward asset revaluations of $22.463m relating to land, buildings, roads and streets, carparks, and bridges and an increase in Council's interest in Cradle Mountain Water of $0.170m.

Consistent with the Comprehensive Surplus of $28.523m, Council's Net Assets increased to $422.689m, up from $394.166m the previous year. As at 30 June 2012 Council had Net Working Capital of $3.056m up from $1.974m in 2011 due mainly to higher cash balances of $1.026m.

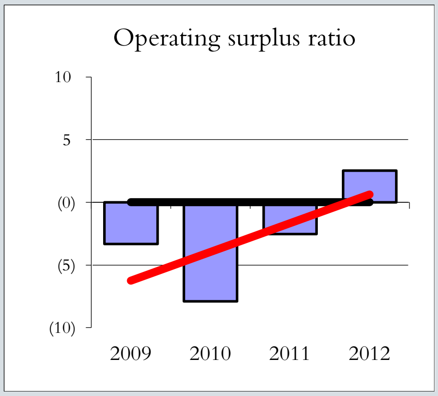
## Assessment of financial sustainability

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

### Relevant financial sustainability ratios

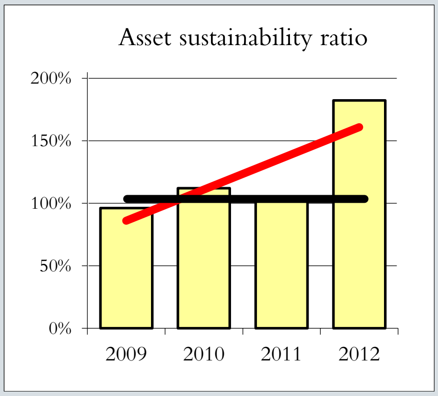
The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the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

In general, the ratios indicate:




Council recorded operating deficits in the first three of under review, but in 2011-12 achieved a surplus. Council has been working on improving its operating result as indicated by the trend line. The improved result in 2011-12 included gains on the sale of land in Council subdivisions, $0.999m.

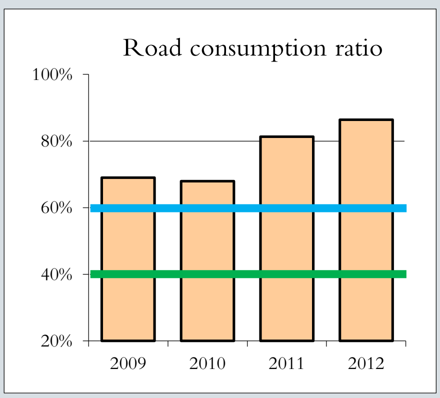
Negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges. It is therefore a positive development that Council generated a surplus in the current year.




Over the four year period, Council's average ratio was 123%, which is above the benchmark, indicating, subject to levels of maintenance expenditure, Council maintained its investment in existing assets. The significant increase in the 2012 ratio was primarily due to the capital works program focusing on existing assets.

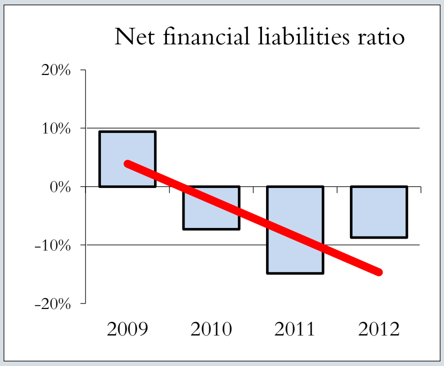
## Asset renewal funding ratio

Council's long-term asset management plans indicate the asset renewal funding ratio was 100% at 30 June 2012 based on planned asset replacement expenditure. The ratio was in line with our benchmark of between 90% and 100%. Council's current long-term asset management plans forecast expected and required renewal expenditure to 2032-33 for roads infrastructure, car parks, footpaths and recreational pathways, buildings and facilities and drainage assets.




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

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 14% of the service potential of its road infrastructure assets. This indicates a low financial sustainability risk in relation to road assets. The improvement in the ratio was primarily due to a revaluation on 1 July 2010. The revaluation, undertaken by Council engineers, reviewed useful lives and introduced residual values. This resulted in a lower depreciation expense and reduction in the accumulated depreciation balance. Overall, at that point in time, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded negative Net financial liabilities ratios in the past three years. The negative ratio at 30 June 2012 was due to total liabilities exceeding liquid assets by $1.964m, which represents 8.7% of operating revenue. The negative ratio is well within our benchmark of negative 50%.

The ratio has been trending downwards over the four year period due to cash and financial assets decreasing by $2.522m and net loan debt increasing by $1.366m. Council have completed a number of significant capital project over the same period.

Council's total liabilities consisted of payables, borrowings, employee provisions, aged persons units provisions and provision for rehabilitation.

### Governance

A review of governance arrangements indicated that Council does not have an audit committee nor an internal audit function.

Council has long-term asset management and financial management plans. The asset management plans cover road infrastructure, car parks, footpaths and recreational pathways, buildings and facilities and drainage assets over a 20 year period to 2032-33. These plans are detailed, regularly reviewed and cover elements required in relation to Council's key infrastructure assets. The plans have not been formally adopted by Council, but are informally assessed through workshop meetings.

Council's long-term financial management plan covers a five year period. Council is currently developing a 10 year financial management plan, expected to be completed during 2012-13.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded operating deficits in three of the four years under review. The operating surplus ratio averaged negative 2.81 over the four year period placing Council in a moderate risk category.

Asset sustainability ratio indicates Council increased its expenditure on existing assets in 2011-12 and averaged a ratio of 124%, which is above the 100% benchmark. This indicates Council has adequately invested in existing assets over the past four years. Council's road consumption ratio indicates it is in the low risk category with the service potential of this asset at only about 14% consumed. In addition, the Asset renewal funding ratio was at 100%. Taken to together, asset management is in the low risk range.

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

Council's Net financial liabilities ratio was negative 8.7% in 2011-12 but well within our 0 to -50% risk range.

Based on these ratios and governance arrangements we concluded that, at 30 June 2012, Council was at moderate sustainability risk from an operating and governance perspective but low risk from an asset management and net financial liabilities perspective.

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

While agreeing with the contents of this assessment the following comments are made:

Firstly, the Council changed its accounting policy for depreciation in 2010-11 to better reflect the consumption of its assets over their useful lives. This had the effect of reducing the depreciation charge in 2010-11 and 2011-12. The depreciation charged for 2008-09 and 2009-10 is in management's opinion overstated with reference to the new policy. Consequently, had this policy been in effect in 2008-09 and 2009-10 the operating deficits in each of those years would have been greatly reduced.

The net operating deficits in the previous three financial years were due in part to the Council not receiving a priority dividend from Cradle Mountain Water. However, when priority dividends cease on 30 June 2013 and dividends are distributed on an equity basis, the Council forecasts through its long-term financial plan for a budgeted net operating surplus in 2013/2014.

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

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 12 219 | 12 310 | 11 566 | 10 914 |
| Fees and charges | 3 221 | 3 009 | 3 126 | 3 107 |
| Grants ** | 4 212 | 4 412 | 3 814 | 3 885 |
| Other revenue | 1 404 | 2 449 | 1 459 | 1 807 |
| **Total Revenue** | **21 056** | **22 180** | **19 965** | **19 713** |
| Employee costs | 8 058 | 9 145 | 8 490 | 8 327 |
| Depreciation | 5 526 | 5 229 | 5 045 | 6 022 |
| Other expenses | 7 889 | 7 211 | 7 183 | 7 263 |
| **Total Expenses** | **21 473** | **21 585** | **20 718** | **21 612** |
| **Net Operating Surplus (Deficit) before** | **(417)** | **595** | **(753)** | **(1 899)** |
| Finance costs | (155) | (411) | (125) | (82) |
| Interest revenue | 475 | 384 | 365 | 395 |
| **Net Operating Surplus (Deficit)** | **(97)** | **568** | **(513)** | **(1 586)** |
| Capital grants | 2 986 | 3 556 | 2 020 | 4 044 |
| Financial assistance grant received in advance ** | 0 | 2 032 | 971 | 945 |
| Offset Financial assistance grant in advance ** | 0 | (971) | (945) | (907) |
| Contributions of non-current assets | 292 | 674 | 2 246 | 626 |
| **Net Surplus** | **3 181** | **5 859** | **3 779** | **3 122** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 22 463 | 42 203 | 30 154 |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | 0 | (12 805) |
| Current year fair value adjustment Cradle Mountain Water | 0 | 170 | 311 | 0 |
| Share of associate revaluation increment | 0 | 31 | 182 | 45 |
| **Total comprehensive income items** | **0** | **22 664** | **42 696** | **17 394** |
| **Comprehensive Surplus** | **3 181** | **28 523** | **46 475** | **20 516** |

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

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

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenues of $0.595m, compared to a deficit of $0.753m in 2010-11, an improvement of $1.348m. The improved result was predominantly due to:

- higher Rates revenue of $0.744m, due to a higher general rate
- increased Other revenue of $0.990m, attributable mainly to the gain on disposal of land in two Council subdivisions, $0.999m
- additional Grant revenue of $0.598m, including Natural Disaster Relief Funding, $0.367m, partially offset by:
- higher Employee costs of $0.655m predominantly due to increased pay rates from Council's Enterprise Bargaining Agreement.

After Capital grants of $3.556m, Contributions of non-current assets, $0.674m, and the $1.061m impact of Financial assistance grants in advance, Council generated a Net Surplus of $5.859m in 2011-12 compared with $3.779m in 2010-11.

Major Capital grants received by Council included Roads to Recovery, $0.468m (2010-11, $0.709m), and Natural Disaster Relief Funding, $2.988m.

Other Comprehensive Income totalled $22.664m in 2011-12 comprising:

- fair value revaluation of Council's land, buildings, road, footpaths, car parks and bridge asset classes totalling $22.463m
- increased investment in Cradle Mountain Water of $0.170m being Council's 20.5% interest in higher net assets of the Corporation at 30 June 2012
- increased investment in Dulverton Regional Waste Management Authority (DRWMA) at 30 June 2012 of $0.031m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash | 6 442 | 5 416 | 3 456 |
| Receivables | 957 | 952 | 1 336 |
| Financial assets | 0 | 0 | 1 325 |
| Other | 216 | 378 | 218 |
| **Total Current Assets** | **7 615** | **6 746** | **6 335** |
| Payables | 1 868 | 2 084 | 1 463 |
| Borrowings | 109 | 126 | 129 |
| Provisions - employee benefits | 2 191 | 2 062 | 1 997 |
| Provisions - aged persons units | 137 | 136 | 127 |
| Other | 254 | 364 | 249 |
| **Total Current Liabilities** | **4 559** | **4 772** | **3 965** |
| **Net Working Capital** | **3 056** | **1 974** | **2 370** |
| Property, plant and equipment | 355 374 | 328 150 | 280 851 |
| Investments in associates | 2 009 | 1 743 | 1 431 |
| Investment in water corporation | 66 971 | 66 801 | 66 490 |
| Other | 83 | 118 | 172 |
| **Total Non-Current Assets** | **424 437** | **396 812** | **348 944** |
| Borrowings | 2 131 | 2 214 | 1 341 |
| Provisions - employee benefits | 177 | 111 | 132 |
| Provisions - aged persons units | 1 845 | 1 900 | 1 776 |
| Provisions - rehabiliaition | 651 | 395 | 374 |
| **Total Non-Current Liabilities** | **4 804** | **4 620** | **3 623** |
| **Net Assets** | **422 689** | **394 166** | **347 691** |
| Reserves | 221 832 | 199 224 | 156 781 |
| Accumulated surpluses | 200 857 | 194 942 | 190 910 |
| **Total Equity** | **422 689** | **394 166** | **347 691** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $28.523m during 2011-12. Net Assets increased by the same amount to $422.689m. Major line item movements included:

- increased Cash, $1.026m, which is discussed further in the Statement of Cash Flows section of this Chapter
- lower Payables, $0.216m, mainly because the balance at 30 June 2011 including several large capital works project invoices
- increased Property, plant and equipment primarily due to:
  - revaluation increments, $22.463m, relating to land, roads and streets, car parks, and bridges
  - additions, $12.015m, offset by
  - net disposals, $0.799m
  - depreciation expense, $5.195m
- increased Council investment in Cradle Mountain Water, $0.170m and DRWMA, $0.266m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 18 101 | 18 197 | 17 783 |
| Cash flows from government | 5 473 | 3 840 | 3 823 |
| Payments to suppliers and employees | (17 423) | (17 241) | (17 606) |
| Interest received | 384 | 365 | 395 |
| Finance costs | (154) | (104) | (63) |
| **Cash from operations** | **6 381** | **5 057** | **4 332** |
| Capital grants and contributions | 3 556 | 2 020 | 4 044 |
| Payments for property, plant and equipment | (10 678) | (8 559) | (13 986) |
| Proceeds from sale of property, plant and equipment | 1 868 | 1 246 | 831 |
| Proceeds from financial assets | 0 | 1 325 | 6 539 |
| **Cash (used in) investing activities** | **(5 254)** | **(3 968)** | **(2 572)** |
| Proceeds from borrowings | 25 | 1 000 | 700 |
| Repayment of borrowings | (126) | (129) | (104) |
| **Cash from (used in) financing activities** | **(101)** | **871** | **596** |
| **Net increase in cash** | **1 026** | **1 960** | **2 356** |
| Cash at the beginning of the year | 5 416 | 3 456 | 1 807 |
| Less cash transferred to Cradle Mountain Water | 0 | 0 | (707) |
| **Cash at end of the year** | **6 442** | **5 416** | **3 456** |

## Comment

Council's cash balance at 30 June 2012, $6.442m, comprised cash at bank and on hand. The cash balances include restricted funds for leave provisions of $2.368m and trust funds and deposits $0.254m. Unrestricted funds held in cash relate to other reserves for asset replacement, fire services, garbage collection and special projects totalling $2.792m. The excess cash held in the current year was mainly due to financial assistance grants in advance of $1.061m.

Council's cash position improved by $1.026m during 2011-12 with Cash from operations of $6.381m, Capital grants and contributions, $3.556m, and Proceeds from sale of property, plant and equipment, $1.868m, being more than sufficient to fund Payments for property, plant and equipment of $10.678m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $1.324m to $6.381m which included:

- Council's operating surplus of $0.568m adjusted for depreciation of $5.229m, a non-cash item, providing $5.797m in operating cash inflows
- additional financial assistance grants in advance of $1.061m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011
- impact of higher payables, $0.375m, and provisions, $0.398m, which were expensed, but did not result in a cash outflow, offset by
- the profit on disposal of assets, $0.903m, and the increase in Council's investment in DRWMA, $0.235m.

Payments for property, plant and equipment of $10.678m included:

- Reconstruction arising from Natural Disaster Funding, $2.803m
- Ulverstone Wharf Development, $1.462m
- Plant and equipment purchases, $1.028m
- Leven River Bridge footpath, $0.624m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 568 | (513) | (1 586) | (901) |
| Operating surplus ratio ⋆ | >0 | 2.52 | (2.52) | (7.89) | (3.33) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio⋆ | >100% | 182% | 103% | 112% | 96% |
| Asset renewal funding ratio⋆ ⋆⋆ | 90% - 100% | 100% | 100% | n/a | n/a |
| Road asset consumption ratio ⋆ | >60% | 86.4% | 81.3% | 68.0% | 69.0% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (1 964) | (3 024) | (1 471) | 2 545 |
| Net financial liabilities ratio ⋆ ⋆⋆⋆ | 0% - (50%) | (8.7%) | (14.9%) | (7.3%) | 9.4% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.32 | 2.47 | 2.60 | 4.92 |
| Current ratio | 1:1 | 1.67 | 1.41 | 1.60 | 2.46 |
| Interest Coverage | | 40.44 | 47.63 | 67.76 | 115.09 |
| Asset investment ratio | >100% | 204% | 170% | 232% | 144% |
| Self financing ratio | | 28.3% | 24.9% | 21.5% | 24.9% |
| Own source revenue | | 80.4% | 81.2% | 80.7% | 86.6% |
| Debt collection | 30 days | 18 | 16 | 28 | 21 |
| Creditor turnover | 30 days | 32 | 41 | 21 | 24 |
| Rates per capita ($) | | 565 | 532 | 502 | 704 |
| Rates to operating revenue | | 54.6% | 56.9% | 54.3% | 56.1% |
| Rates per rateable property ($) | | 1 170 | 1 109 | 1 052 | 1 480 |
| Operating cost to rateable property ($) | | 2 091 | 1 998 | 2 091 | 2 727 |
| Employee costs expensed ($'000s) | | 9 145 | 8 490 | 8 327 | 9 343 |
| Employee costs capitalised ($'000s) | | 916 | 884 | 771 | 530 |
| **Total employee costs ($'000s)** | | **10 061** | **9 374** | **9 098** | **9 873** |
| Employee costs as a % of operating expenses | | 42% | 41% | 38% | 33% |
| Staff numbers (FTEs) | | 141 | 141 | 142 | 162 |
| Average staff costs ($'000s) | | 71 | 66 | 64 | 61 |
| Average leave balance per FTE ($'000s) | | 17 | 15 | 15 | 15 |

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

## Comment

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

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

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

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

Self financing ratio remained relatively consistent over the period under review. Own source revenue was also constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2011-12 it was reliant on grant funding to the extent of 19.6% (2010-11, 19.8%).

Rates per rateable property is trending upward and corresponds with rate increases over the period under review. Council's rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs increased over the four year period under review. This upward trend is due to Council's workforce concentrating on maintenance works, with more capital works being outsourced. The movement in 2009-10 was mainly due to the impact of the transfer of water and sewerage services to Cradle Mountain Water.

Average staff costs and Average employee entitlements increased over four year period in line with annual enterprise agreement salary and wage pay rises.

# DERWENT VALLEY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 28 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Willow Court

Our previous reports have highlighted various Council activities related to Willow Court. Initiatives this year were that Council entered into a revised Memorandum of Understanding with the Department of Primary Industry, Parks, Water and Environment on 4 May 2012 which included a new Grant Deed for $0.750m requiring these monies to be expended on an "approved purpose" primarily in Willow Court Precinct.

### Sale of Willow Court oval

We inquired into the process followed for the sale of this asset but at the time of writing this report, were not in a position to conclude as to the veracity of this process.

The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus before net interest revenues of $0.151m compared to a budgeted surplus of $1.960m in 2011-12. However, the budget did not include Depreciation. Assuming Depreciation was similar to the actual amount in 2011-12, $2.038m, a budgeted operating deficit of $0.078m would have resulted.

The Net Operating Surplus after net interest revenues totalled $0.176m, an improvement of $0.110m on the result in 2010-11. Council achieved a Net Surplus of $0.687m (2010-11, $0.476m) and a Comprehensive Surplus of $2.679m ($4.729m). The Comprehensive Surplus included the net impacts of upward asset revaluations of $1.937m and a write-up of $0.055m in Council's investment in Southern Water.

Consistent with the Comprehensive Surplus of $2.679m, Council's Net Assets increased to $92.299m, from $89.620m in 2010-11. As at 30 June 2012 Council had Net Working Capital of $0.572m, down from $0.928m, due mainly to lower Cash and financial assets of $0.568m due to higher capital expenditure during 2011-12.

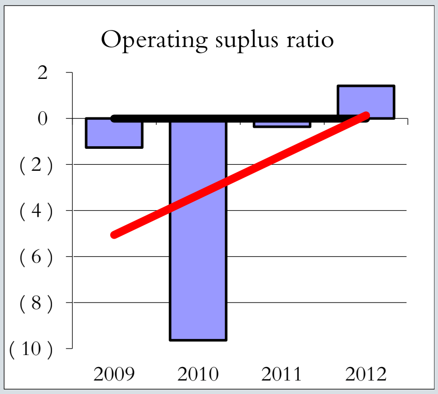
## Assessment of financial sustainability

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

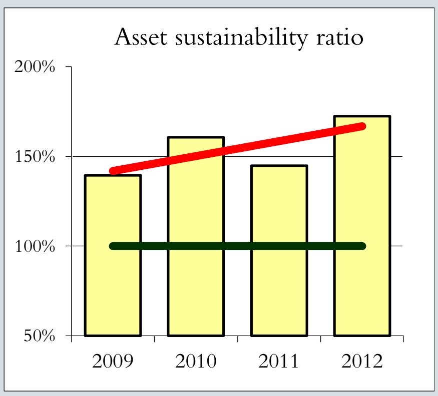
### Relevant financial sustainability ratios

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

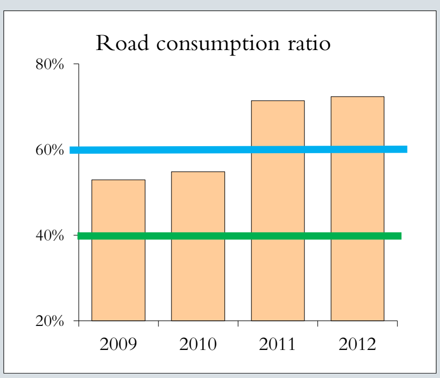
In general, the ratios indicate:



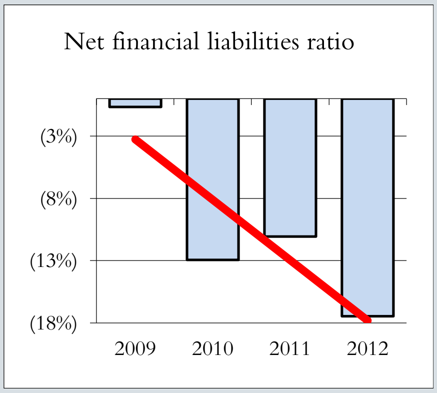

Council recorded an operating surplus in 2011-12 compared with a small surplus in 2010-11 and deficits in the two prior years. On average over the four year period, Council recorded a negative ratio of 2.36, which indicates sufficient revenue was not generated to fulfil its operating requirements, including Depreciation charges. The average result was 'skewed' by the net operating deficit of $0.750m in 2009-10 which was caused by lower grant revenues received and higher depreciation charges.




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




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating; data below the green line a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2012 Council had used (consumed) approximately 28% of the service potential of its road assets which is a low risk rating. The improvement in the ratio in 2010-11 was due to the revaluation of roads assets at 30 June 2011.




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

Council's total liabilities consist of payables, interest bearing borrowings and other liabilities, which comprise; security deposits, bonds and accruals, and employee provisions.

### Governance

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

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

## Conclusion as to financial sustainability

It is difficult to draw conclusions based on the above ratios and discussion. However, from a financial operating perspective, Council recorded an operating surplus in the current year but a negative operating surplus ratio over the four years of this analysis. We also note Council budgeted for a deficit.

Asset sustainability ratio indicates Council, based on our 100% benchmark, invested adequately in existing assets over the past four years. At 30 June 2012 Council's Road consumption ratio was in the low risk range indicating its road assets were well placed to continue providing services to ratepayers.

Council's Net financial liabilities ratio was negative but within our 0 to (50%) range indicating at 30 June 2012 it was in a position to meet short-term commitments and had capacity to increase borrowings should the need arise.

From a governance perspective, Council did not have an audit committee, long-term asset management or financial management plans. We understand that these aspects of its governance are being addressed by Council. Council has advised that substantial progress has been made in the formulation of a long-term financial plan, with an emphasis on asset renewal.

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council was at a high risk from a governance perspective, moderate financial sustainability risk from an operating perspective but at low risk from a net financial liabilities and asset management perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 5 272 | 5 284 | 5 057 | 4 802 |
| Fees and charges | 1 270 | 1 305 | 1 180 | 1 096 |
| Grants ** | 2 898 | 3 314 | 2 999 | 2 357 |
| Other revenue | 118 | 528 | 364 | 292 |
| **Total Revenue** | **9 558** | **10 431** | **9 641** | **8 547** |
| Employee costs | 3 319 | 3 290 | 3 009 | 2 920 |
| Depreciation | 0 | 2 038 | 1 978 | 2 050 |
| Other expenses | 4 279 | 4 952 | 4 648 | 4 417 |
| **Total Expenses** | **7 598** | **10 280** | **9 635** | **9 387** |
| **Net Operating Surplus (Deficit) before** | **1 960** | **151** | **6** | **(840)** |
| Finance costs | (133) | (135) | (107) | (73) |
| Interest revenue | 95 | 160 | 167 | 163 |
| **Net Operating Surplus (Deficit)** | **1 922** | **176** | **66** | **(750)** |
| Capital grants | 0 | 0 | 410 | 844 |
| Financial assistance grant received in advance ** | 0 | 955 | 444 | 403 |
| Offset Financial assistance grant in advance ** | 0 | (444) | (403) | (394) |
| **Net Surplus** | **1 922** | **687** | **476** | **103** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 1 937 | 4 110 | 3 479 |
| Fair value initial adjustment Southern Water | 0 | 0 | 0 | (4304) |
| Current year fair value adjustment Southern Water | 0 | 55 | 143 | 0 |
| **Total comprehensive income items** | **0** | **1 992** | **4 253** | **(825)** |
| **Comprehensive Surplus (Deficit)** | **1 922** | **2 679** | **4 729** | **(722)** |

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

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

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenue of $0.151m, compared to a small surplus of $0.006m, in the prior year.

Total Revenue increased by $0.790m, 8.2%, mainly due to higher Rates revenue of $0.227m, (4.5%) and Grants revenue which increased by $0.315m as a result of greater grants for roads, bridges and footpaths, $0.189m. There was also an increase in the Financial Assistance Grants base component of $0.444m as well as new grants from Workskills Employment Solutions, $0.013m, Light to Past, $0.227m, and Walking History, $0.011m. These were offset by a decrease in Roads to Recovery grant of $0.313m.

The higher revenue was partially offset by a $0.645m, 6.7%, rise in Total Expenses, including:

- Employee costs, $0.281m, 9.3%, in line with pay rises and increase in FTE's
- Other expenses, $0.304m, 6.5%, with materials and contract costs up $0.197m.

After accounting for net finance revenues Council made a Net Operating Surplus of $0.176m in 2011-12 (2010-11, $0.066m).

Council achieved a Net Surplus of $0.687m in 2011-12; this was $1.235m less than the estimated surplus of $1.922m. The difference was mainly because Council did not budget for its depreciation expense. Had depreciation been included at an amount equal to the 2011-12 actual charge, $2.038m, the budgeted result would have been a deficit of $0.116m.

Other Comprehensive Surplus totalled $2.679m and comprised:

- a favourable investment movement of $0.055m being Council's 2.7% interest in the higher net assets of Southern Water at 30 June 2012
- fair value revaluation increment of $1.937m relating to non-current assets.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and cash equivalents | 2 | 415 | 184 |
| Financial assets | 2 150 | 2 305 | 2 004 |
| Receivables | 899 | 702 | 669 |
| Other | 71 | 63 | 148 |
| **Total Current Assets** | **3 122** | **3 485** | **3 005** |
| Payables | 382 | 650 | 826 |
| Borrowings | 144 | 115 | 89 |
| Provisions - employee benefits | 1 742 | 1 564 | 1 399 |
| Other | 282 | 228 | 131 |
| **Total Current Liabilities** | **2 550** | **2 557** | **2 445** |
| **Net Working Capital** | **572** | **928** | **560** |
| Property, plant and equipment | 69 131 | 65 747 | 61 126 |
| Investment in water corporation | 24 925 | 24 870 | 24 727 |
| Other | 22 | 20 | 18 |
| **Total Non-Current Assets** | **94 078** | **90 637** | **85 871** |
| Borrowings | 2 215 | 1 858 | 1 473 |
| Provisions - employee benefits | 136 | 87 | 67 |
| **Total Non-Current Liabilities** | **2 351** | **1 945** | **1 540** |
| **Net Assets** | **92 299** | **89 620** | **84 891** |
| Reserves | 52 016 | 49 848 | 45 649 |
| Accumulated surpluses | 40 283 | 39 772 | 39 242 |
| **Total Equity** | **92 299** | **89 620** | **84 891** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $2.679m.

Net Assets increased by the same amount to $92.299m. Reasons for major movements in line items included:

- lower Cash and cash equivalents of $0.413m which is discussed further in the Statement of Cash Flows section of this Chapter
- Receivables increased, $0.197m, mainly due to a large sundry debtor of $0.165m and an insurance debtor for Willow Court of $0.089m relating to fire damage to the Franklin Building
- Payables decreased by $0.268m, due to two material creditors outstanding at 30 June 2011, one for $0.163m and the other for $0.161m both of which were settled in 2011-12
- increased Property, plant and equipment of $3.384m, primarily due to additions of $3.669m, asset revaluation of $1.939m, offset by Depreciation, $2.038m, and disposals, $0.185m
- higher Investment in Southern Water of $0.055m, mentioned previously.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 6 834 | 7 082 | 6 126 |
| Cash flows from government | 4 057 | 3 370 | 2 357 |
| Payments to suppliers and employees | (8 400) | (8 259) | (6 559) |
| Interest received | 160 | 167 | 60 |
| Finance costs | (128) | (101) | (83) |
| **Cash from operations** | **2 523** | **2 259** | **1 901** |
| Capital grants and contributions | 10 | 427 | 859 |
| Distributions received - Southern Water | 8 | 0 | 0 |
| Payments for property, plant and equipment | (3 669) | (3 018) | (4 294) |
| Proceeds from sale of property, plant and equipment | 175 | 453 | 150 |
| Proceeds/(Payments) for financial assets | 155 | (301) | 520 |
| **Cash (used in) investing activities** | **(3 321)** | **(2 439)** | **(2 765)** |
| Proceeds from borrowings | 500 | 500 | 500 |
| Repayment of borrowings | (115) | (89) | (65) |
| **Cash from financing activities** | **385** | **411** | **435** |
| Net increase (decrease) in cash | (413) | 231 | (429) |
| Cash at the beginning of the year | 415 | 184 | 613 |
| **Cash at end of the year** | **2** | **415** | **184** |

### Comment

Council's cash position declined from $0.415m at 30 June 2011 to $0.002m at 30 June 2012. This was because cash generated from operations and net borrowings were not sufficient to fund Council's net capital program. Cash generated from operating activities improved to $2.523m with this amount, in the main, made up of:

- Council's Net Surplus of $0.687m, adjusted for Depreciation of $2.038m, a non-cash item, and an increase in Employee provisions, $0.227m, provided $2.952m in operating cash inflows, offset by
- the impact of cash applied to reduce the Payables balance by $0.268m during 2011-12.

Payments for property, plant and equipment included:

- Road works, $2.251m, including Montagu Street, $0.175m, Burnett Street, $0.304m, Glenfern Road, $0.248m, and Charlotte Street, $0.179m
- Bridges, $0.211m, including Belmont Rivulet, $0.090m, and Glen Fern Creek, $0.101m
- Drainage, $0.283m, including storm water upgrades, $0.085m, and a Flood Warning System, $0.023m
- Waste, $0.289m, including Landfill site, $0.130m, and Recycle Bins, $0.159m
- Reserves and recreation, $0.237m
- Plant, $0.391m.

Council also held financial assets of $2.150m, which were not included within the definition of cash as they had maturities greater than three months from balance date.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 176 | 66 | (750) | (44) |
| Operating surplus ratio * | >0 | 1.43 | 0.06 | (9.64) | (1.26) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio * | >100% | 172% | 145% | 161% | 139% |
| Asset renewal funding ratio * ** | 90% - 100% | n/a | n/a | n/a | n/a |
| Road consumption ratio * | >60% | 72.4% | 71.4% | 54.8% | 53.0% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (1 850) | (1 080) | (1 128) | (74) |
| Net financial liabilities ratio * *** | 0 - (50%) | (17.5%) | (11.0%) | (13.0%) | (0.7%) |
| **Operating efficiency** | | | | | |
| Liquidity ratio * | 2:1 | 1.12 | 1.12 | 0.82 | 15.73 |
| Current ratio | 1:1 | 1.22 | 1.36 | 1.23 | 2.33 |
| Interest Coverage | | 18.71 | 21.37 | 21.90 | 23.01 |
| Asset investment ratio | >100% | 180% | 153% | 209% | 139% |
| Self financing ratio * | | 23.8% | 23.0% | 21.8% | 24.9% |
| Own source revenue * | | 68.7% | 69.0% | 72.9% | 79.3% |
| Debt collection | 30 days | 50 | 41 | 35 | 22 |
| Creditor turnover | 30 days | 17 | 32 | 35 | 9 |
| Rates per capita ($) | | 522 | 504 | 478 | 698 |
| Rates to operating revenue | | 49.9% | 51.6% | 55.1% | 63.2% |
| Rates per rateable property ($) | | 1 058 | 1 021 | 967 | 1 018 |
| Operating cost to rateable property ($) | | 2 086 | 1 966 | 1 905 | 2 326 |
| Employee costs expensed ($'000s) | | 3 290 | 3 009 | 2 920 | 2 874 |
| Employee costs capitalised ($'000s) | | 198 | 43 | 43 | 123 |
| **Total employee costs ($'000s)** | | **3 488** | **3 052** | **2 963** | **2 997** |
| Employee costs as a % of operating expenses | | 32% | 31% | 31% | 26% |
| Staff numbers (FTEs) | | 48 | 46 | 47 | 46 |
| Average staff costs ($'000s) | | 73 | 66 | 63 | 65 |
| Average leave balance per FTE ($'000s) | | 39 | 36 | 31 | 32 |

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

## Comment

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

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

Interest Coverage remained consistent indicating Council was not overburdened by debt.

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

Debt collection days were above benchmark in three of the years under review. The ratio for 2011-12 was impacted by increased Receivables at 30 June 2012. A contribution for road renewal works of $0.165m has now been received. Furthermore, the outstanding debtors include an insurance claim which Council expects to be finalised in the near future.

Creditor turnover improved in 2011-12 to below benchmark. Council's policy is to pay outstanding creditors within a 30 day period.

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

Employee costs capitalised, $0.198m, increased due to Council using in-house skills and fewer sub-contractors for capital works.

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

Average staff costs generally increased in line with increases in FTEs with the employment of two inspectorial staff previously engaged as contractors. EBA negotiations also contributed to the percentage increase in costs.

# DEVONPORT CITY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 14 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

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

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

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $0.757m in 2011-12 (2010-11, Surplus $0.560m). The deficit result was due primarily to increases in operating expenses, lower Grants and Interest revenue, offset partly by higher Rates revenue.

Council recorded a Net Surplus of $4.301m (2010-11, $9.735m), which included Capital grants of $4.139m ($7.350m), net Financial Assistance Grants received in advance, $0.592m and Contributions of non-monetary assets of $0.327m ($1.783m).

The Comprehensive Surplus of $16.805m included Fair value revaluations of non-current assets, $12.384m.

Consistent with the Comprehensive Surplus of $16.805m, Council's Net Assets increased to $411.662m from $394.857m the previous year. As at 30 June 2012 Council had Net Working Capital of $7.657m, up from $5.541m in the previous year.

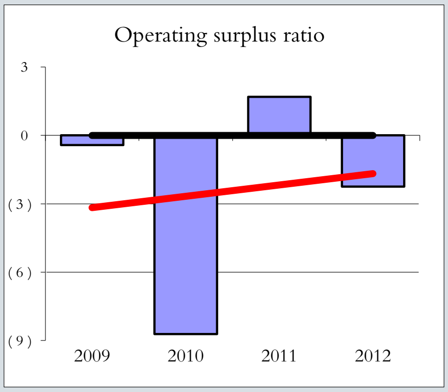
## Assessment of financial sustainability

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

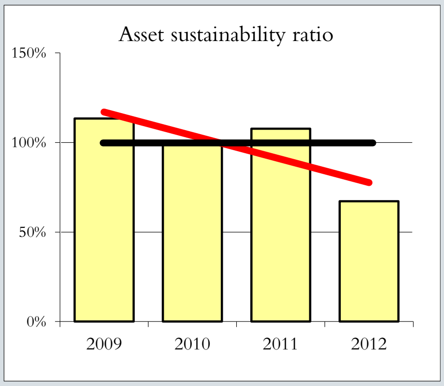
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



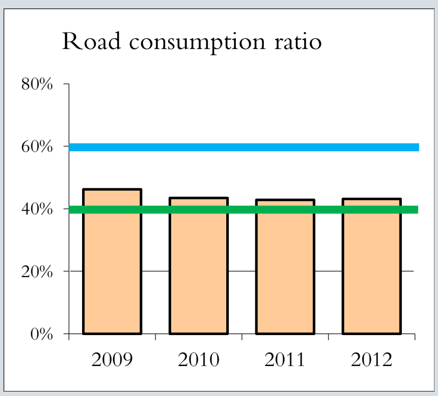

Council's operating surplus ratios reflects operating deficits recorded in three of the four years. On average over the four year period, Council recorded a negative ratio of 2.42, which indicated insufficient revenue was generated to fulfil operating requirements, including depreciation charges. However, in trend terms Council's ratio is improving.




Asset sustainability ratio was above the 100% benchmark for the first three years under review, but decreased in 2011-12 due to greater investment in new assets. Over the four year period, Council's average ratio was 97%, slightly below the benchmark, indicating, subject to levels of maintenance expenditure and the existence of an effective long-term asset management plan, Council substantially maintained its investment in existing assets.

## Asset renewal funding ratio

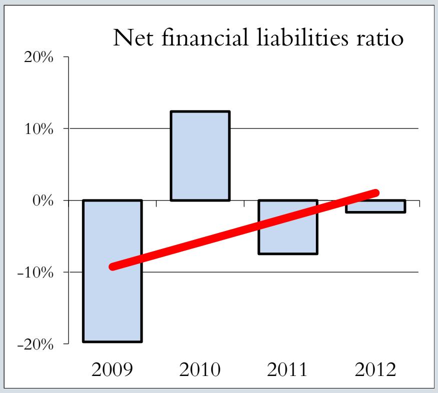
Council's long-term asset management plan indicated the Asset renewal funding ratio was 96% at 30 June 2012, based on planned asset replacement expenditure. This is within the benchmark range of 90% - 100%, indicating Council's proposed investment in asset renewal is adequate. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2028-29 and covers transport, drainage, facilities and open space and recreation assets.




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

The graph indicated that at 30 June 2012 Council had used (consumed) approximately 57% of the service potential of its road assets. This indicates a moderate financial sustainability risk.

Road consumption and Asset sustainability, when taken together, suggest that Council's investment strategy is maintaining its long-lived asset base in a reasonably 'constant' position.




Council recorded a negative ratio at 30 June 2012, because total liabilities exceeded liquid assets by $0.558m which represented 1.7% of Council's operating revenue. The negative ratio of 1.7% is well within our benchmark of negative 50% and indicates Council was in a sound liquidity position and able to meet existing commitments.

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

### Governance

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

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

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

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

The financial management plan covers a period 2012-13 to 2021-22 and has been recently reviewed. The plan has a greater focus on operating activities. The plan was formally adopted by Council June 2012.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating deficit in three of the four years under review. Following a review of operations and restructure in July 2010, Council achieved an operating surplus in 2010-11. Council's operating result for 2011-12 was a deficit of $0.757m.

Council's asset sustainability ratios indicated, based on our 100% benchmark, that it marginally under-invested in existing assets over the period of the analysis, with an average ratio of 97%. Road consumption ratio is in the moderate risk range, with road assets being 57% consumed. The Asset renewal funding ratio indicated Council is planning sufficiently for asset renewal funding.

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

From a governance perspective, Council has an active audit committee, although it does not have an internal audit function. Council has long-term asset management and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at moderate financial sustainability risk from an operating, asset management and governance perspective but was at low financial sustainability risk from a net financial liabilities perspective.

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

Council's audited financial statement indicates a small surplus for 2011-12, not a deficit as noted in TAO report. This is a result of DCC considering loss on disposal of assets as a non-recurrent capital item. Council does not budget for this expense as a nett operating item. The loss on disposal total was primarily due to the replacement of assets utilising capital grant funds, before the end of their useful life and Council is therefore of the opinion that losses on disposed assets should not impact on the operating results.

Council has made significant improvements in its financial management over the last three years to ensure the long term sustainability of the organisation. A 10 year long term financial plan has been developed and was formally adopted by Council at its June 2012 meeting.

Governance comments in the TAO Report to Parliament recognise that Devonport City Council has an active Audit Committee which is made up of three highly regarded independent members and correctly states that Council does not have an internal audit function. It should be recognised however, that Council has previously engaged an independent and well regarded accounting and audit firm to undertake a detailed assessment of its financial management in the form of a Financial Services Review.

Significant improvements to Council's financial management have been made over the past three years which have been achieved in part as a result of this external assessment. The implementation of recommendations from Council's Financial Services Review has been continually monitored by the Audit Committee and the Committee have requested the same external firm be engaged to re- assess Council following the completion of the reviews recommendations.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 23 589 | 23 836 | 22 233 | 20 666 |
| Fees and charges | 4 969 | 4 750 | 4 869 | 4 834 |
| Grants ** | 2 099 | 2 482 | 2 970 | 2 195 |
| Other revenue | 1 401 | 1 865 | 1 962 | 1 466 |
| **Total Revenue** | **32 058** | **32 933** | **32 034** | **29 161** |
| Employee costs | 11 482 | 12 055 | 11 702 | 12 935 |
| Depreciation | 8 400 | 8 027 | 7 174 | 6 867 |
| Other expenses | 12 045 | 13 912 | 13 264 | 12 540 |
| **Total Expenses** | **31 927** | **33 994** | **32 140** | **32 342** |
| **Net Operating Surplus (Deficit) before** | **131** | **(1 061)** | **(106)** | **(3 181)** |
| Finance costs | (578) | (544) | (374) | (353) |
| Interest revenue | 454 | 848 | 1 040 | 914 |
| **Net Operating Surplus (Deficit)** | **7** | **(757)** | **560** | **(2 620)** |
| Capital grants | 4 047 | 4 139 | 7 350 | 2 516 |
| Financial assistance grant received in advance ** | 0 | 1 069 | 477 | 435 |
| Offset Financial assistance grant in advance ** | 0 | (477) | (435) | (369) |
| Contributions of non-current assets | 0 | 327 | 1 783 | 1 175 |
| **Net Surplus** | **4 054** | **4 301** | **9 735** | **1 137** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 12 384 | 7 689 | (13 260) |
| Share of associate revaluation increment | 0 | 37 | 280 | (33) |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | 0 | (31 706) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | (31 767) | 0 |
| Current year fair value adjustment Cradle Mountain Water | 0 | 83 | 358 | 0 |
| **Total Comprehensive Income Items** | **0** | **12 504** | **(23 440)** | **(44 999)** |
| **Comprehensive Surplus (Deficit)** | **4 054** | **16 805** | **(13 705)** | **(43 862)** |

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

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

*The offset figures allows the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Deficit before Finance costs and Interest revenue of $1.061m, (2010-11, Deficit $0.106m). The increased Deficit was predominately due to:

- increased Employee costs, $0.353m, 3.0%, primarily due to pay rises under Council's Enterprise Agreement
- increased Other expenses, $0.648m, 4.9%, due mainly to increases in street lighting due to higher electricity charges, increased fire service levy and a change in Council's policy for the impairment of parking infringement debtors, which resulted in an impairment expense of $0.365m ($0.140m) for the year
- higher Depreciation, $0.853m, 11.9%, due to the impact of asset revaluations in 2010-11
- lower grant revenue, $0.488m, 16.4%, mainly due to decreased community projects funding of $0.448m, offset partly by
- higher Rates revenue of $1.603m, 7.2%, due to an average rate increase of 5% with additional revenue from new properties.

Council budgeted for a Net Operating Surplus of $0.007m, which was $0.764m better than the actual Net Operating Deficit of $0.757m. The deteriorated result from budget was mainly due to the loss on disposal of road, bridge and stormwater assets of $0.828 which were not budgeted for.

After accounting for net interest revenue Council recorded an Operating Deficit of $0.757m (2010-11, Surplus of $0.560m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $0.875m per annum over the past four years. At the same time, finance costs increased due to new borrowings.

After Capital grants, net increases in Financial Assistance Grants received in advance and Contributions of non-current assets Council generated a Net Surplus of $4.301m in 2011-12 (2010-11, $9.735m).

Capital grants totalled $4.139m (2010-11, $7.350m) and comprised:

- funding from the State Government for the Aquatic Centre, $2.500m
- Maritime Museum and 'Julie Burgess' Project State Government funding of $0.660m, ($0.600m).

Other Comprehensive Income of $12.504m included:

- fair value revaluation of non-current assets of $12.384m which included roads and bridges, $1.753m, cultural and heritage assets,$1.378m, and drainage, $9.220m
- Council's share of Dulverton Regional Waste Management Authority's revaluation increment of $0.037m
- increased investment in Cradle Mountain Water of $0.083m being Council's 23.5% interest in the higher net assets of Cradle Mountain Water at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 11 720 | 9 608 | 12 869 |
| Receivables | 1 875 | 1 755 | 1 723 |
| Other | 105 | 65 | 101 |
| **Total Current Assets** | **13 700** | **11 428** | **14 693** |
| Payables | 2 639 | 2 500 | 2 791 |
| Borrowings | 948 | 845 | 672 |
| Provisions - employee benefits | 2 080 | 2 107 | 1 887 |
| Other | 376 | 435 | 201 |
| **Total Current Liabilities** | **6 043** | **5 887** | **5 551** |
| **Net Working Capital** | **7 657** | **5 541** | **9 142** |
| Property, plant and equipment | 332 906 | 318 226 | 294 571 |
| Investments in associates | 2 371 | 2 056 | 1 722 |
| Investment in water corporation | 76 838 | 76 755 | 108 164 |
| Receivables | 0 | 223 | 289 |
| **Total Non-Current Assets** | **412 115** | **397 260** | **404 746** |
| Borrowings | 7 585 | 7 533 | 4 878 |
| Provisions - employee benefits | 525 | 411 | 448 |
| **Total Non-Current Liabilities** | **8 110** | **7 944** | **5 326** |
| **Net Assets** | **411 662** | **394 857** | **408 562** |
| Reserves | 233 338 | 220 834 | 214 475 |
| Accumulated surpluses | 178 324 | 174 023 | 194 087 |
| **Total Equity** | **411 662** | **394 857** | **408 562** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $16.805m. Net Assets increased by the same amount to $411.662m. Major line item movements included:

- Cash and financial assets increased by $2.112m. Refer to the Statement of Cash Flows section of this Chapter for further explanation
- Property, plant and equipment increased by $14.680m due primarily to:
  - asset revaluations of $12.384m, which included roads and bridges infrastructure, drainage infrastructure, and cultural and heritage assets
  - capital additions, $12.953m, and contributions of $0.327m, offset by
  - depreciation expense of $8.027m
  - disposals of $2.957m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 31 171 | 30 300 | 28 989 |
| Cash flows from government | 3 074 | 3 012 | 2 261 |
| Payments to suppliers and employees | (25 652) | (26 097) | (26 003) |
| Interest received | 742 | 930 | 597 |
| Finance costs | (548) | (374) | (353) |
| **Cash from operations** | **8 787** | **7 771** | **5 491** |
| Capital grants and contributions | 3 673 | 7 350 | 2 516 |
| Distributions received - Dulverton | 76 | 110 | 33 |
| Distributions received - Cradle Mountain Water | 884 | 891 | 522 |
| Payments for property, plant and equipment | (13 229) | (22 733) | (8 406) |
| Proceeds from sale of property, plant and equipment | 1 766 | 522 | 200 |
| **Cash (used in) investing activities** | **(6 830)** | **(13 860)** | **(5 135)** |
| Proceeds from borrowings | 1 000 | 3 500 | 3 140 |
| Repayment of borrowings | (845) | (672) | (380) |
| **Cash from financing activities** | **155** | **2 828** | **2 760** |
| **Net increase (decrease) in cash** | **2 112** | **(3 261)** | **3 116** |
| Cash at the beginning of the year | 9 608 | 12 869 | 9 753 |
| **Cash at end of the year** | **11 720** | **9 608** | **12 869** |

## Comment

At 30 June 2012, Council's total cash balance of $11.720m comprised cash at bank and on hand, $0.112m, and short-term deposits, $11.608m. Council reported that $5.481m (2010-11, $2.953m) of the investment balance was restricted (being held for specific purposes or recorded as prepaid deposits). In addition, Council received $1.069m (2010-11, $0.477m) in Financial assistance grants in advance in June 2012 relating to 2012-13.

The balance of uncommitted cash will assist Council's long-term financial plans, which include significant funding commitments for future capital expenditure for both the renewal of assets and expansion of facilities.

Council's cash position improved by $2.112m to $11.720m, with Cash from operations, $8.787m, Capital grants and contributions, $3.673m, Distributions received from Cradle Mountain Water, $0.884m, and Proceeds from sale of property, plant and equipment, $1.766m, being more than sufficient to fund Payments for property, plant and equipment totalling $13.229m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $1.016m to $8.787m which included:

- Council's operating surplus of $0.757m adjusted for depreciation of $8.027m, loss on disposal of non current assets, $1.191m and share of profit in associate, $0.278m, all non-cash items, providing $8.739m in operating cash inflows
- additional financial assistance grants in advance of $0.592m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011, offset by
- cash inflows from returns received from Cradle Mountain Water, $0.884m, being recorded as an investing activity for cash flow purposes.

Major capital expenditure projects during the period included:

- an exchange of properties with the Crown with $1.300m received in consideration of the exchange recorded in Proceeds from sale of property
- Spreyton Cycleway, $1.054m
- Indoor aquatic centre, $0.833m
- Maritime museum enhancement project, $0.799m
- Devonport Regional Gallery offsite storage facility, $0.782m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (757) | 560 | (2 620) | (166) |
| Operating surplus ratio * | >0 | (2.24) | 1.69 | (8.71) | (0.42) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 67% | 108% | 101% | 113% |
| Asset renewal funding ratio* ** | 90% - 100% | 96% | 97% | N/A | N/A |
| Road asset consumption ratio * | >60% | 43.2% | 42.9% | 43.5% | 46.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (558) | (2 468) | 3 715 | (7 750) |
| Net financial liabilities ratio * *** | 0 - (50%) | (1.7%) | (7.5%) | 12.4% | (19.7%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.43 | 3.01 | 3.98 | 1.24 |
| Current ratio | 1:1 | 2.27 | 1.94 | 2.65 | 1.02 |
| Interest Coverage | | 15.03 | 19.78 | 14.56 | 10.57 |
| Asset investment ratio | >100% | 156% | 311% | 122% | 168% |
| Self financing ratio | | 26.0% | 23.5% | 18.3% | 26.8% |
| Own source revenue | | 92.7% | 91.0% | 92.7% | 93.4% |
| Debt collection | 30 days | 24 | 24 | 25 | 24 |
| Creditor turnover | 30 days | 32 | 19 | 37 | 24 |
| Rates per capita ($) | | 929 | 870 | 810 | 1 062 |
| Rates to operating revenue | | 70.6% | 67.2% | 68.7% | 68.1% |
| Rates per rateable property ($) | | 2 004 | 1 880 | 1 766 | 2 315 |
| Operating cost to rateable property ($) | | 2 903 | 2 749 | 2 794 | 3 412 |
| Employee costs expensed ($'000s) | | 12 055 | 11 702 | 12 935 | 12 464 |
| Employee costs capitalised ($'000s) | | 566 | 577 | 701 | 634 |
| **Total employee costs ($'000s)** | | **12 621** | **12 279** | **13 636** | **13 098** |
| Employee costs as a % of operating expenses | | 35% | 36% | 40% | 32% |
| Staff numbers (FTEs) | | 167 | 166 | 153 | 196 |
| Average staff costs ($'000s) | | 76 | 74 | 89 | 67 |
| Average leave balance per FTE ($'000s) | | 16 | 15 | 15 | 14 |

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

## Comment

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

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

Interest coverage ratios reflect Council's low level of finance costs associated with its borrowings relative to cash generated from operations. The drop in 2012 was due to increased interest payments due to new borrowings.

Asset investment ratios shows Council's total capital expenditure was well above its depreciation expense for all four years under review. In particular, the ratio for 2010-11 was substantially above benchmark, with Council undertaking the Mersey Bluff redevelopment, $7.506m, and Formby Road upgrade, $6.234m.

Council's positive Self financing ratios indicated Council generated operating cash flows which contributed towards its capital expenditure programs. Own source revenue percentages show Council generated the majority of its operating revenue from its own sources and in 2011-12 was reliant on recurrent grant funding to the extent of only 7.3% (2010-11, 9.0%).

Creditor turnover was better than benchmark in two out of the four years under review. Creditor balances at 30 June 2012 and 2010 included invoices for large capital projects, which caused the days to marginally exceed benchmark. Council's policy is to pay outstanding creditors within a 30 day period.

Rates per rateable property is trending upwards, but corresponds with rate increases over the period under review. Rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs were high in 2009-10, mainly due to redundancy payments of $0.474m made following the organisational restructure undertaken at the end of that year.

Average staff cost and Average leave balances increased primarily due to pay rises under Council's Enterprise Agreement. The 2009-10 Average costs were higher mainly due to the FTE numbers at 30 June 2010 excluding redundant employees, but employee costs including their salary costs and redundancy payments.

# HUON VALLEY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2012 and an unqualified audit report was issued on 27 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

Council completed several capital projects during 2011-12, these included:

- refurbishment of the Geeveston Medical Centre, for which accreditation was obtained in late 2012
- substantial work was undertaken on the planning and construction of the Cygnet Medical Centre
- refurbishment of the Southbridge Waste Transfer Station
- redevelopment of Sale Street in Huonville.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.778m in 2011-12 (2010-11, $0.778m) against a budget Net Operating Surplus of $1.018m. It reported a Net Surplus of $7.939m ($12.140m), which primarily resulted from an asset take-up adjustment of $4.750m, Capital grants of $1.730m, and a net increase in grant funding received in advance of $0.681m.

Council recorded a Comprehensive Surplus of $14.742m (2010-11, $26.001m), which included net impacts of upward asset revaluations, $6.718m, and a write-up of Council's interest in Southern Water of $0.085m.

Consistent with the Comprehensive surplus of $14.742m, Council's Net Assets increased to $220.544m, up from $205.802m the previous period. As at 30 June 2012 Council had Net Working Capital of $9.490m, (2010-11, $9.475m).

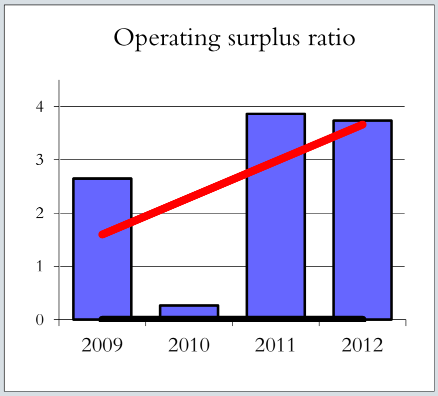
## Assessment of financial sustainability

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

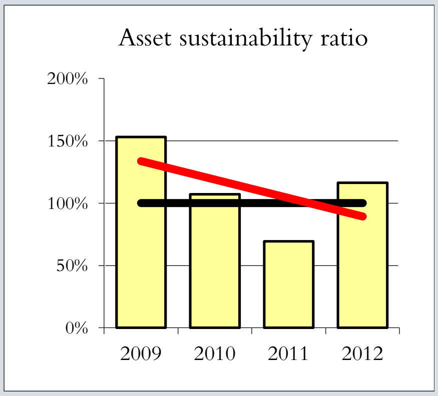
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



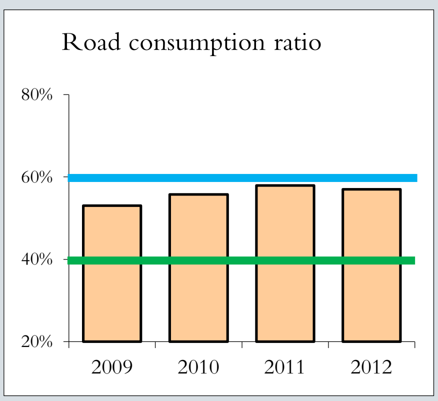

Council recorded an operating surplus in each of the past four years. The positive ratios indicated that Council generated sufficient revenue to fulfil its operating requirements, including its Depreciation charges.




Over the four year period, Council's average ratio was 111%, which was above the benchmark indicating that Council maintained its investment in existing assets.

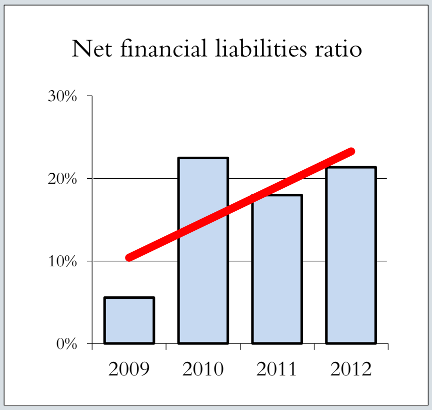
## Asset renewal funding ratio

Council's long-term asset management plan indicated the Asset renewal funding ratio was 100% at 30 June 2012, based on planned asset replacement expenditure. This ratio satisfies our benchmark of 90% to 100%. Council's current long-term financial management plan forecasts planned and required renewal expenditure to 2022-23 and covers transport, drainage, facilities and open spaces and recreation assets.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, and data below the green line a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2012 Council had used (consumed) approximately 43% of the service potential of its road assets.

This indicates a moderate financial sustainability risk.




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

### Governance

A review of Council's governance arrangements indicated Council had a long-term financial management plan. The plan covers the period from 2012-13 to 2022-23, is detailed, regularly reviewed and covers all of the elements required in relation to Council's key infrastructure assets, as well as focusing on operating activities. The plan was formally adopted by Council.

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

## Conclusion as to financial sustainability

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

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

Asset management ratios indicate Council invested above the benchmark in existing assets over the four year period under review, and its road consumption ratio, while improving, remained in the moderate financial sustainability range. Council's asset renewal funding ratio achieved our benchmark.

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

Based on these ratios and governance arrangements, we concluded at 30 June 2012 that Council was at moderate financial sustainability risk from a governance perspective, but low risk from an operating, net financial liabilities and asset management perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 9 067 | 9 049 | 8 337 | 7 698 |
| Fees and charges | 2 401 | 2 299 | 2 387 | 2 239 |
| Grants ** | 4 367 | 4 409 | 4 576 | 4 546 |
| Other revenue | 4 477 | 4 470 | 4 276 | 4 009 |
| **Total Revenue** | **20 312** | **20 227** | **19 576** | **18 492** |
| Employee costs | 9 398 | 9 371 | 8 735 | 7 544 |
| Depreciation | 3 905 | 3 931 | 4 078 | 4 040 |
| Other expenses | 6 591 | 6 738 | 6 566 | 7 342 |
| **Total Expenses** | **19 894** | **20 040** | **19 379** | **18 926** |
| **Net Operating Surplus (Deficit) before** | **418** | **187** | **197** | **(434)** |
| Interest revenue | 600 | 591 | 581 | 485 |
| **Net Operating Surplus** | **1 018** | **778** | **778** | **51** |
| Impairment of cash investments | 0 | 0 | 0 | (121) |
| Capital grants | 0 | 1 730 | 965 | 1 006 |
| Financial assistance grant received in advance ** | 0 | 1 415 | 734 | 729 |
| Offset Financial assistance grant in advance ** | 0 | (734) | (729) | (737) |
| Infrastructure asset take-up | 0 | 4 750 | 10 392 | 0 |
| **Net Surplus** | **1 018** | **7 939** | **12 140** | **928** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 6 718 | 13 639 | (836) |
| Fair value initial adjustment Southern Water | 0 | 0 | 0 | 1 972 |
| Current year fair value adjustment Southern Water | 0 | 85 | 222 | 0 |
| **Total comprehensive income items** | **0** | **6 803** | **13 861** | **1 136** |
| **Comprehensive Surplus** | **1 018** | **14 742** | **26 001** | **2 064** |

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

*** Grants received in advance have been shown separately after Net Operating Surplus.*

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Surplus before Interest revenue of $0.187m compared with a Surplus of $0.197m in the prior period. The consistent result was due to increased Total revenue of 3.3%, offset by increased Total expenses, 3.4%. These increases were caused by the following factors:

- increased Rates of $0.712m, 8.5%, due to a higher general rate
- increased Employee costs by $0.636m, 7.3%, as a result of more full time equivalent employees, and a 3.0% pay increase.

After accounting for Interest revenue Council recorded a Net Operating Surplus of $0.778m (2010-11, $0.778m) highlighting the importance of interest income to Council's annual operating performance.

Council's Net Surplus was $7.939m in 2011-12 (2009-10, $12.140m) mainly due to:

- Capital grants of $1.730m which included Health Funding for the Cygnet and Geeveston Medical Centres, $0.920m, Roads to Recovery Program, $0.420m, and Department of Infrastructure, Energy and Resources funding for the Cygnet Car Park, $0.240m
- Financial assistance grants received in advance, $1.415m, offset by the prior year, $0.734m, resulted in a net increase in funding received of $0.681m. This increase was due to Australian Government providing the first two instalments of the 2012-13 grant pool rather than just one
- Infrastructure take-up adjustments, $4.750m, which represented assets identified by Council and brought to account for the first time. This was a result of the development of Council's long-term asset management plan. The take-up included Stormwater assets, $2.173m, Parks, open spaces and streetscapes, $1.151m, and Sporting facilities, $1.125m.

Council's Comprehensive Surplus for 2011-12 was $14.742m. This comprised of Net Surplus, $7.939m, Fair value revaluation of non-current assets, $6.718m, and write-up of Council's interest in Southern Water, $0.085m.

Council budgeted for a Net Operating Surplus of $1.018m and generated an actual Net Operating Surplus of $0.778m. All line items making up the budget were not materially different from actual outcomes.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 6 828 | 6 392 | 7 187 |
| Financial assets | 3 950 | 5 000 | 1 707 |
| Receivables | 2 583 | 1 940 | 1 559 |
| Inventories | 108 | 28 | 207 |
| Other assets | 274 | 33 | 0 |
| **Total Current Assets** | **13 743** | **13 393** | **10 660** |
| Payables | 3 011 | 3 027 | 3 113 |
| Provisions – employee benefits | 1 242 | 891 | 710 |
| **Total Current Liabilities** | **4 253** | **3 918** | **3 823** |
| **Net Working Capital** | **9 490** | **9 475** | **6 837** |
| Property, plant and equipment | 171 265 | 158 428 | 134 065 |
| Investments | 0 | 0 | 1 094 |
| Capital Works in Progress | 1 732 | 0 | 0 |
| Investment in water corporation | 38 772 | 38 687 | 38 465 |
| **Total Non-Current Assets** | **211 769** | **197 115** | **173 624** |
| Payables | 0 | 0 | 16 |
| Provisions – employee benefits | 187 | 329 | 255 |
| Provisions – other | 528 | 459 | 388 |
| **Total Non-Current Liabilities** | **715** | **788** | **659** |
| **Net Assets** | **220 544** | **205 802** | **179 802** |
| Reserves | 110 509 | 103 536 | 89 640 |
| Accumulated surpluses | 110 035 | 102 266 | 90 162 |
| **Total Equity** | **220 544** | **205 802** | **179 802** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $14.742m during 2011–12.

Net Assets increased by the same amount to $220.544m. Reasons for major line item movements included:

- increased Cash and financial assets held, $0.436m, the reason for which is explained later in the Statement of Cash Flows section of this Chapter
- decreased Current investments, $1.050m, due to cash being withdrawn to fund Council's capital expenditure program
- additional Receivables outstanding at 30 June 2012, $0.643m, mainly as a result of two invoices issued to the Health and Hospital Fund totalling $0.500m in June 2012
- increased Inventories, $0.080m, primarily due to higher gravel stocks at 30 June 2012 as a result of the timing of road works
- higher Other assets, $0.241m, predominantly due to a prepayment of $0.229m made to Aussie Waste Management

- increased Current Employee benefit provisions, $0.351m, predominantly due to a greater number of employees being eligible for Long Service Leave due to a change in the Enterprise Bargaining Agreement. This was partially off-set by a lower Non-Current Employee benefit provision, $0.142m.
- higher Property, plant and equipment, $12.837m, which comprised additions, $5.493m, asset take-up, $5.278m, revaluation adjustment, $6.610m, offset by disposals, $0.614m, and depreciation, $3.930m
- Capital works in progress at 30 June 2012, $1.732m, mainly represented road work on Sale Street, $1.193m, and work on the Cygnet Medical Centre, $0.301m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 14 181 | 14 512 | 13 774 |
| Cash flows from government | 5 090 | 4 581 | 4 537 |
| Payments to suppliers and employees | (16 061) | (15 822) | (14 448) |
| Interest received | 591 | 581 | 485 |
| **Cash from operations** | **3 801** | **3 852** | **4 348** |
| Capital grants and contributions | 1 730 | 965 | 1 006 |
| Distributions received - Southern Water | 924 | 871 | 724 |
| Payments for property, plant and equipment | (7 225) | (4 617) | (5 835) |
| Payments for investments | 1 050 | (2 251) | (1 261) |
| Proceeds from sale of investments | 0 | 240 | 0 |
| Proceeds from sale of property, plant and equipment | 156 | 144 | 310 |
| **Cash (used in) investing activities** | **(3 365)** | **(4 648)** | **(5 056)** |
| **Net increase (decrease) in cash** | **436** | **(796)** | **(708)** |
| Cash at the beginning of the year | 6 392 | 7 188 | 7 896 |
| **Cash at end of the year** | **6 828** | **6 392** | **7 188** |

### Comment

At 30 June 2012, Council held cash and financial assets of $6.828m, which comprised cash at bank and on hand, $1.221m, cash held with management committees, $0.129m, and deposits, $5.478m. The deposits were included within the definition of cash as they all had short-term maturities.

Council's cash position improved by $0.436m during 2011-12. Cash from operations, $3.801m, Capital grants, $1.730m, Distributions received from Southern Water, $0.924m, Proceeds from investments, $1.050m, and Proceeds from sale of property, plant and equipment, $0.156m, were used to fund Payments for property plant and equipment, $7.225m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations decreased by $0.051m to $3.801m, which included:

- Council's Net Operating Surplus of $0.778m adjusted for Depreciation of $3.931m, a non-cash item, providing $4.709m in operating cash inflows
- net Financial assistance grants paid in advance of $0.681m, offset by
- cash inflows from Southern Water, $0.924m, being recorded as an investing activity for cash flow purposes
- higher year end Receivables of $0.643m.

Major capital expenditure projects during the period included the completion of the road upgrading program and other road works, $1.717m, and buildings additions, $1.427m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 778 | 778 | 51 | 565 |
| Operating surplus ratio * | >0 | 3.74 | 3.86 | 0.27 | 2.65 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 116% | 69% | 107% | 153% |
| Asset renewal funding ratio* ** | 90% - 100% | 100% | 100% | N/A | N/A |
| Road asset consumption ratio * | >60% | 57.0% | 57.9% | 55.8% | 53.1% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 4 443 | 3 626 | 4 264 | 5 158 |
| Net financial liabilities ratio* *** | 0% - (50%) | 21.3% | 18.0% | 22.5% | 5.6% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.13 | 2.75 | 2.81 | 4.20 |
| Current ratio | 1:1 | 3.23 | 3.42 | 2.79 | 3.10 |
| Interest Coverage | | 0 | 0 | 0 | 70.99 |
| Asset investment ratio | >100% | 184% | 113% | 144% | 236% |
| Self financing ratio | | 18.3% | 19.1% | 22.9% | 25.0% |
| Own source revenue | | 78.8% | 77.3% | 76.0% | 78.6% |
| Debt collection | 30 days | 30 | 16 | 12 | 26 |
| Creditor turnover | 30 days | 23 | 13 | 24 | 25 |
| Rates per capita ($) | | 571 | 542 | 518 | 724 |
| Rates to operating revenue | | 43.5% | 41.4% | 40.6% | 50.1% |
| Rates per rateable property ($) | | 879 | 830 | 779 | 1 104 |
| Operating cost to rateable property ($) | | 1 946 | 1 929 | 1 915 | 2 147 |
| Employee costs expensed ($'000s) | | 9 371 | 8 735 | 7 544 | 8 655 |
| Employee costs capitalised ($'000s) | | 703 | 488 | 654 | 685 |
| **Total employee costs ($'000s)** | | **10 074** | **9 223** | **8 198** | **9 340** |
| Employee costs as a % of operating expenses | | 47% | 45% | 40% | 42% |
| Staff numbers (FTEs) | | 131 | 124 | 131 | 143 |
| Average staff costs ($'000s) | | 77 | 74 | 63 | 65 |
| Average leave balance per FTE ($'000s) | | 11 | 10 | 7 | 9 |

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

## Comment

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

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

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

Self-financing ratio declined slightly over the four years under review, in line with gradually declining cash generated from operations. Own source revenue ratio was constant over the period, with Council generating approximately 79% of its operating revenue from its own sources, such as Rates and Fees and charges.

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

Rates statistics increased steadily from 2009-10 as a result of higher rates charged. The drop in 2009-10 was primarily due to the loss of rate income following the transfer of water and sewerage activities. It is noted the percentage of Rates to operating revenue was lower when compared to other councils due to Council receiving funding for various services it provides voluntarily such as management of health centres.

# KINGBOROUGH COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 27 July 2012 and an unqualified audit report was issued on 2 August 2012. The financial statements represent the consolidation of Council and its 100% owned subsidiary Kingborough Waste Services Pty Ltd. In addition, an unqualified audit report was issued on Council's summary financial report on 2 August 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Kingborough Waste Services Pty Ltd

From 1 July 2011, the financial results included the transactions of Kingborough Waste Service Pty Ltd (KWS). This incorporated entity was formed by Council to operate the Baretta waste transfer station. Council provides corporate support to KWS and remains the owner of the infrastructure and equipment at the site. KWS charges Council a fee based on tonnage for garbage, waste and recycling collection and disposal and green waste disposed at the transfer station. However, all internal transactions were eliminated as part of preparing Council's consolidated financial statements.

### Valuations

Council's financial statements were completed and audited prior to receipt of updated valuations of its investments in Southern Water and Copping Refuse Disposal Site Joint Authority. Had this data been available earlier, Council's investment in Southern Water would have increased by $0.247m to $112.623m and in Copping Refuse Disposal Site Joint Authority by $0.066m to $0.321m.

The audit was completed satisfactorily with no major matters outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $3.286m in 2011-12 (2010-11, $1.721m). The deficit of $3.286m represented a higher proportion of operating revenues this year, 10.9%, compared to 5.9% in the previous year. We note that Council budgeted for a deficit of $3.995m and that its operating cash flows dropped by $3.215m from $5.415m to $2.200m this year. Council needs to take action to improve its operating result.

After accounting for non-operating items, Council generated a Net Surplus of $0.472m (2010-11, $2.344m). Capital grants in 2011-12, $0.923m, were down significantly on the prior year total.

Council achieved a Comprehensive deficit of $18.778m (2010-11, surplus, $60.967m) which included the net impacts of downward asset revaluations, $19.250m, across both road pavements and stormwater infrastructure.

Council's Net Assets decreased to $594.799m, down from $609.800m, mainly because of downward asset revaluations noted above. At 30 June 2012, Council had Net Working Capital of $8.069m, down from $9.929m in 2010-11, due principally to lower cash holdings at year end.

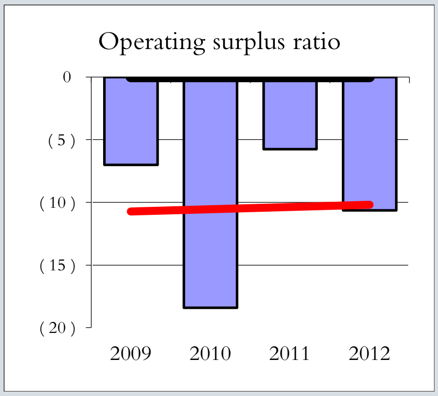
## Assessment of financial sustainability

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

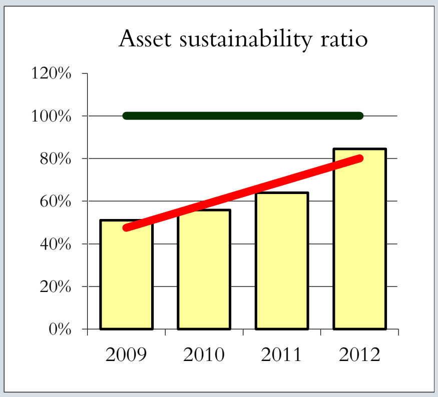
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



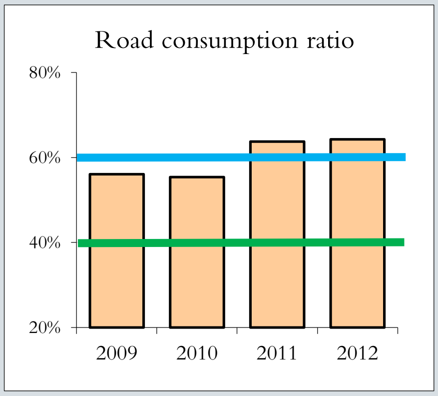

Council recorded operating deficits in each of the years under review, with the current year result of (10.65%) almost double that of the prior year. The current result was influenced by higher costs, in particular employee expenses and other operating costs. Negative ratios indicate Council did not generate sufficient revenue to fully offset its operating requirements, including its depreciation charges. Council will need to address this issue.



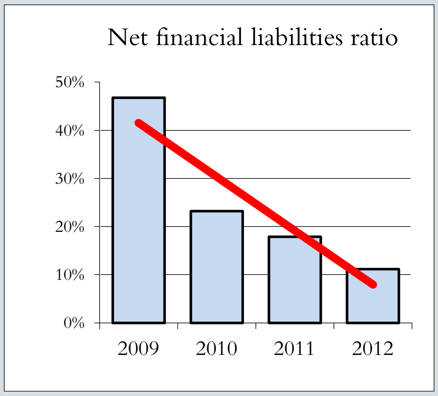

Asset sustainability ratio was below the 100% benchmark in all four years under review although it has risen consistently each year, with the current year ratio being 74%. However, the average ratio of 61% indicates that Council was under investing in existing assets.

### Asset renewal funding ratio

Based upon Council's long-term asset management plan, the Asset renewal funding ratio was 100% at 30 June 2012, which was within benchmark. This ratio was determined by comparing the future planned asset replacement expenditure for the next five years, with the future asset replacement expenditure actually required. This result was achieved after eliminating a backlog from planned 2011-12 capital expenditure.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line a high risk rating with data between the two lines representing a moderate risk rating. The graph indicates that at 30 June 2012 Council had used (consumed) approximately 36% of road assets, which is the same result as the prior year. While the ratio represents low risk, Council should continue to monitor the condition of its assets and maintain up to date valuations that will provide an accurate reflection of their service potential. The improvement in the previous year was due to an asset revaluation which resulted in the extension of useful life of roads.




Council recorded a positive Net financial liabilities ratio with liquid assets in excess of its current and non-current liabilities in each year under review. The ratio decreased significantly over the four year period mainly due to holding less liquid assets. The falling ratio indicated that Council's capacity to meet its financial obligations weakened but, at 30 June 2012, the ratio was still within our benchmark of not lower than -50%.

## Governance

A review of Council's governance arrangements indicated Council:

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

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

Council's asset management and financial management plans, for periods twenty and ten years respectively, were both given low risk ratings as they were detailed, and, covered all key elements required. These documents were formally adopted by Council on 28 May 2012.

## Conclusion as to financial sustainability

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

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

Council's Asset sustainability ratio indicated, based on our 100% benchmark, that it has been significantly under-investing in existing assets over the period of the analysis. However, its Asset consumption ratio improved in the current year, due to a road asset revaluation in 2010-11, which resulted in longer useful lives of road infrastructure assets.

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

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

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council had moderate financial sustainability risk from an operating, asset management and governance perspective but low financial sustainability risk from a net financial liabilities perspective.

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

Kingborough Council strongly believes it is financially sustainable. The Operating surplus ratio for 2011-12 indicates Council's operating revenue needed to be 10.65% higher to achieve the Operating surplus ratio benchmark and receive a 'low' financial sustainability risk assessment from an operating perspective. This result does not present any short-term financial or operating implications, as the shortfall represented unfunded depreciation expense on long lived infrastructure assets. Council's financial sustainability from an operating and asset management perspective over the long-term is being addressed through Council's long term financial planning processes. Council's Long-Term Financial Plan and Long Term Asset Management Plan were adopted by Council on 28 May 2012 and indicate that Council is likely to fully fund infrastructure renewal requirements by 2021, whilst maintaining services and rate increases at historic levels.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12<br>Estimate*<br>$'000s | 2011-12<br>Actual<br>$'000s | 2010-11<br>Actual<br>$'000s | 2009-10<br>Actual<br>$'000s |
|---|---|---|---|---|
| Rates | 19 474 | 19 771 | 18 312 | 16 450 |
| Fees and charges | 3 413 | 3 018 | 2 982 | 2 906 |
| Grants ** | 3 334 | 3 663 | 3 386 | 2 917 |
| Other revenue | 3 078 | 3 583 | 4 164 | 4 035 |
| **Total Revenue** | **29 299** | **30 035** | **28 844** | **26 308** |
| Employee costs | 11 343 | 11 077 | 9 850 | 9 849 |
| Depreciation | 7 989 | 6 724 | 7 013 | 9 233 |
| Other expenses | 14 462 | 16 347 | 14 775 | 13 550 |
| **Total Expenses** | **33 794** | **34 148** | **31 638** | **32 632** |
| **Net Operating (Deficit) before** | **(4 495)** | **(4 113)** | **(2 794)** | **(6 324)** |
| Finance costs | 0 | 0 | (19) | (19) |
| Interest revenue | 500 | 827 | 1 092 | 1 264 |
| **Net Operating (Deficit)** | **(3 995)** | **(3 286)** | **(1 721)** | **(5 079)** |
| Capital grants | 387 | 923 | 2 995 | 3 196 |
| Financial assistance grant received in advance ** | 0 | 988 | 476 | 452 |
| Offset Financial assistance grant in advance ** | 0 | (476) | (452) | (438) |
| Contributions non-current assets | 1 000 | 2 323 | 1 065 | 7 278 |
| Share of investment in associate | 0 | 0 | (19) | 0 |
| **Net Surplus (Deficit)** | **(2 608)** | **472** | **2 344** | **5 409** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | (19 250) | 57 977 | 14 389 |
| Fair value initial adjustment in Southern Water | 0 | 0 | 0 | (13 239) |
| Current year fair value adjustment in Southern Water | 0 | 0 | 646 | 0 |
| **Total comprehensive income items** | **0** | **(19 250)** | **58 623** | **1 150** |
| **Comprehensive Surplus (Deficit)** | **(2 608)** | **(18 778)** | **60 967** | **6 559** |

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

## Comment

In 2011-12 Council recorded a Net Operating Deficit, before net financing revenues, of $4.113m compared to a deficit of $2.794m in the prior year, a decline of $1.319m. The deficit of $4.113m represented a higher proportion of operating revenues, 13.6%, (2010-11, 9.6%). The main reasons for this were:

- increased Employee costs, $1.227m, due to the inclusion of 12 new employees from KWS, and a 4% pay increase in line with Council's Enterprise Bargaining Agreement
- increased Other expenses, $1.572m, which included a rise in contract payments, $0.980m, increased rate remissions, $0.205m, payments to providers in the administration of the home based child care scheme, $0.150m, and maintenance costs, $0.145m.

These were partially offset by a general increase in rates of $1.459m.

After accounting for Interest revenue and Finance costs, the Net Operating Deficit reduced to $3.286m. Net Interest revenue was a consistent source of revenue for Council averaging $0.960m per annum over the past two years.

After Capital grants, $0.923m, and Contributions of non-current assets, $2.323m, Council generated a Net Surplus of $0.472m in 2011-12 (2010-11, $2.344m). The decrease was mainly due to Capital grants in 2011-12, $0.923m, being lower. The prior year total of $2.995m included some significant one-off grants, in addition to the final grant for the construction of the Kingborough Twin Ovals complex. The decrease was partially offset by increases in the Financial assistance grant received in advance, $0.512m, and Contributions of non-current assets, $1.258m.

Comprehensive deficit for 2011-12 was $18.778m, the main contributor being a fair value revaluation decrement on non-current assets, $19.250m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 13 164 | 15 440 | 15 210 |
| Receivables | 1 294 | 1 418 | 1 771 |
| Other | 17 | 18 | 17 |
| **Total Current Assets** | **14 475** | **16 876** | **16 998** |
| Payables | 1 766 | 2 435 | 2 065 |
| Borrowings | 0 | 0 | 150 |
| Provisions - employee benefits | 1 481 | 1 361 | 1 321 |
| Provision rehabilitation tip | 885 | 885 | 885 |
| Other | 2 274 | 2 266 | 1 597 |
| **Total Current Liabilities** | **6 406** | **6 947** | **6 018** |
| **Net Working Capital** | **8 069** | **9 929** | **10 980** |
| Property, plant and equipment | 478 690 | 491 761 | 430 355 |
| Investments in associates | 255 | 255 | 274 |
| Intangible and other assets | 20 | 37 | 60 |
| Investment in Southern Water | 112 376 | 112 376 | 111 731 |
| **Total Non-Current Assets** | **591 341** | **604 429** | **542 420** |
| Provisions - employee benefits | 495 | 442 | 451 |
| Provision rehabilitation tip | 4 116 | 4 116 | 4 116 |
| **Total Non-Current Liabilities** | **4 611** | **4 558** | **4 567** |
| **Net Assets** | **594 799** | **609 800** | **548 833** |
| Reserves | 353 764 | 369 167 | 315 348 |
| Accumulated surpluses | 241 035 | 240 633 | 233 485 |
| **Total Equity** | **594 799** | **609 800** | **548 833** |

### Comment

Total Equity decreased by $15.001m to $594.799m due to:

- Council's Comprehensive Surplus of $18.778m, offset by
- a $3.777m adjustment to equity to correct the carried forward balance of building assets which contained an error arising the ommission of an asset constructed in 2010-11. The adjustment was not processed through prior year comparatives as Council deemed it impracticable to do so.

Net Assets decreased by the same amount, with the main line item movements being:

- a $13.071m decrease in Property, plant and equipment due to revaluation decrement, $19.249m, and depreciation, $6.706m, offset by additions, $13.101m
- lower Cash and financial assets of $2.276m to $13.164m for reasons provided in the Statement of Cash Flows section of this Chapter
- Lower Payables by $0.669m to $1.766m due to a concerted effort by Council to pay creditors prior to year end.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 25 081 | 24 407 | 23 821 |
| Cash flows from government | 4 175 | 3 410 | 5 711 |
| Payments to suppliers and employees | (27 883) | (23 475) | (27 371) |
| Interest received | 827 | 1 092 | 1 264 |
| Finance costs | 0 | (19) | (19) |
| **Cash from operations** | **2 200** | **5 415** | **3 406** |
| Capital grants and contributions | 1 435 | 2 995 | 3 196 |
| Distributions from Southern Water | 1 213 | 1 157 | 1 071 |
| Payments for property, plant and equipment | (7 003) | (11 571) | (16 211) |
| Proceeds from sale of property, plant and equipment | 214 | 2 371 | 581 |
| Investment in Copping Waste Joint Authority | 0 | 0 | (274) |
| **Cash (used in) investing activities** | **(4 141)** | **(5 048)** | **(11 637)** |
| Loans provided to outside bodies | (335) | 13 | (170) |
| Repayment of borrowings | 0 | (150) | 0 |
| **Cash (used in) financing activities** | **(335)** | **(137)** | **(170)** |
| **Net increase (decrease) in cash** | **(2 276)** | **230** | **(8 401)** |
| Cash at the beginning of the year | 15 440 | 15 210 | 26 077 |
| Less cash transferred to Southern Water | 0 | 0 | (2 466) |
| **Cash at end of the year** | **13 164** | **15 440** | **15 210** |

### Comment

Council's Cash at 30 June 2012, $13.164m, comprised cash at bank and on hand, $3.341m, and managed investments, $9.822m. The managed investments included holdings in term deposits and cash management accounts; these were included within the definition of cash as they all had short-term maturities or were available at call. Managed investments were monitored monthly.

At 30 June 2012, Council reported that $10.071m (2010-11, $9.784m) of the funds held in investments were restricted, this comprised $8.761m in reserve, funds allocated for specific future purposes, and $1.310m in trust funds and deposits.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, cash from operations decreased by $3.215m to $2.200m which included:

- Council's operating deficit of $3.286m adjusted for depreciation of $6.724m, a non-cash item, providing $3.438m in operating cash flows, offset by
- the impact of a lower Payables balance, which decreased by $0.669m, resulting in cash outflows in 2011-12
- cash inflows from Distributions received from Southern Water with $1.213m being recorded as an investing activity for cash flow purposes.

Net cash used in investing activities decreased by $0.907m this year. Payments for Property, plant and equipment and Capital grants and contributions were both higher in the prior year due to significant capital works such as the Twin Ovals Complex. Proceeds from the sale of property, plant and equipment decreased by $2.157m in 2011-12, due to the sale of two major parcels of land, both to the State Government, in the prior year.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus/(deficit) ($'000s) | | (3 286) | (1 721) | (5 079) | (2 566) |
| Operating surplus ratio * | > 0 | (10.65) | (5.75) | (18.42) | (7.02) |
| | | | | | |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 84% | 64% | 56% | 51% |
| Asset renewal funding ratio** | 90% - 100% | 100% | 100% | n/a | n/a |
| Road asset consumption ratio * | > 60% | 64.3% | 63.7% | 55.4% | 56.1% |
| | | | | | |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 3 441 | 5 353 | 6 396 | 17 089 |
| Net financial liabilities ratio*** | 0% - (50%) | 11.1% | 17.9% | 23.2% | 46.7% |
| | | | | | |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 2.94 | 3.02 | 4.45 | 5.26 |
| Current ratio | 1:1 | 2.26 | 2.43 | 2.82 | 4.23 |
| Interest Coverage | | - | 284.00 | 178.26 | 295.85 |
| Asset investment ratio | >100% | 102% | 159% | 166% | 86% |
| Self financing ratio | | 7.1% | 18.1% | 12.4% | 26.8% |
| Own source revenue | | 88.1% | 88.7% | 89.4% | 91.8% |
| Debt collection | 30 days | 20 | 24 | 33 | 19 |
| Creditor turnover | 30 days | 28 | 34 | 25 | 50 |
| Rates per capita ($) | | 570 | 536 | 492 | 777 |
| Rates to operating revenue | | 64.1% | 61.2% | 59.7% | 69.7% |
| Rates per rateable property ($) | | 1 228 | 1 138 | 1 022 | 1 610 |
| Operating cost to rateable property ($) | | 2 122 | 1 967 | 2 029 | 2 472 |
| | | | | | |
| Employee costs expensed ($'000s) | | 11 077 | 9 850 | 9 849 | 10 430 |
| Employee costs capitalised ($'000s) | | 270 | 200 | 223 | 538 |
| **Total employee costs ($'000s)** | | **11 347** | **10 050** | **10 072** | **10 968** |
| | | | | | |
| Employee costs as a % of operating expenses | | 32% | 31% | 30% | 27% |
| Staff numbers (FTEs) | | 180 | 169 | 162 | 190 |
| Average staff costs ($'000s) | | 63 | 59 | 62 | 58 |
| Average leave balance per FTE ($'000s) | | 11 | 11 | 11 | 9 |

* For commentary on these indicators refer to the Financial Results section of this chapter.

** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.

*** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.
Where this ratio is positive, as is the case with Kingborough Council, liquid assets exceed total liabilities.

## Comment

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

Liquidity and Current ratios were above benchmark in all four years under review, while there was no interest coverage ratio in 2011-12 as Council was debt free, having made its final repayment on its Borrowings during the prior year.

Asset investment ratio continued to be above the benchmark in 2011-12, despite the reduced level of capital expenditure. This indicates that a significant portion of Council's capital expenditure is being directed to constructing new assets. In 2008-09, this ratio was below benchmark mainly due to a higher level of depreciation, which has since reduced due to a reassessment of useful lives in 2010-11.

Self-financing ratio decreased to 7.1% in 2011-12, as there was a significant decrease in operating cash flows, as discussed previously in this Chapter.

Creditor turnover decreased to 28 days in 2011-12, better than the benchmark of 30, due principally to the reduced level of payables at the end of the financial year as mentioned previously in this Chapter.

Rates statistics increased in the current year, due principally to a 4% increase in rates and the continuation of the fixed charge to assist in funding the rehabilitation of the old Baretta landfill site. At the same time, the Operating cost to rateable property ratio increased due to higher operating costs, mainly Employee costs and Other expenses, which were also discussed previously in this Chapter.

Staff numbers increased this year to 180, due to the addition of 12 staff for KWS, while the Average costs per employee increased in line with wage and salary increases in line with Council's Enterprise Agreement.

## FINANCIAL RESULTS OF SUBSIDIARY ENTITY

### Kingborough Waste Services Pty Ltd (KWS)

KWS is a wholly owned incorporated entity that was formed by Council to operate the Barretta Waste Transfer Station. KWS commenced operation on 1 July 2011.

KWS had four directors two of whom are independent the other two are Council employees, one being the General Manager. Council provided a financial guarantee to discharge any debt that KWS may owe, if the entity is unable to pay the amounts. Council provided corporate support for KWS and continued to own the infrastructure and equipment at the Barretta site. KWS charged Council a fee based on tonnage for garbage collection waste, recycling collection waste and green waste disposed at the Barretta site. This is an arm's length arrangement.

## FINANCIAL PERFORMANCE

| | **2011-12**<br>$'000s |
|---|---|
| Revenue | 1 420 |
| Expenditure | 1 333 |
| **Profit** | **87** |
| **Kingborough Council Equity** | **87** |

*Includes financial transactions with Council*

### Comment

Revenue for the year consisted mainly of the tonnage charge on Council waste disposed at the Barretta transfer station, charges paid by tip users and sales from the on-site recycle shop.

Expenditure consisted mainly of charges for the disposal of waste at the Copping refuse site, wages of KWS employees, freight, plant hire, Council fees for corporate support and use of its equipment and other expenses such as the independent Directors' remuneration of $13,000 for 2011-12.

# MEANDER VALLEY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 28 September 2012.

The audit was completed satisfactorily with no other issues outstanding.

## KEY FINDINGS AND DEVELOPMENTS

### Residual values

Council revalued its road infrastructure assets at 30 June 2012 which included application of a 100% residual value on unsealed road bases. The impact of the residual was to lower total accumulated depreciation and increase the increment taken to the asset revaluation reserve. There was no impact on the depreciation expense in 2011-12, as the revaluation was at year end.

The value of unsealed road bases at 30 June 2012 was $18.799m. The impact of the 100% residual was that the depreciation expense will decrease by approximately $0.094m each year, taking effect in 2012-13.

We consider the residual value results in unsealed road based assets effectively being treated as non-depreciable assets and its use may result in the 2012-13 depreciation expense not complying with AASB 116 *Property Plant and Equipment*.

The matter has been raised with Council and will be followed up during the 2012-13 audit.

### Aged care facility loan

During the year Council borrowed $3.600m for the purpose of on-lending the funds to an external operator for the development of Independent Living Units at Deloraine and Westbury. The loan requires interest payments over a 11 year period with the principal repaid at the end of loan term.

Council recorded a liability for the loan, offset by a non-current receivable from the aged care operator.

It is anticipated the loan agreements will have nil impact on Council's operations over the 11 year period, as Council has on-lent the money on the same terms as it was borrowed.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $1.418m in 2011-12 (2010-11, $1.094m). The positive result was primarily due to the receipt of interest revenue totalling $1.436m ($1.091m). Without this revenue, Council would have an Operating deficit of $0.018m.

Council achieved a Net Surplus, after capital grants and contributions of non-current assets of $3.871m ($2.101m), and a Comprehensive Surplus of $2.987m ($9.600m). The Comprehensive Surplus included asset revaluation decrements of $1.195m and a fair value adjustment to Council's interest in Ben Lomond Water of $0.311m.

Consistent with its Comprehensive Surplus of $2.987m, Council's Net Assets increased to $275.976m. As at 30 June 2012 Council had Net Working Capital of $18.732m, up from $16.111m in 2010-11, due mainly to an increase in Financial assets of $2.100m.

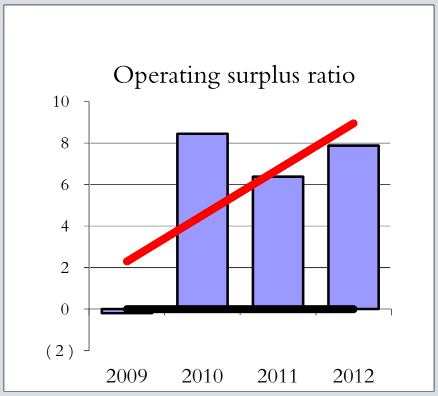
## Assessment of financial sustainability

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

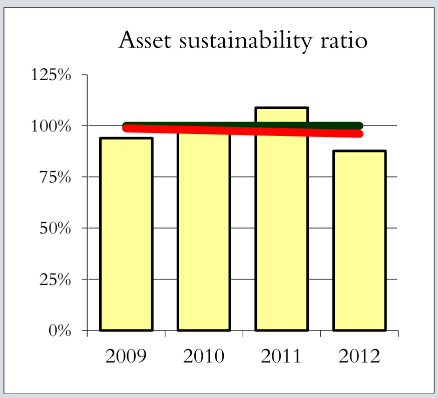
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



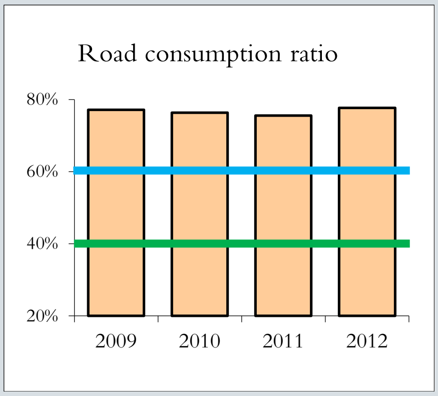

A positive Operating surplus ratio indicates Council recorded operating surpluses in each of the past three years, with a small deficit recorded in 2009, indicating that Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges.



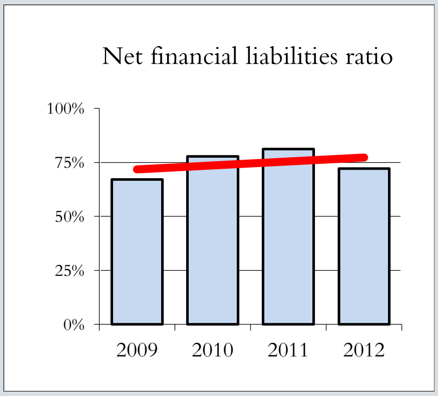

Asset sustainability ratio was slightly below the 100% benchmark in three of the four years under review. Over the four year period, Councils average ratio was 97%, below the benchmark, although not significantly.

## Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 100% at 30 June 2012, based on planned asset replacement expenditure. This is within our band of 90% to 100%. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2020-21 and covers road and bridge infrastructure, stormwater drainage, recreational and building and property assets.




This ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line a high risk rating with data between the two lines represents a moderate risk rating. The graph indicates that at 30 June 2012 Council had used (consumed) approximately 22% of its road assets indicating that, at that point in time, its road assets had sufficient capacity to continue to provide services to its ratepayers.




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

### Governance

A review of Council's governance arrangements indicated Council:

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

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating surplus in the past three years and on average, over the four year period, had a surplus operating result.

Asset sustainability ratio indicated Council's expenditure on existing assets fluctuated over the period and averaged 97%, which was slightly below the benchmark. Council's Road consumption ratio was better than benchmark over the four year period, indicating its road assets had sufficient capacity to continue to provide services to its ratepayers. Its Asset renewal funding ratio was within our range.

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

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

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at moderate risk from a governance perspective, but low financial sustainability risk from an operating, net financial liabilities and asset management perspective.

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

Meander Valley Council is confident that the practices adopted through the Asset Management Plans, Long Term Financial Plan and Annual Budget process establish a financially sustainable direction for our Council operations. We have in place a six monthly internal audit process for Public, Regulatory and Financial risk across all Departments. We will continue to review changes to governance including audit committees.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 9 417 | 9 443 | 9 191 | 8 779 |
| Fees and charges | 1 063 | 1 216 | 1 215 | 1 258 |
| Grants ** | 3 618 | 4 826 | 4 577 | 4 587 |
| Other revenue | 759 | 1 088 | 1 059 | 1 118 |
| **Total Revenue** | **14 857** | **16 573** | **16 042** | **15 742** |
| Employee costs | 5 294 | 5 376 | 5 002 | 4 808 |
| Depreciation | 4 571 | 4 852 | 4 662 | 4 313 |
| Other expenses | 6 220 | 6 324 | 6 285 | 6 084 |
| **Total Expenses** | **16 085** | **16 552** | **15 949** | **15 205** |
| **Net Operating Surplus (Deficit) before** | **(1 228)** | **21** | **93** | **537** |
| Unwinding of Tip Provision | (50) | (39) | (90) | 0 |
| Interest revenue | 960 | 1 436 | 1 091 | 867 |
| **Net Operating Surplus (Deficit)** | **(318)** | **1 418** | **1 094** | **1 404** |
| Capital grants | 0 | 114 | 685 | 842 |
| Financial assistance grant received in advance ** | 0 | 2 010 | 991 | 945 |
| Offset Financial assistance grant in advance ** | 0 | (991) | (945) | (876) |
| Reassessment of tip rehabilitation provision | 0 | 132 | 0 | 870 |
| Contributions non-current assets | 250 | 1 188 | 1 006 | 149 |
| Construction Contract Income | 0 | 0 | 1 798 | 0 |
| Construction Contract Expenditure | 0 | 0 | (2 528) | 0 |
| **Net Surplus (Deficit)** | **(68)** | **3 871** | **2 101** | **3 334** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | (1 195) | 6 928 | 4 791 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | 0 | (7 378) |
| Current year fair value adjustment Ben Lomond Water | 0 | 311 | 571 | 0 |
| **Total comprehensive income items** | **0** | **(884)** | **7 499** | **(2 587)** |
| **Comprehensive Surplus (Deficit)** | **(68)** | **2 987** | **9 600** | **747** |

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

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

*The Offset figures enable the above table to balance with Council's own Statement of comprehensive income.*

## Comment

In 2011–12, Council recorded a Net Operating Surplus before net financing revenues of $0.021m (2010-11, $0.093m), a small decline of $0.072m although much stronger than the budgeted deficit of $1.228m in the main due to higher grant revenue than anticipated. The lower actual result was due to a combination of the following factors:

- increased Employee costs, $0.374m, primarily due an EBA increase of 4.1% applied from July 2011 and increased leave provisions
- additional Depreciation expense of $0.190m, due to a revaluation of building assets in 2010-11, offset by
- increased Rates revenue of $0.252m, from an increase in the general rate charged
- higher Grant revenue of $0.249m, due to State Government Natural Disaster Local Government Relief funding, which was expended in 2010-11.

After accounting for net interest revenues Council recorded a Net Operating Surplus of $1.418m (2010-11, $1.094m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $1.133m per annum over the past four years.

Excluding non-operating items, Council budgeted for a Deficit of $0.318m, which was $1.736m lower than the actual surplus of $1.418m. The improved result was mainly due to:

- the 2011-12 budget excluding the Financial assistance grant in advance for 2012-13, with the prepaid grant of $0.991m (received in June 2011) being incorporated into the 2010-11 budget
- higher Interest revenue of $0.476m, due to unbudgeted interest revenue from the Westbury industrial estate loans and attaining higher than budgeted returns on Financial assets.

After accounting for Capital grants, reassessment of the tip rehabilitation provision, contributions of non-current assets and grants in advance, Council recorded a Net Surplus of $3.871m in 2011-12, (2010-11, $2.101m). The surplus included:

- higher Financial assistance grants in advance of $1.019m, with the Government paying 50% of the 2012-13 grant to Council in June 2012. In June 2011, Council received 25% of the 2011-12 grant in advance
- contributions of non-current assets which represent subdivision handovers.

Other Comprehensive Income of $0.884m, comprised:

- a decrement of $1.195m from the revaluation of Council's road infrastructure assets, primarily due to a change in the methodology applied in determining unsealed road base values, offset by
- increased investment in Ben Lomond Water of $0.311m being Council's 10.7% interest in higher net assets of Ben Lomond Water at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash | 8 711 | 8 349 | 5 595 |
| Receivables | 806 | 626 | 529 |
| Inventories | 90 | 90 | 102 |
| Financial assets | 11 150 | 9 050 | 10 300 |
| Other | 148 | 222 | 202 |
| **Total Current Assets** | **20 905** | **18 337** | **16 728** |
| Payables | 765 | 853 | 474 |
| Provisions - employee benefits | 959 | 957 | 955 |
| Other | 449 | 416 | 332 |
| **Total Current Liabilities** | **2 173** | **2 226** | **1 761** |
| **Net Working Capital** | **18 732** | **16 111** | **14 967** |
| Receivables | 5 637 | 1 798 | 0 |
| Property, plant and equipment | 204 538 | 204 701 | 198 476 |
| Financial assets | 2 | 2 | 2 |
| Investment in Ben Lomond Water | 52 569 | 52 258 | 51 687 |
| **Total Non-Current Assets** | **262 746** | **258 759** | **250 165** |
| Provisions - rehabilitation | 1 538 | 1 631 | 1 540 |
| Provisions - employee benefits | 364 | 250 | 203 |
| Borrowings | 3 600 | 0 | 0 |
| **Total Non-Current Liabilities** | **5 502** | **1 881** | **1 743** |
| **Net Assets** | **275 976** | **272 989** | **263 389** |
| Reserves | 112 227 | 113 111 | 105 612 |
| Accumulated surpluses | 163 749 | 159 878 | 157 777 |
| **Total Equity** | **275 976** | **272 989** | **263 389** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $2.987m at 30 June 2012. Net assets increased by the same amount to $275.976m. Major line item movements included:

- a net increase in Cash of $0.362m which is discussed further in the Statement of Cash Flows section of this Chapter
- higher Financial assets of $2.100m, with Council investing surplus funds into longer term deposits
- additional non-current Receivables of $3.839m, primarily resulting from Council assisting with financing of Independent Living Units in Deloraine and Westbury (as noted in the Key Findings and Developments section of this Chapter)
- lower Property, plant and equipment of $0.163m due to:
    - roads and streets revaluation decrement, $1.195m,
    - Depreciation, $4.852m, disposals, $0.597m, decrease in works in progress, $0.254m, offset by
    - additions of $6.735m.
- new Borrowings of $3.600m to assist in the funding of Independent Living Units previously noted
- fair value adjustment of Council's investment in Ben Lomond Water of $0.311m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 11 872 | 11 685 | 12 042 |
| Cash flows from government | 5 845 | 4 623 | 4 656 |
| Payments to suppliers and employees | (12 244) | (11 419) | (12 368) |
| Interest received | 1 211 | 1 071 | 783 |
| **Cash from operations** | **6 684** | **5 960** | **5 113** |
| Capital grants and contributions | 114 | 685 | 842 |
| Proceeds (Payments) for financial assets | (2 100) | 1 250 | (4 100) |
| Distributions received - Ben Lomond Water | 616 | 615 | 509 |
| Payments for property, plant and equipment | (5 292) | (5 878) | (7 157) |
| Proceeds from sale of property, plant and equipment | 118 | 122 | 132 |
| **Cash (used in) investing activities** | **(6 544)** | **(3 206)** | **(9 774)** |
| Loan borrowings | 3 600 | 0 | 0 |
| Westbury estate loan repayments | 222 | 0 | 0 |
| Loan to Aged care facility operator | (3 600) | 0 | 0 |
| **Cash from financing activities** | **222** | **0** | **0** |
| **Net increase (decrease) in cash** | **362** | **2 754** | **(4 661)** |
| Cash at the beginning of the year | 8 349 | 5 595 | 10 640 |
| Less cash transferred to Ben Lomond Water | 0 | 0 | (384) |
| **Cash at end of the year** | **8 711** | **8 349** | **5 595** |

### Comment

Council's cash balance at 30 June 2012, $8.711m, comprised cash at bank, on hand and short term deposits. Council also held financial assets of $11.150m, which were not included within the definition of cash as they had maturities greater than three months from balance date. Financial assets and cash at bank balances totalled $19.861m ($17.399m at 30 June 2011 and $15.895m at 30 June 2010), and increased by 25% in two years, are managed and expended in accordance with Council's ten-year financial management plan.

Council's Cash position increased $0.362m in 2011-12. Cash from operations of $6.684m, Capital grants and contributions of $0.114m and Distributions received from Ben Lomond Water, $0.616m, were well in excess of Payments for property plant and equipment of $5.292m. In addition, Council transferred $2.100m from cash into longer term Financial assets.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.724m to $6.684m which included:

- Council's operating surplus of $1.418m adjusted for Depreciation of $4.852m, a non-cash item, providing $6.270m in operating cash inflows
- the net impact of Financial assistance grants in advance, $1.019m recorded as Cash from operations but excluded from the Net operating deficit, offset by
- cash inflows Ben Lomond Water, $0.616m, recorded as an investing activity for cash flow purposes.

Payments for property, plant and equipment of $5.292m included land purchases of $0.321m, land improvements of $0.677m and capital expenditure for roads and bridges of $3.477m, which included:

- purchase of land, $0.321m
- road gravelling, $0.452m
- road resealing, $0.730m
- road works undertaken at:
  - Dynans Bridge Rd, Weegena, $0.163m
  - Cook St, Hadspen, $0.137m
  - Whitemore Rd to Oaks Rd, Whitemore, $0.135m
- Hadspen Skate Park, $0.128m
- Long Ridge road, Porters Bridge road and Quamby Brook road's bridges, $1.157m.

The major movements in Cash from financing activities show Council's borrowing, and on-lending, of $3.600m, to assist in the financing of Independent Living Units in Deloraine and Westbury (as noted in the Key Findings and Developments section of this Chapter).

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 1 418 | 1 094 | 1 404 | (39) |
| Operating surplus ratio * | > 0 | 7.87 | 6.39 | 8.45 | (0.21) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 88% | 109% | 99% | 94% |
| Asset renewal funding ratio* ** | 90% - 100% | 100% | 100% | n/a | n/a |
| Road asset consumption ratio * | >60% | 77.6% | 75.5% | 76.3% | 77.1% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 12 992 | 13 918 | 12 920 | 12 727 |
| Net financial liabilities ratio * *** | 0 - (50%) | 72.1% | 81.2% | 77.8% | 67.1% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 17.02 | 14.20 | 20.38 | 12.86 |
| Current ratio | 1:1 | 9.62 | 8.24 | 9.50 | 7.91 |
| Asset investment ratio | >100% | 109% | 126% | 166% | 112% |
| Self financing ratio | | 37.1% | 34.8% | 30.8% | 40.3% |
| Own source revenue | | 73.2% | 73.3% | 72.4% | 77.6% |
| Debt collection | 30 days | 28 | 22 | 19 | 20 |
| Creditor turnover | 30 days | 24 | 26 | 13 | 27 |
| Rates per capita ($) | | 481 | 467 | 449 | 568 |
| Rates to operating revenue | | 52.4% | 53.6% | 52.9% | 57.9% |
| Rates per rateable property ($) | | 988 | 970 | 927 | 1 141 |
| Operating cost to rateable property ($) | | 1 736 | 1 693 | 1 605 | 1 975 |
| | | | | | |
| Employee costs expensed ($'000s) | | 5 376 | 5 002 | 4 808 | 4 668 |
| Employee costs capitalised ($'000s) | | 378 | 332 | 354 | 269 |
| **Total employee costs ($'000s)** | | **5 754** | **5 334** | **5 162** | **4 937** |
| | | | | | |
| Employee costs as a % of operating expenses | | 32% | 31% | 32% | 25% |
| | | | | | |
| Staff numbers (FTEs) | | 76 | 76 | 75 | 74 |
| Average staff costs ($'000s) | | 76 | 70 | 69 | 67 |
| Average leave balance per FTE ($'000s) | | 17 | 16 | 15 | 14 |

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

## Comment

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

Liquidity ratio show Council had sufficient liquid assets to meet its short-term liabilities. The very strong position is the result of Council's growing cash and financial assets balances.

Current ratio reflects a strong financial position. Cash and financial assets continue to trend upward, movements between years are mainly due to the year-end Payable's balances.

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

Self financing ratio remained high as Council generated strong operating cash flows compared to its Total Revenue. Council generated sufficient cash to contribute to its future infrastructure requirements.

Own source revenue shows that Council generated the majority of its operating revenue from its own sources and in 2011 12 was reliant on grant funding to the extent of 27% (2010-11, 27%).

Rates per rateable property is trending upwards, but corresponds with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs remained stable over the past four years. The increase in 2009-10 was primarily due to the impact of transferring water and sewerage activities to Ben Lomond Water and the general decrease in operating expenditure.

Average staff costs increased in 2011-12, primarily due to EBA increase of 4.1% applied from July 2011, a new director's position created in the year, a final pay-out of one employee, and two employees fully employed for the 12 months (only four months in 2010-11).

# NORTHERN MIDLANDS COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 27 September 2012.

The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $1.783m after Interest revenue in 2011-12 (2010-11, $0.755m). The deteriorated result was primarily due to a large loss on disposal of Property, plant and infrastructure of $1.808m without which a small surplus of $0.025m would have been realised. The loss arose mainly due to Council replacing infrastructure assets that were not fully depreciated and flood damage to a number of roads and bridges. Council applied useful lives in excess of the assets actual life resulting in an undepreciated written down value.

Council achieved a Net Surplus, after capital grants, grants in advance and contributions of non-current assets of $1.635m (2010-11, $1.176m) and a Comprehensive Surplus of $13.704m ($7.662m). The Comprehensive Surplus included the net impacts of asset revaluations, $11.808m, and a fair value adjustment to Council's interest in Ben Lomond Water of $0.261m.

Consistent with the Comprehensive surplus of $13.704m, Council's Net Assets increased to $269.212m, up from $255.508m the previous year. Council's overall Net asset position improved mainly because Property, plant and equipment increased by $12.878m. As at 30 June 2012, Council had Net Working Capital of $8.109m (2010-11 $7.471m).

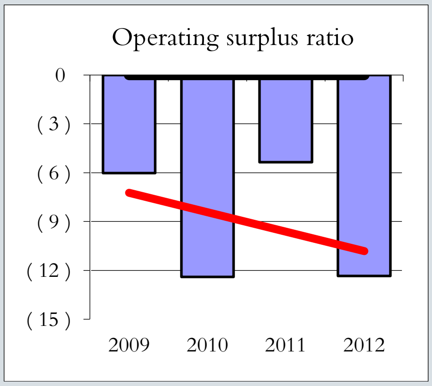
## Assessment of financial sustainability

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

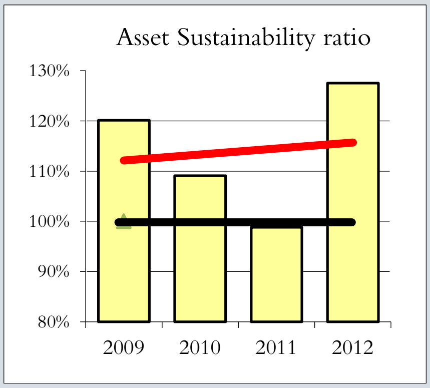
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



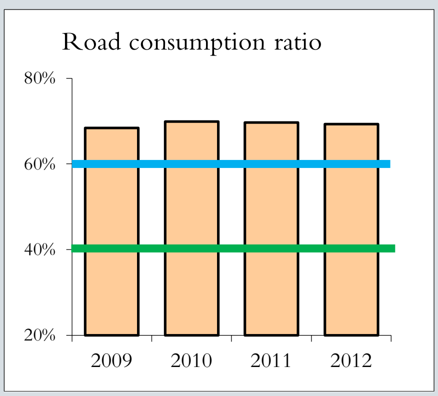

Council's Operating surplus ratio reflects operating deficits recorded in each of the past four years. The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges. However, the deficit results have been impacted by significant losses on disposal of assets in both 2010 and 2012.



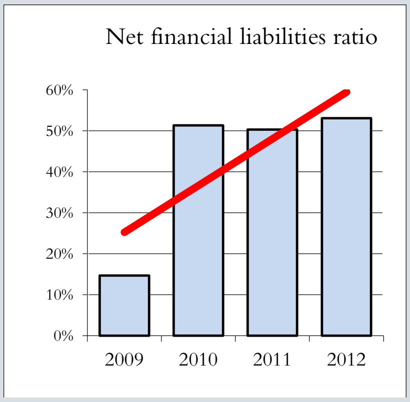

Asset sustainability ratios were above the 100% benchmark in the three of the four years under review. Over the four year period, Council's average ratio was 114%, indicating it maintained its investment in existing assets at levels in excess of its annual Depreciation charges.

## Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 96%, stronger than our 90% benchmark, at 30 June 2012 for road infrastructure and stormwater assets. This was based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's capital expenditure database for the period 2013 to 2030. The database, completed by Council's Infrastructure Directorate, details all renewals works required to maintain services to ratepayers. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.




The ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line a high risk rating, and data between the two lines represented a medium risk rating. The ratio at 30 June 2012 indicated Council had used (consumed) approximately 31% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period being 69%. This result is considered a low financial sustainability risk and Council's road assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities in each year under review. This indicates a strong liquidity position, with Council able to meet existing commitments. The ratio improved in 2010, with Council transferring loan debt to Ben Lomond Water.

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

### Governance

A review of Council's governance arrangements indicated that Council did not have an audit committee. However, it does have a long-term financial management plan covering the period 2011 to 2022. In addition, Council has developed an Asset Management Strategy, which incorporates long-term asset management plans.

## Conclusion as to financial sustainability

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

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 114% over the period, which was above our 100% benchmark. Council's Road asset consumption ratios remained relatively unchanged over the four year period, and exceeded our 60% benchmark indicating its road assets had sufficient capacity to continue to provide services to its ratepayers. In addition, its Asset renewal funding ratio indicates Council is able to fund its future capital works requirements.

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

Council does not have an audit committee but does have a long-term financial management plan and asset management strategy.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at moderate sustainability risk from a governance perspective and operating perspective but low risk from an asset management and net financial liabilities perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 7 538 | 7 556 | 7 109 | 6 567 |
| Fees and charges | 1 448 | 1 383 | 1 653 | 1 460 |
| Grants ** | 4 540 | 4 292 | 3 950 | 4 097 |
| Other revenue | 486 | 643 | 803 | 678 |
| **Total Revenue** | **14 012** | **13 874** | **13 515** | **12 802** |
| Employee costs | 4 590 | 4 324 | 4 429 | 3 958 |
| Depreciation | 4 520 | 4 649 | 4 410 | 4 405 |
| Loss on disposal of assets | 0 | 1 808 | 557 | 1 397 |
| Other expenses | 5 770 | 5 459 | 5 480 | 5 189 |
| **Total Expenses** | **14 880** | **16 240** | **14 876** | **14 949** |
| **Net Operating (Deficit) before** | **(868)** | **(2 366)** | **(1 361)** | **(2 147)** |
| Interest revenue | 583 | 583 | 606 | 498 |
| **Net Operating Surplus (Deficit)** | **(285)** | **(1 783)** | **(755)** | **(1 649)** |
| Capital grants | 966 | 1 568 | 975 | 1 263 |
| Financial assistance grant received in advance ** | 935 | 1 863 | 919 | 895 |
| Offset Financial assistance grant in advance ** | 0 | (919) | (895) | (851) |
| Contributions non-current assets | 0 | 906 | 932 | 1 737 |
| **Net Surplus** | **1 616** | **1 635** | **1 176** | **1 395** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 11 808 | 6 007 | 28 466 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | 0 | (2 443) |
| Current year fair value adjustment Ben Lomond Water | 0 | 261 | 479 | 0 |
| **Total comprehensive income items** | **0** | **12 069** | **6 486** | **26 023** |
| **Comprehensive Surplus** | **1 616** | **13 704** | **7 662** | **27 418** |

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

*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011–12 Council recorded a Net Operating Deficit of $2.366m before Interest revenue compared to a deficit of $1.361m in the prior year. The increase in the deficit was predominately due to:

- higher Loss on disposal of assets of $1.251m during the year, mainly due to Council replacing road infrastructure assets that were either flood damaged or not fully depreciated of $1.052m and flood damage to a number of bridges of $0.490m
- an increase in depreciation of $0.239m attributable to the revaluation of road (indexed July 2011) and bridge assets (full revalued July 2011)
- lower Fees and charges revenue of $0.270m, primarily due to building and planning levy revenue from the Western Junction Industrial Development that occurred in the prior year, offset by
- additional Grants Revenue of $0.342m, which included $0.216m Local Roads Emergency Repairs Funding for flood damage
- higher Rate revenue of $0.447m due to an increase in the general rate.

Council budgeted for a Net Operating Deficit of $0.285m, which was $1.498m less than the actual Net Operating Deficit of $1.783m. The deteriorated result from budget was mainly due to the loss on disposal of assets $1.808m, less grant funds received $0.248m which were not budgeted for.

After accounting for Interest revenue, Council recorded a Net Operating Deficit of $1.783m (2010-11, $0.755m). This highlights the importance of interest revenue to Council, with interest revenue averaging $0.515m per annum over the past four years.

After accounting for Capital grants, Financial Assistance Grants received in advance and Contributions of non-current assets, Council recorded a Net Surplus of $1.635m for 2011-12, which increased by $0.459m from the $1.176m surplus in 2010-11. The surplus included:

- Capital grants of $1.568m, an increase of $0.593m and comprised Local Government Emergency Repairs funding $0.468m and Road to Recovery $0.961m
- higher Financial assistance grants in advance of $0.944m, resulting from the Commonwealth Government paying 50% of the 2012-13 grant to Council in June 2012. In June 2011, Council received 25% of the grant in advance
- Contributions of non-current assets of $0.906m (2010-11, $0.932m).

Other Comprehensive Income totalled $12.069m, comprising:

- fair value revaluation increment of Council's road, stormwater and drainage and bridge assets, $11.808m
- an increase in Council's investment in Ben Lomond Water of $0.261m, being its 8.9% interest in the net assets of the Corporation.

## STATEMENT OF FINANCIAL POSITION

| | **2012** | **2011** | **2010** |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 9 545 | 1 998 | 2 892 |
| Financial assets * | 0 | 6 756 | 5 360 |
| Receivables | 634 | 555 | 532 |
| Inventories | 15 | 25 | 21 |
| **Total Current Assets** | **10 194** | **9 334** | **8 805** |
| Payables | 1 108 | 829 | 863 |
| Provisions - employee benefits | 977 | 1 034 | 890 |
| **Total Current Liabilities** | **2 085** | **1 863** | **1 753** |
| **Net Working Capital** | **8 109** | **7 471** | **7 052** |
| Property, plant and equipment | 217 387 | 204 509 | 197 605 |
| Investment in Ben Lomond Water | 44 138 | 43 877 | 43 398 |
| **Total Non-Current Assets** | **261 525** | **248 386** | **241 003** |
| Provisions - employee benefits | 422 | 349 | 209 |
| **Total Non-Current Liabilities** | **422** | **349** | **209** |
| **Net Assets** | **269 212** | **255 508** | **247 846** |
| Reserves | 133 586 | 121 517 | 115 031 |
| Accumulated surpluses | 135 626 | 133 991 | 132 815 |
| **Total Equity** | **269 212** | **255 508** | **247 846** |

* *Recorded as non-current assets in Council's financial statements. Reallocated to ensure consistency with movement of investments to current in 2011-12.*

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $13.704m at 30 June 2012. Net assets increased by the same amount to $269.212m. Major line item movements included:

- increased Cash and financial assets of $7.547m which was predominately the result of non-current Financial Assets of $6.756m at 30 June 2011 being re-invested into shorter term investments during 2011-12. Other movements in Cash and financial assets are discussed further in the Statement of Cash Flows section of this Chapter
- increased Property, plant and equipment of $12.878m, primarily due to:
  - revaluation increments of $11.808m
  - additions of $7.886m, which mainly related to bridges $1.811m, roads infrastructure, $4.207m, and fleet, $0.699m, – further details are provided in the Statement of Cash Flows Section of this Chapter
  - net disposals of $2.167m
  - depreciation expense of $4.649m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 10 303 | 10 205 | 9 911 |
| Cash flows from government | 5 276 | 4 010 | 4 179 |
| Payments to suppliers and employees | (10 523) | (10 523) | (10 387) |
| Interest received | 628 | 589 | 390 |
| **Cash from operations** | **5 684** | **4 281** | **4 093** |
| Capital grants and contributions | 1 568 | 975 | 1 263 |
| Payments for property, plant and equipment | (6 979) | (5 083) | (5 673) |
| Purchase of financial assets - investments | 0 | (1 396) | (5 360) |
| Distributions received - Ben Lomond Water | 159 | 178 | 1 |
| Proceeds from sale of property, plant and equipment | 359 | 151 | 151 |
| **Cash (used in) investing activities** | **(4 893)** | **(5 175)** | **(9 618)** |
| **Net increase (decrease) in cash** | **791** | **(894)** | **(5 525)** |
| Cash at the beginning of the year | 1 998 | 2 892 | 8 417 |
| Add transfer from non-current investments | 6 756 | 0 | 0 |
| **Cash at end of the year** | **9 545** | **1 998** | **2 892** |

## Comment

Council held large amounts of cash to cover restricted funds totalling $6.952m. Restricted funds cover leave provisions $1.399m, monies held in trust $0.418m, special committee cash holdings $0.217m, grant funding received but unexpended, $1.882m, and cash held to carry out asset management and long-term financial plans, $3.345m.

Its cash balance at 30 June 2012, $9.545m, comprised cash at bank, cash on hand and short-term deposits. Excluding the transfer of non-current Financial Assets of $6.756m, its cash position increased by $0.791m during 2011-12. Cash from operations, $5.684m, Capital grants and contributions, $1.568m, and Proceeds from sale of property, plant and equipment, $0.359m, were more than sufficient to fund Payments for property, plant and equipment, $6.979m.

In summary, Cash from operations increased by $1.403m to $5.684m, which included:

- Council's operating deficit of $1.783m adjusted for Depreciation of $4.649m and the loss on disposal of non-current assets, $1.808m, both non-cash items, providing, $4.674m, in operating cash inflows
- the net impact of Financial assistance grants in advance, $0.944m recorded as Cash from operations but excluded from the Net operating deficit, offset by
- cash inflows from Ben Lomond Water, $0.159m, recorded as an investing activity for cash flow purposes.

Payments for property, plant and equipment of $6.979m mainly comprised:

- reseal and sheeting of roads, $0.802m
- Royal George Road Bridge reconstruction, $0.618m
- fleet purchases, $0.517m
- Glen Esk Bridge Reconstruction, $0.444m
- Leona Bridge Reconstruction, $0.402m
- Old Punt Rd Midlands Highway Reconstruction, $0.367m
- Footpath Construction Program, $0.349m
- Tannery Road Bridges Reconstruction, $0.348m
- Elphinstone Road Reconstruction, $0.337m
- Nile Road Reconstruction, $0.323m
- Macquarie Road Reconstruction, $0.245m
- Queen St Bridge Bridge to Glenelg Reconstruction, $0.215m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | (1 783) | (755) | (1 649) | (945 ) |
| Operating surplus ratio * | > 0 | (12.33) | (5.35) | (12.40) | (6.02) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 128% | 99% | 109% | 120% |
| Asset renewal funding ratio* | 90% - 100% | 96% | n/a | n/a | n/a |
| Road asset consumption ratio * | >60% | 69.3% | 69.7% | 69.9% | 68.4% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 7 672 | 7 097 | 6 822 | 2 305 |
| Net financial liabilities ratio | 0% - (50%) | 53.1% | 50.3% | 51.3% | 14.7% |
| Operational efficiency | | | | | |
| Liquidity ratio | 2:1 | 9.19 | 3.08 | 3.97 | 1.38 |
| Current ratio | 1:1 | 4.89 | 5.01 | 5.02 | 1.24 |
| Asset investment ratio | >100% | 150% | 115% | 129% | 144% |
| Self financing ratio | | 39.3% | 30.3% | 30.8% | 28.1% |
| Own source revenue | | 70.3% | 72.0% | 69.2% | 75.5% |
| Debt collection | 30 days | 22 | 17 | 19 | 27 |
| Creditor turnover | 30 days | 19 | 14 | 15 | 21 |
| Rates per capita ($) | | 596 | 562 | 521 | 681 |
| Rates to operating revenue | | 52.3% | 50.3% | 49.4% | 54.3% |
| Rates per rateable property ($) | | 1 095 | 1 098 | 1 030 | 1 366 |
| Operating cost to rateable property ($) | | 2 353 | 2 297 | 2 345 | 2 664 |
| Employee costs expensed ($'000s) | | 4 324 | 4 429 | 3 958 | 4 549 |
| Employee costs capitalised ($'000s) | | 309 | 233 | 257 | 345 |
| **Total employee costs ($'000s)** | | **4 633** | **4 662** | **4 215** | **4 894** |
| Employee costs as a % of operating expenses | | 27% | 30% | 26% | 27% |
| Staff numbers (FTEs) | | 65 | 64 | 65 | 75 |
| Average staff costs ($'000s) | | 71 | 73 | 65 | 65 |
| Average leave balance per FTE ($'000s) | | 22 | 22 | 17 | 14 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2011-12. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Northern Midlands Council, liquid assets exceed total liabilities.*

## Comment

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

Liquidity and Current ratios were generally above benchmark in all years, indicating an ability to meet short-term commitments. Liquidity ratio was below benchmark in 2008-09 due to new borrowings of $7.500m, to fund water and sewerage capital projects. The ratio improved in subsequent periods when debt was transferred to Ben Lomond Water.

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

Self financing ratios indicated Council was generating good operating cash flows which contributed towards its capital expenditure programs. The increase in 2011-12 is predominately due to increased Financial assistance grants in advance of $0.944m, with the State Government paying 50% of the 2012-13 grant to Council in June 2012. In June 2011, Council received 25% of the grant in advance.

Own source revenue was constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2011-12 it was reliant on grant funding to the extent of 29.7% (2010-11, 28%).

Council's rate statistics are trending upward and correspond with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs fluctuated slightly over the period. The percentage for 2011-12 is lower due to operating expenses being inflated by the significant loss on the disposal of assets.

Average staff costs increased over the period in line with general pay increases. The movement in 2010-11 was inflated by the accumulation of annual entitlements and the impact of changing probabilities in the calculation of long service leave.

# SORELL COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012, with an unqualified audit opinion issued on 26 September 2012.

The audit was completed satisfactorily with no major items outstanding.

## KEY FINDINGS AND DEVELOPMENTS

### New assets register

Council implemented a new assets register, the Capital Value Register (CVR), from 1 July 2011. The CVR integrates the assets register and the general ledger. Previously, Council maintained its assets register on spreadsheets for each class of asset.

### New council chambers

Council plan to move into new Council chambers on 31 October 2013. It entered into an agreement for the sale of its current chambers on 31 October 2011 for $0.770m. Council's Solicitors received $0.100m prior to June 2012 which is held in Trust. As a result, Council's chambers were disclosed as non-current Assets held for sale of $0.432m, which was the lower of its market value and written down value as at 31 October 2011. At 30 June 2012, there was $0.043m, in work in progress relating to design costs for the new chambers.

### Regional Development Australia (RDA) Grant

Council was one of two Tasmanian Councils successful in receiving RDA round two funding for its South East Region Sporting, Recreation and Cultural Precinct (SERSRC) which was announced on 14th June 2012. The federal grant contribution totalled $1.195m of the total stage one project costs of $2.515m. Council's contributions are disclosed in its Long-term Financial Plan 2011-2021.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.515m in 2011-12 (2010-11, $0.669m), which was above the budgeted result of $0.407m. On a before net interest basis, Council recorded a small Surplus in the current year, highlighting the impact of interest revenues on Council's operating performance. Interest earned in 2011-12 was $0.735m and averaged $0.745m over the past three years.

Council generated a Net Surplus of $2.633m (2010-11, $1.537m) and a Comprehensive Surplus of $6.901m ($5.579m). The Comprehensive Surplus was mainly influenced by the net impacts of upward asset revaluations of $4.246m.

Consistent with the Comprehensive Surplus of $6.901m, Council's Net Assets increased to $210.609m, up from $203.725m in 2010-11. As at 30 June 2012 Council had Net Working Capital of $9.363m, up from $7.242m in 2011, due to increased holdings in Cash and cash equivalents and a decrease in year end Payables.

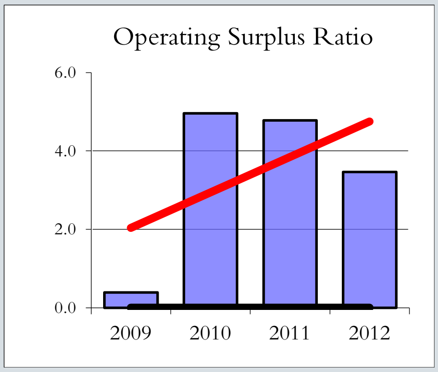
## Assessment of financial sustainability

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

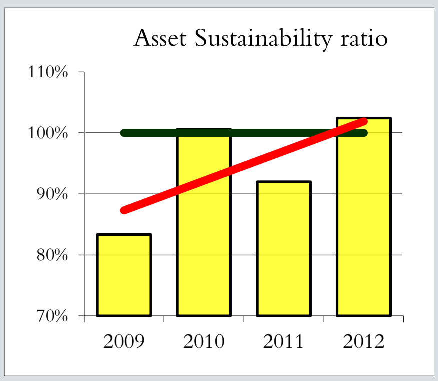
### Relevant financial sustainability ratios

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

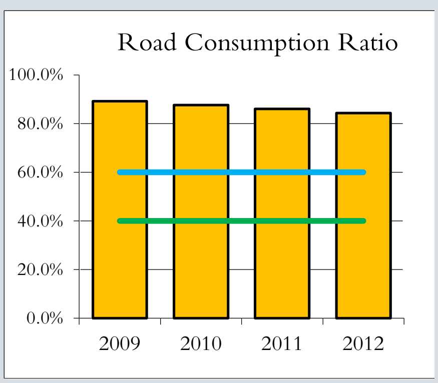
In general, the ratios indicate:




Council recorded Net operating surpluses in all four years under review, with an operating surplus ratio of 3.5% in 2011-12. This indicated Council is currently generating sufficient revenue to fulfil its operating requirements, including its depreciation charges.



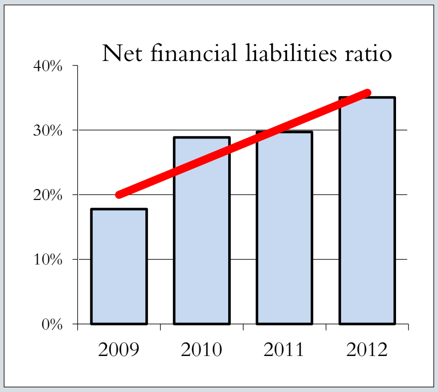

Asset sustainability ratio was below the 100% benchmark in two of the four years under review. Council averaged 95% over the four year period, marginally below our benchmark. This indicated, Council was under investing in existing assets although not significantly. However, in 2012 there was an improvement and Council exceeded the benchmark.




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

The graph indicates at 30 June 2012, Council had used (consumed) 16% of its road assets and hence is considered as low risk.

In recent years, the municipality has experienced considerable development and investment in infrastructure, including roads.




Council recorded a positive Net financial liabilities position, with liquid assets in excess of its current and non-current liabilities, in each of the four years under review. Council's improving positive ratios indicate a strong liquidity position, with Council having the ability to meet its commitments and borrow if the need were to arise.

### Governance

A review of Council's governance arrangements indicated that it does not have an audit committee or a long-term asset management plan. It does, however, have a long-term financial management plan 2011-2021 (LTFMP) which incorporates year-on-year asset management funding. The LTFMP was endorsed by Council in its special meeting for the annual plan and budget estimates for 2011-2012.

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

Council's LTFMP is accrual based and covers an appropriate time frame. The plan was first developed in 2007 and is reviewed by Council and updated annually. However, despite the existence of a LTFMP, we were unable to calculate the Asset renewal funding ratio because the information was not available.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's operating surplus was above the benchmark in all four years of our analysis.

Council's Asset sustainability ratio indicated, based on our 100% benchmark, that on average it under-invested in existing assets over the period of the analysis, although not significantly. Council's Road consumption ratio is strong, indicating that road assets are well paced to continue to provide services to ratepayers.

Council's Net financial liabilities ratio is strong, due to its large balance of cash and investments on hand. Council clearly had the capacity to service debt and would appear to have a capacity to borrow should the need arise.

Council did not have an audit committee or a long-term asset management plan. However, it is formulating its long-term asset management plan which will be completed by June 2013 A long-term financial management plan is in place, which is reviewed on an annual basis.

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council was at a low financial sustainability risk from an operational and net financial liabilities perspective and at moderate financial sustainability risk from a governance and asset management perspective.

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

Sorell Council accepts the above synopsis from the Tasmanian Audit Office on our 2011-12 annual general financial statements. The period of this review is reflective of the focus Council has directed to improving its financial sustainability and governance risks through responsible and effective financial strategies. With asset management plans effective from July 2013, Council will be in a better position to maximise its asset service delivery and manage related risks and costs over the life of all municipal assets. Financial sustainability, a key factor of effective public resource management, will continue to be a focus of this Council in both its short and long-term planning.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 9 660 | 9 835 | 9 178 | 8 673 |
| Fees and charges | 1 131 | 976 | 1 105 | 1 038 |
| Grants ** | 1 888 | 2 538 | 2 304 | 2 055 |
| Other revenue | 679 | 803 | 636 | 1 005 |
| **Total Revenue** | **13 358** | **14 152** | **13 223** | **12 771** |
| Employee costs | 5 132 | 5 302 | 4 871 | 4 635 |
| Depreciation | 3 850 | 4 054 | 3 786 | 3 618 |
| Other expenses | 4 469 | 4 784 | 4 453 | 4 315 |
| **Total Expenses** | **13 451** | **14 140** | **13 110** | **12 568** |
| **Net Operating Surplus (Deficit) before** | **(93)** | **12** | **113** | **203** |
| Finance costs | (206) | (232) | (223) | (254) |
| Interest revenue | 706 | 735 | 779 | 720 |
| **Net Operating Surplus (Deficit)** | **407** | **515** | **669** | **669** |
| Fair value adjustments for investment property | 31 | 80 | (219) | 37 |
| Impairment Expense | 0 | (88) | (183) | 0 |
| Capital grants | 670 | 668 | 454 | 676 |
| Financial assistance grant received in advance ** | 0 | 1 344 | 509 | 459 |
| Offset Financial assistance grant in advance ** | 0 | (509) | (459) | (410) |
| Contributions of non-current assets | 0 | 623 | 766 | 1,425 |
| **Net Surplus (Deficit)** | **1 108** | **2 633** | **1 537** | **2 856** |
| **Other Comprehensive Income** | | | | |
| Impairment of investments | 0 | (43) | (56) | (37) |
| Fair value revaluation of non-current assets | 0 | 4 246 | 4 112 | 3 243 |
| Fair value initial adjustment in Southern Water | 0 | 0 | 0 | (2 553) |
| Fair Value adjustments arising from changes in allocation order | 0 | 0 | (183) | 0 |
| Current year fair value adjustment in Southern Water | 0 | 65 | 169 | 0 |
| **Total Comprehensive Income items** | **0** | **4 268** | **4 042** | **653** |
| **Comprehensive Surplus (Deficit)** | **1 108** | **6 901** | **5 579** | **3 509** |

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

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenues of $0.012m down from a surplus of $0.113m in 2010-11. Over the last three years Council's Net Operating Surplus before net financing revenues declined steadily despite strong growth in Rates revenue, up by 5.8% in 2010-11 and by 7.2% this year, or by 13.0% over the two years. Increased Rates revenue was driven by a 3.8% growth in vacant properties through sub-divisions and the shift from vacant residential properties to non-vacant residential properties. Employee costs increased by $0.667m or 14.4% over the same period, primarily due to increases in Council's Enterprise Agreements and employees to meet increased service levels. Other expenses increased by $0.469m or 10.9%, mainly due to higher material and services expenditure from waste disposal and infrastructure maintenance activities.

However, after accounting for net interest revenue, Council made an Operating Surplus of $0.515m (2010-11, $0.669m) highlighting the importance of interest revenue to Council's annual operating performance. Net interest revenue was a consistent source of revenue for Council averaging $0.745m per annum over the past three years.

After accounting for Capital grants, Contributions of non-current assets and grants in advance, Impairment and fair value adjustments, Council recorded a Net Surplus of $2.633m in 2011-12 compared with $1.537m in 2010-11. In the current year, net Financial assistance grants received in advance was $0.835m, compared to $0.050m in the prior year due to the Government paying 50% of the 2012-13 grant to Council in June 2012. In June 2011, Council received 25% of the grant in advance.

Comprehensive Surplus was $6.901m in 2011-12, an increase of $1.322m from the previous year. The increase was primarily due to the increase in Council's Net Surplus in 2011-12.

Council's Estimates indicated a Net Surplus of $1.108m for 2011-12. The actual result of $2.633m was an improvement over budget of $1.525m mainly due to the following not being budgeted for:

- contributed property, plant and equipment, $0.623m,
- higher net Financial assistance grants received in advance of $0.785m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and cash equivalents | 8 207 | 6 266 | 3 321 |
| Financial assets | 3 109 | 3 153 | 5 271 |
| Receivables | 797 | 865 | 981 |
| Other | 425 | 299 | 24 |
| **Total Current Assets** | **12 538** | **10 583** | **9 597** |
| Payables | 1 570 | 1 944 | 1 274 |
| Borrowings | 467 | 420 | 397 |
| Provisions - employee benefits | 993 | 770 | 850 |
| Trust funds and deposits | 145 | 207 | 161 |
| **Total Current Liabilities** | **3 175** | **3 341** | **2 682** |
| **Net Working Capital** | **9 363** | **7 242** | **6 915** |
| Property, plant and equipment | 173 473 | 168 365 | 163 399 |
| Assets held for sale | 432 | 0 | 0 |
| Investments in associates | 198 | 136 | 150 |
| Investment in water corporation | 29 541 | 29 476 | 29 490 |
| Investment properties | 1 127 | 1 047 | 1 190 |
| Other | 191 | 244 | 149 |
| **Total Non-Current Assets** | **204 962** | **199 268** | **194 378** |
| Borrowings | 3 695 | 2 661 | 3 082 |
| Provisions - employee benefits | 21 | 124 | 66 |
| **Total Non-Current Liabilities** | **3 716** | **2 785** | **3 148** |
| **Net Assets** | **210 609** | **203 725** | **198 145** |
| Reserves | 147 709 | 144 570 | 139 968 |
| Accumulated surpluses | 62 900 | 59 155 | 58 177 |
| **Total Equity** | **210 609** | **203 725** | **198 145** |

## Comment

Total Equity increased by $6.884m comprising the Comprehensive Surplus of $6.901m offset by a downward adjustment of $0.017m taken directly to Accumulated surpluses for the write back of a deferred tax benefit for Southern Waste Solutions.

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

- higher Cash and cash equivalents of $1.941m which is discussed further in the Statement of Cash Flows section of this Chapter
- lower Payables, $0.374m, due largely to $0.349m owing to Southern Water in 2010-11 not recurring in 2011-12
- increased Property, plant and equipment, $5.108m, mainly attributable to:
    - revaluation of infrastructure, land and buildings resulting in a net increment of $4.246m
    - acquisitions during the year, $4.380m, and additional work in progress, $1.153m, less
    - Depreciation and amortisation expense, $4.054m
    - transfer to Assets held for sale, $0.432m
    - net disposals, $0.143m

- higher Assets held for sale, $0.432m. Council entered into an agreement to sell its Council chambers, on 31 October 2011.
- increased total Borrowings of $1.081m due primarily to new borrowings of $1.500m, settled on 18 May 2012, for the new Council chambers project, due for completion by no later than October 2013, offset by repayments of borrowings during the year of $0.420m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 11 908 | 11 308 | 10 803 |
| Cash flows from government | 3 375 | 2 651 | 2 121 |
| Payments to suppliers and employees | (11 028) | (10 406) | (8 925) |
| Interest received | 704 | 770 | 716 |
| Finance costs | (201) | (224) | (248) |
| **Cash from operations** | **4 758** | **4 099** | **4 467** |
| Capital grants and contributions | 618 | 708 | 471 |
| Distributions from Southern Water | 505 | 506 | 440 |
| Headworks Southern Water | 0 | 234 | 0 |
| Payments for property, plant and equipment | (5 154) | (4 453) | (4 648) |
| Proceeds from sale of investments | 0 | 2 000 | 0 |
| Proceeds from sale of property, plant and equipment | 119 | 223 | 181 |
| **Cash (used in) investing activities** | **(3 912)** | **(782)** | **(3 556)** |
| Proceeds from borrowings | 1 515 | 24 | 49 |
| Repayment of borrowings | (420) | (396) | (373) |
| **Cash from (used in) financing activities** | **1 095** | **(372)** | **(324)** |
| **Net increase in cash** | **1 941** | **2 945** | **587** |
| Cash at the beginning of the year | 6 266 | 3 321 | 3 213 |
| Less cash transferred to Southern Water | 0 | 0 | (479) |
| **Cash at end of the year** | **8 207** | **6 266** | **3 321** |

### Comment

Council's cash position improved by $1.941m to $8.207m as at 30 June 2012.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.659m to $4.758m which included:

- Council's Net operating surplus of $0.515m adjusted for Depreciation, $4.054m, a non-cash item, providing $4.569m in operating cash inflows
- additional financial assistance grants in advance of $0.835m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011, providing $5.404m in operating cash flows, offset by
- cash inflows from distributions received from Southern Water, $0.505m, recorded as investing activities for cash flow purposes.

Movements between Payables, Provisions and Receivables offset each other and did not impact the balance of Cash from operations.

Cash used in investing activities increased by $3.130m due primarily to one-off proceeds from disposal of investments in 2010-11 of $2.000m. In addition, Payments for property, plant and equipment increased by $0.701m in 2011-12.

Payments for property, plant and equipment in 2011-12 mainly comprised the continuation of the following projects:

- Pembroke Park construction, $0.296m
- Sorell Waterways track and trail, $0.321m
- Sorell parking corridor, $0.170m.

In addition, infrastructure capitalised during the year included:

- Somerville Street footpath, kerb and guttering, $0.250m
- Fulham Road sealed road, $0.292m
- Lewisham Road and culvert, $0.212m
- Nugent Road to Janey's Rocks Construction, $0.172m
- Carlton Road kerb and gutter, $0.193m.

Council also purchased a property at 141 Main Road Sorell for $0.374m for the construction of a Visitor Centre and promotion of the Ramsar site, an internationally recognised environmental site for bird breeding.

Cash from (used in) financing activities was higher by $1.467m due primarily to additional Borrowings, $1.500m, for the new Council offices project.

Council Cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary use. These include:

- leave provisions, $1.014m
- reserve funds allocated for specific future purpose, $0.989m
- trust funds and deposits, $0.145m
- construction of new Council Chambers, $1.500m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Net operating surplus (deficit) ($,000s) | | 515 | 669 | 669 | 57 |
| Operating Surplus Ratio * | >0 | 3.46 | 4.78 | 4.96 | 0.39 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio * | >100% | 102% | 92% | 101% | 83% |
| Asset renewal funding ratio ** | 90%-100% | n/a | n/a | n.a | n/a |
| Road asset consumption ratio * | >60% | 84.4% | 86.0% | 87.6% | 89.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($,000s) | | 5 222 | 4 158 | 3 743 | 2 616 |
| Net financial liabilities ratio * *** | 0%-(50%) | 35.1% | 29.7% | 28.9% | 17.8% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.16 | 4.48 | 5.32 | 7.74 |
| Current ratio | 1:1 | 3.95 | 3.17 | 3.58 | 3.25 |
| Interest cover | | 22.67 | 17.30 | 17.01 | 6.59 |
| Asset investment ratio | >100% | 127% | 118% | 128% | 122% |
| Self financing ratio | | 32.0% | 29.3% | 33.1% | 25.6% |
| Own source revenue | | 83.0% | 83.5% | 84.8% | 86.6% |
| Debt collection | 30 days | 27 | 31 | 37 | 33 |
| Creditor turnover | 30 days | 41 | 50 | 45 | 6 |
| Rates per capita ($) | | 708 | 673 | 647 | 773 |
| Rates to operating revenue | | 66.1% | 65.5% | 64.3% | 67.3% |
| Rates per rateable property ($) | | 1 152 | 1 088 | 1 040 | 1 202 |
| Operating cost to rateable property ($) | | 1 684 | 1 580 | 1 538 | 1 779 |
| Employee costs expensed ($'000s) | | 5 302 | 4 871 | 4 635 | 5 010 |
| Employee costs capitalised ($'000s) | | 165 | 302 | 435 | 435 |
| **Total employee costs ($'000s)** | | **5 467** | **5 173** | **5 070** | **5 445** |
| Employee costs as a % of operating expenses | | 37% | 37% | 37% | 35% |
| Average staff numbers (FTEs) | | 82 | 81 | 78 | 84 |
| Average staff costs ($'000s) | | 67 | 64 | 65 | 65 |
| Average leave balance per FTE ($'000s) | | 12 | 11 | 12 | 11 |

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

## Comment

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

Current and Liquidity ratios remained strong over the period under review, indicating an ability to meet short-term liabilities as they fall due.

Interest coverage figure continues to be high, due to the low levels of Borrowings. Interest cover improved significantly over the period under review, indicating Council's ability to meet interest payments from operating cash flows.

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

Creditor turnover improved to 41 days in 2011-12 but was still worse than the benchmark of 30 days. The improvement was due largely to $0.349m owing to Southern Water in 2010-11 not present in 2011-12. The ratio was unusually low in 2008-09, given Council's decision to pay the majority of outstanding creditors at year end due to changes in its accounting system occurring at that time.

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

Over the period of review there was a consistent margin between Operating cost to rateable property and Rates per rateable property. Together with the Own source revenue ratio, this indicates Council's reliance on non-rate income to assist in funding its operating costs.

Total employee costs increased by $0.294m or 6% in 2011-12, primarily due to an increase in Council's Enterprise Agreement of 2.9% effective 1 July 2011 and employees progressing within their salary bands during the year and an increase in staff numbers. This also caused the increase in Average staff costs. Average employee costs as percentage of operating expenses remained constant as the majority of employee costs are operational. Total employee costs declined to $5.070m in 2009-10 with the departure of 10 employees to Southern Water.

# WARATAH-WYNYARD COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 28 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Resource Sharing Arrangements

Council entered into a resource sharing agreement in December 2008 with Circular Head Council to share the services of a General Manager. The arrangement was expanded to include other employees as positions became available or opportunities were identified. Council entered into the Resource Sharing arrangement with the aim of enabling continual improvement in areas such as asset management, risk and human resources which support Council's future strategic objectives, to ensure Council continues to attract and keep quality staff, provide succession planning and extend service provision that would not be viable on an individual council basis. The arrangement has allowed Council to aggressively progress asset management planning, address business risks and improve human resource practices.

A Resource Sharing Committee comprising three Councillors from each Council was established to identify opportunities to improve services and manage the resource sharing arrangements.

Waratah-Wynyard and Circular Head Councils have together formed a Business Strategy Unit (BSU) that is tasked with the primary objectives of progressing outcomes of each of Councils' five year Strategic Plans and facilitating special projects. The Unit also investigates opportunities to further the strategic intent of Council or allow Council to think outside the square and initiate a 'new way of doing things' for the community.

At 30 June 2012 Council had 14 (2011, 12) resource shared positions with 6 (6) employees employed by Waratah-Wynyard Council and 8 (6) employed by Circular Head Council.

The audit was completed satisfactorily with no major items outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit before Capital grants and asset adjustments of $0.432m in 2011-12 (2010-11, surplus $0.032m). The Net Operating Deficit in 2011-12 was greater than Council's estimated deficit of $0.313m. While it is disappointing that Council again budgeted for a deficit, steps were taken to address this by increasing the average general rates by 4.9%, and implementing a new waste utility fee. Council's operating surplus ratio is heading in the right direction.

Council generated a Net Surplus of $1.877m (2010-11, $6.642m) and a Comprehensive Surplus of $14.573m ($37.195m). The Net Surplus included Capital grants of $1.211m and the net impact of Financial assistance grants received in advance of $0.809m. The Comprehensive Surplus included Fair value revaluation of non-current assets, $12.654m, and an increase in Council's interest in Cradle Mountain Water, $0.042m.

Consistent with the Comprehensive Surplus of $14.573m, Council's Net Assets increased to $175.271m, from $160.698m the previous year.

As at 30 June 2012 Council had Net Working Capital of $6.837m, up from $5.394m in 2011, and it was in a strong position to meet its short-term commitments.

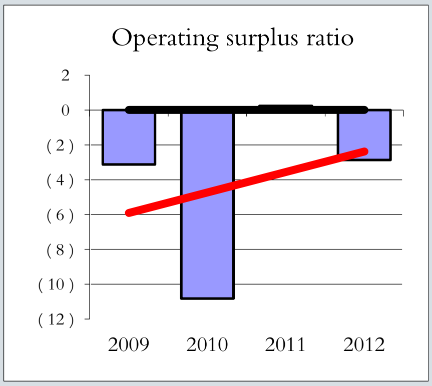
## Assessment of financial sustainability

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

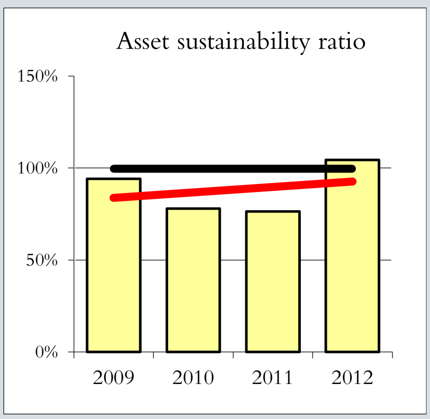
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



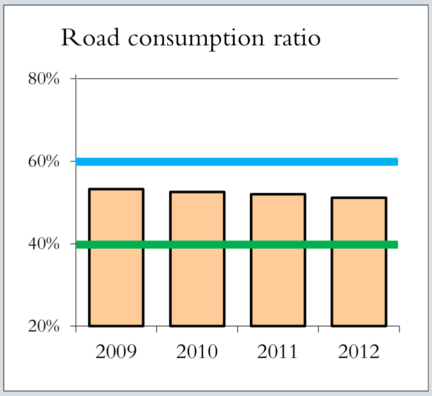

Council recorded operating deficits in three of the four years under review. On average over the four year period, Council recorded a negative ratio of 4.15, which indicated insufficient revenue was generated to fulfil operating requirements, including its depreciation charges. However, in trend terms Council's deficit position is heading in the right direction.




Asset sustainability ratio was below benchmark in three of the four years under review and averaged 88% over the four year period. The ratio indicated, subject to levels of maintenance expenditure and the existence of long-term asset management plans, Council was under investing in existing assets although not significantly.

## Asset renewal funding ratio

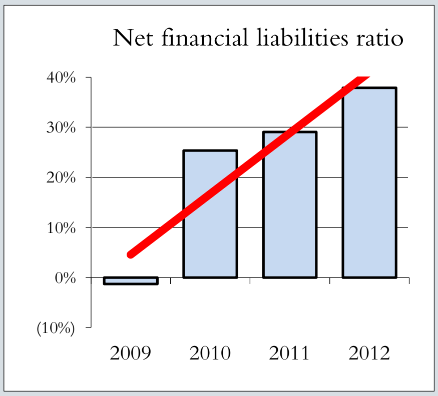
Council's long-term asset management plan indicated the asset renewal funding ratio was 72% at 30 June 2012, based on planned asset replacement expenditure. While the ratio is not significantly below our benchmark of 90% to 100%, if not improved may result in Council under-spending on the renewal of its assets. Council's current long-term asset management plans forecast planned and required renewal expenditure to 2029-30 and cover transport infrastructure, stormwater, building and recreation assets.




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

The graph indicates at 30 June 2012 Council had used (consumed) approximately 49% of the service potential of its road assets. This was above the green benchmark line, indicating a moderate financial sustainability risk, and showed Council had sufficient capacity to continue to provide services to its ratepayers.

The Road consumption ratio and Asset sustainability ratio, when taken together suggest that Council's investment strategy is maintaining its long-lived asset base in a reasonably 'constant' position.




Council recorded a positive Net financial liabilities ratio at 30 June 2012, with liquid assets well in excess of current and non-current liabilities. Council's positive ratio indicated a strong liquidity position, with Council able to meet its current commitments.

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

### Governance

A review of Council's governance arrangements indicated it did not have an audit committee or an internal audit function.

Council had a long-term asset management plan and is currently finalising its financial management plan. The long-term asset management plan was detailed, regularly reviewed, covered all key elements required and formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective Council generated an operating deficit in three of the four years under review. Over the four years the average Operating surplus ratio was negative 4.15 and Council budgeted for a deficit in 2011-12.

Council's asset sustainability ratio indicated, based on our 100% benchmark, that it under-invested, although not significantly, in existing assets over the period of the analysis, with an average ratio of 88%. The asset consumption ratio indicated Council's road asset consumption was in the moderate risk range and the Asset renewal funding ratio was 72% at 30 June 2012, which was not significantly below our benchmark of 90% to 100%.

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

From a governance perspective, Council did not have an audit committee although it had a long-term asset management plan and is finalising a long-term financial management plan. Council is also investigating the future introduction of an Audit Committee.

Based on these ratios and governance arrangements we have concluded that at 30 June 2012, Council was at moderate risk from a governance perspective, operating and asset management perspective and low sustainability risk from net financial liabilities perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 8 643 | 8 771 | 7 754 | 7 314 |
| Fees and charges | 1 835 | 1 838 | 1 876 | 1 856 |
| Grants ** | 3 503 | 3 249 | 3 100 | 2 823 |
| Other revenue | 507 | 649 | 887 | 471 |
| **Total Revenue** | **14 488** | **14 507** | **13 617** | **12 464** |
| Employee costs | 5 265 | 4 868 | 4 784 | 4 642 |
| Depreciation | 3 108 | 3 692 | 2 892 | 2 865 |
| Other expenses | 6 786 | 6 871 | 6 373 | 6 669 |
| **Total Expenses** | **15 159** | **15 431** | **14 049** | **14 176** |
| **Net Operating (Deficit) before** | **(671)** | **(924)** | **(432)** | **(1 712)** |
| Finance costs | (8) | (7) | (17) | (28) |
| Interest revenue | 366 | 499 | 481 | 354 |
| **Net Operating Surplus (Deficit)** | **(313)** | **(432)** | **32** | **(1 386)** |
| Capital grants | 1 170 | 1 211 | 525 | 1 367 |
| Financial assistance grant received in advance ** | 0 | 1 572 | 763 | 702 |
| Offset Financial assistance grant in advance ** | 0 | (763) | (702) | (678) |
| Recognition of assets | 0 | 0 | 6 024 | 65 |
| Derecognition of assets | 0 | (40) | 0 | 0 |
| Contributions non-current assets | 130 | 329 | 0 | 0 |
| **Net Surplus** | **987** | **1 877** | **6 642** | **70** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 12 654 | 18 351 | 0 |
| Fair value initial adjustment to Cradle Mountain Water | 0 | 0 | 0 | (7 100) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | 12 018 | 0 |
| Current year fair value adjustment to Cradle Mountain Water | 0 | 42 | 184 | 0 |
| **Total Comprehensive Income Items** | **0** | **12 696** | **30 553** | **(7 100)** |
| **Comprehensive Surplus (Deficit)** | **987** | **14 573** | **37 195** | **(7 170)** |

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

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

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net finance revenues of $0.924m, compared to a deficit of $0.432m in 2010-11, a deterioration of $0.492m. This was predominantly due to:

- higher depreciation charges of $0.800m, 27.7%, due to the impact of road and bridge assets revalued in 2010-11
- increased Other expenses of $0.498m, which included:
    - additional resource sharing costs with Circular Head Council, $0.169m
    - increased transfer station, garbage collection and recycling costs of $0.299m
- lower Other revenue of $0.238m, as the 2010-11 balance included approximately $0.200m in flood disaster recovery funding, offset by
- higher Rates revenue of $1.017m, 13.1%, due to an average general rate increase of 4.9%, increases in existing waste and stormwater rates and the introduction of a waste utility fee which totalled $0.432m. This cost, which until now was not divulged specifically, is a reflection of the cost of waste disposal that has been separated out, rather than allowed to continue to be a hidden cost, subsidised depending upon property value.

After accounting for Interest revenue and Finance costs, Council achieved a Net Operating Deficit of $0.432m (2010-11, surplus of $0.032m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $0.454m per annum over the past four years.

Council recorded a Net Surplus of $1.877m in 2011-12 (2010-11, $6.642m), a decrease of $4.765m. The decrease was primarily due to the balance in 2010-11 including $6.024m for the recognition of new assets. Council revalued land, buildings and road infrastructure in 2010-11, which resulted in Council identifying assets not previously recognised.

Other Comprehensive Income totalled $12.696m and comprised:

- fair value revaluation increment of Council's drainage assets of $12.654m
- a favourable investment movement of $0.042m being Council's 12.1% interest in the higher net assets of Cradle Mountain Water at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 8 066 | 6 375 | 5 823 |
| Receivables | 464 | 539 | 353 |
| Other | 767 | 747 | 725 |
| **Total Current Assets** | **9 297** | **7 661** | **6 901** |
| Payables | 1 139 | 719 | 818 |
| Borrowings | 42 | 131 | 206 |
| Provisions - employee benefits | 1 107 | 1 090 | 1 019 |
| Other | 172 | 327 | 254 |
| **Total Current Liabilities** | **2 460** | **2 267** | **2 297** |
| **Net Working Capital** | **6 837** | **5 394** | **4 604** |
| Property, plant and equipment | 129 275 | 116 349 | 92 203 |
| Investments in associates | 0 | 0 | 0 |
| Investment in Cradle Mountain Water | 39 529 | 39 487 | 27 285 |
| Other | 15 | 21 | 39 |
| **Total Non-Current Assets** | **168 819** | **155 857** | **119 527** |
| Borrowings | 22 | 64 | 195 |
| Provisions - employee benefits | 206 | 266 | 231 |
| Provisions - gravel pit rehabilitation | 157 | 223 | 202 |
| **Total Non-Current Liabilities** | **385** | **553** | **628** |
| **Net Assets** | **175 271** | **160 698** | **123 503** |
| Accumulated surpluses | 124 199 | 122 253 | 103 990 |
| Reserves | 51 072 | 38 445 | 19 513 |
| **Total Equity** | **175 271** | **160 698** | **123 503** |

### Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $14.573m at 30 June 2012. Net Assets increased by the same amount to $175.271m. Major line item movements included:

- higher cash and financial assets, $1.692m, which is explained further in the Statement of Cash Flows section of this Chapter
- additional Payables outstanding at 30 June 2012 of $0.420m , which included two large capital contract payments; 2011 did not include any significant capital creditors
- increased Property, plant and equipment of $12.926m due to:
    - net asset revaluation adjustments of $12.654m comprising increments to Council's drainage assets
    - capital additions, $4.425m, offset by
    - disposals, $0.408m
    - derecognition and write-offs $0.053m
    - depreciation, $3.692m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 11 716 | 11 075 | 10 715 |
| Cash flows from government | 4 058 | 3 150 | 2 847 |
| Payments to suppliers and employees | (11 765) | (11 536) | (11 742) |
| Interest received | 486 | 471 | 354 |
| Finance costs | (7) | (17) | (28) |
| **Cash from operations** | **4 488** | **3 143** | **2 146** |
| Capital grants and contributions | 1 211 | 525 | 1 367 |
| Distributions received | 27 | 26 | 15 |
| Payments for property, plant and equipment | (4 082) | (3 287) | (3 568) |
| Proceeds from sale of property, plant and equipment | 178 | 351 | 524 |
| **Cash (used in) investing activities** | **(2 666)** | **(2 385)** | **(1 662)** |
| Repayment of borrowings | (131) | (206) | (247) |
| **Cash (used in) financing activities** | **(131)** | **(206)** | **(247)** |
| **Net increase in cash** | **1 691** | **552** | **237** |
| Cash at the beginning of the year | 6 375 | 5 823 | 5 586 |
| **Cash at end of the year** | **8 066** | **6 375** | **5 823** |

### Comment

Council's total cash balance at 30 June 2012, $8.066m, comprised cash at bank, cash on hand and short-term deposits. At 30 June 2012, Council reported that $0.195m (2010-11, $0.139m) of its cash balance was restricted in the form of unexpended specific purpose grant funding and that it received $1.572m ($0.763m) in Financial assistance grants in advance in June 2012 relating to 2012-13. In addition, $0.172m ($0.306m) was restricted as it related to trust funds and deposits. Council reported that the balance of cash is subject to a number of internal and external restrictions that limit amounts available for discretionary use including coverage of future commitments for infrastructure renewals. Council has a policy of holding the value of the previous years' general rate as a cash reserve.

Council's cash position improved by $1.691m, with Cash from operations of $4.488m, Capital grants, $1.211m, and Proceeds from the sale of property, plant and equipment, $0.178m, being more than sufficient to fund Payments for property, plant and equipment, $4.082m, and Repayment of borrowings, $0.131m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $1.345m to $4.488m, which included:

- Council's operating deficit of $0.432m adjusted for depreciation of $3.692m and the loss on disposal of non-current assets, $0.229m, both non-cash items, providing $3.489m in operating cash inflows
- additional financial assistance grants in advance of $0.809m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011
- the net impact of increased Payables and decreased Other liabilities, $0.265m.

The payments for Property, plant and equipment included:

- road reseals and reconstructions, $1.541m
- Wynyard Wharf Precinct Redevelopment, $1.255m
- drainage upgrades and replacements, $0.330m
- plant and equipment purchases, $0.396m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (432) | 32 | (1 386) | (523) |
| Operating surplus ratio * | > 0 | (2.88) | 0.23 | (10.81) | (3.12) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 104% | 76% | 78% | 94% |
| Asset renewal funding ratio* ** | 90% - 100% | 72% | n/a | n/a | n/a |
| Road asset consumption ratio * | > 60% | 51.1% | 52.0% | 52.5% | 53.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 5 685 | 4 094 | 3 251 | (220) |
| Net financial liabilities ratio * *** | 0 - (50%) | 37.9% | 29.0% | 25.4% | (1.3%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.30 | 5.98 | 4.84 | 2.86 |
| Current ratio | 1:1 | 3.78 | 3.38 | 3.00 | 2.30 |
| Interest Coverage | | 640.14 | 183.88 | 75.64 | 23.42 |
| Asset investment ratio | >100% | 111% | 114% | 122% | 172% |
| Self financing ratio | | 29.9% | 22.3% | 16.7% | 28.3% |
| Own source revenue | | 78.3% | 78.0% | 78.0% | 82.2% |
| Debt collection | 30 days | 16 | 20 | 14 | 12 |
| Creditor turnover | 30 days | 37 | 26 | 29 | 24 |
| Rates per capita ($) | | 612 | 550 | 518 | 713 |
| Rates to operating revenue | | 58.4% | 55.0% | 57.1% | 59.7% |
| Rates per rateable property ($) | | 1 170 | 1 047 | 980 | 1 354 |
| Operating cost to rateable property ($) | | 2 060 | 1 899 | 1 902 | 2 340 |
| Employee costs expensed ($'000s) | | 4 868 | 4 784 | 4,642 | 4,293 |
| Employee costs capitalised ($'000s) | | 293 | 362 | 451 | 525 |
| **Total employee costs ($'000s)** | | **5 161** | **5 146** | **5 093** | **4 818** |
| Employee costs as a % of operating expenses | | 32% | 34% | 33% | 25% |
| Staff numbers (FTEs) | | 81 | 82 | 88 | 90 |
| Average staff costs ($'000s) | | 64 | 62 | 58 | 54 |
| Average leave balance per FTE ($'000s) | | 16 | 16 | 14 | 11 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2011-12. Information not obtained or unavailable to calculate prior years ratios.*
**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Waratah-Wynyard Council, liquid assets exceed total liabilities.*

## Comment

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

Liquidity and Current ratios were well above benchmark in all years under review indicating that Council was able to meet its short-term liabilities when they fell due.

Asset investment ratio shows Council's total capital expenditure was well above its depreciation expense in all years under review. This ratio should be read in conjunction with the Asset sustainability ratio shown in graphical format in the Financial Results section of this Chapter.

Interest coverage ratio reflected Council's very low level of finance costs associated with its borrowings.

Council's positive Self financing ratio indicated it was generating operating cash flows which were contributing towards its capital expenditure programs. The reduction in the 2009-10 ratio mainly related to the loss of water and sewerage rating income. Own source revenue percentage showed that Council generated the majority of its operating revenue from its own sources and in 2011-12 was reliant on recurrent grant funding to the extent of 21.7% (2010-11, 22.0%).

Creditor turnover was better than benchmark in all years under review, except for 2011-12 due to the inclusion of two large infrastructure contract payments. Council's policy is to pay outstanding creditors within a 30 day period.

Rates per rateable property is trending upwards and corresponds with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

The employee cost ratios vary due to the impact of the resource sharing arrangements, including a reduction in staff numbers. Over the last three years Employee costs as a percentage of operating costs fluctuated slightly due to changes in the mix of resource shared positions. The percentage increased in 2009-10 due to the impact of the transfer of water and sewerage services to Cradle Mountain Water and the subsequent loss of water and sewerage expenditure, including bulk water purchases.

Average staff costs increased over the period due to Council's enterprise bargaining arrangements which also contributed to higher leave provision balances.

# WEST TAMAR COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2012 and an unqualified audit report was issued on 31 August 2012. In addition, an unqualified audit report was issued on Council's summary financial report on 31 August 2012.

## KEY FINDINGS AND DEVELOPMENTS

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

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $1.247m in 2011-12 (2010-11, $2.050m). The lower result was due primarily to higher employee costs, depreciation and other expenses partially offset by increased rates revenue.

Council recorded a Net Surplus of $5.239m (2010-11, $5.660m), which included Capital grants of $0.374m, Contributions of non-monetary assets of $3.031m and the net impact of Financial assistance grants in advance of $0.587m.

The Comprehensive Surplus of $16.313m included a Fair value revaluation of non-current assets, $10.707m, and an increase in Council's interest in Ben Lomond Water of $0.367m.

Consistent with the Comprehensive Surplus, Council's Net Assets increased to $258.408m, up from $242.095m the previous year. As at 30 June 2012 Council had Net Working Capital of $7.882m, up from $5.304m in 2011, due mainly to increased Cash and financial assets of $2.965m.

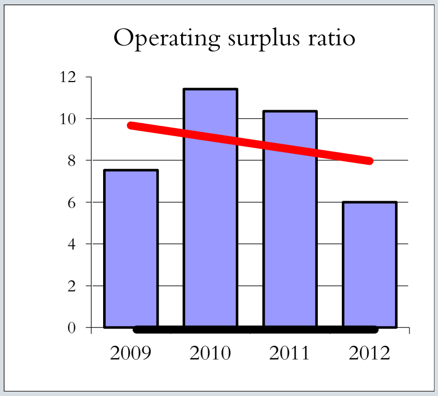
## Assessment of financial sustainability

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

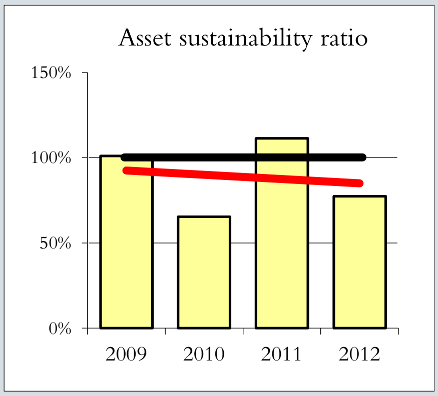
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



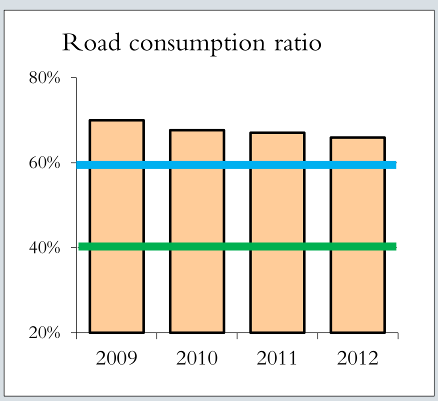

The positive Operating surplus ratios reflected Council's operating surpluses for the past four years. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges for those years. The strong results have been assisted by the receipt of priority dividends from Ben Lomond Water, which averaged $1.837m per annum over the past three years. Net operating surpluses averaged $1.842m per annum over this period which highlights the importance to Council of this revenue stream.



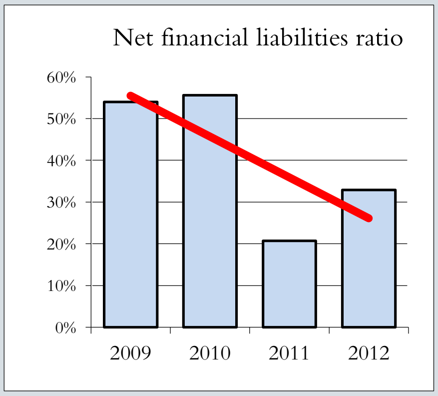

The Asset sustainability ratio was below the 100% benchmark in two of the four years under review. In 2011-12, the lower ratio was due to Council not completing its capital works program. The development of the Windsor Park multi-purpose community, leisure and wellbeing centre in 2009-10 resulted in a shift of focus away from investment in existing assets to new assets and a ratio below benchmark. Over the four year period, Council's average ratio was 89%, which was below our benchmark although not significantly.

## Asset renewal funding ratio

Council's long-term asset management plan indicated that, based on planned asset replacement expenditure, its asset renewal funding ratio was 85% at 30 June 2012 and 78% at 30 June 2011. The ratio was slightly below our benchmark of between 90% and 100%, but improved from 2011. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2031-32 and covers transport infrastructure, stormwater drainage and building and property assets.




The ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line a high risk rating with data between the two lines representing a moderate risk rating. The graph indicated that at 30 June 2012 Council had used (consumed) approximately 34% of the service potential of its road assets. This was above the blue benchmark line which indicated Council had sufficient capacity to continue to provide services to its ratepayers.




Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of current and non-current liabilities in each year under review. These positive ratios indicate a strong liquidity position, with Council able to meet future commitments. The reduction in 2011 reflected lower cash balances held following the completion of significant capital works, primarily the Windsor Park multi-purpose community, leisure and wellbeing centre. Council's cash reserves increased during 2012.

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

### Governance

A review of Council's governance arrangements indicated that Council did not have an audit committee or internal audit function. However, Council did have a Finance and Economic Development Unit, which operated similarly to an audit committee in some respects. This Unit included the Mayor, Deputy Mayor and one other Councillor as well as staff and has a role in overseeing Council's annual financial statements. Existence of an active internal audit function would further enhance Council's governance arrangements.

Council did have long-term asset management and long-term financial management plans. These plans were both given low risk ratings as they were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's continuing operating surpluses indicated it generated more than sufficient revenue to meet operating requirements.

Council's Asset sustainability ratios indicated, based on our 100% benchmark, that it may have slightly under-invested in existing assets over the period of the analysis, with an average ratio of 89%. The Asset consumption ratio indicated Council's road asset consumption is in the low risk range. Its Asset renewal funding ratio was only slightly below our benchmark and indicated that Council will substantially fund required asset renewals.

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

From a governance perspective, Council has a Finance and Economic Development Unit as mentioned earlier and had both long-term asset management and long-term financial management plans. However, it does not have an internal audit function.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at moderate risk from a governance perspective but low financial sustainability risk from an operating, asset management and net financial liabilities perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 13 229 | 13 427 | 12 538 | 11 680 |
| Fees and charges | 2 069 | 2 218 | 1 990 | 2 050 |
| Grants ** | 1 992 | 2 473 | 2 605 | 2 775 |
| Other revenue | 2 159 | 2 080 | 2 059 | 2 249 |
| **Total Revenue** | **19 449** | **20 198** | **19 192** | **18 754** |
| Employee costs | 6 591 | 6 858 | 6 276 | 5 967 |
| Depreciation | 5 057 | 5 073 | 4 610 | 4 539 |
| Other expenses | 7 667 | 7 557 | 6 806 | 6 713 |
| **Total Expenses** | **19 315** | **19 488** | **17 692** | **17 219** |
| **Net Operating Surplus (Deficit) before** | **134** | **710** | **1 500** | **1 535** |
| Finance costs | (48) | (48) | (65) | (84) |
| Interest revenue | 471 | 585 | 615 | 779 |
| **Net Operating Surplus** | **557** | **1 247** | **2 050** | **2 230** |
| Capital grants | 350 | 374 | 861 | 2 261 |
| Financial assistance grant received in advance ** | 0 | 1 243 | 656 | 662 |
| Offset Financial assistance grant in advance ** | 0 | (656) | (662) | (681) |
| Contributions of non-current assets | 0 | 3 031 | 2 755 | 2 134 |
| **Net Surplus** | **907** | **5 239** | **5 660** | **6 606** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets - Council | 0 | 10 707 | 1 740 | 11 109 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | 0 | (17 871) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | 975 | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 367 | 673 | 0 |
| **Total Comprehensive Income Items** | **0** | **11 074** | **3 388** | **(6 762)** |
| **Comprehensive Surplus (Deficit)** | **907** | **16 313** | **9 048** | **(156)** |

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

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

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income*

## Comment

In 2011–12 Council recorded a Net Operating Surplus before net financing revenues of $0.710m, a decrease from the 2010-11 surplus of $1.500m. The reduced surplus was primarily attributable to:

- lower Grants revenue of $0.132m
- higher Employee costs of $0.582m, primarily due to pay rises under Council's Enterprise Agreement, an increase in overtime worked and the impact of lower discount rates on the calculation of long service leave provisions
- increased Other expenses of $0.751m, including:
    - expenditure related to the installation of new software systems and an overlap of annual licence costs between vendors, $0.119m
    - higher electricity costs, $0.124m, including new running costs of approximately $0.078m related to Windsor Community Precinct
    - additional water and sewerage costs, $0.112m, as a result of timing of billing by Ben Lomond Water
    - additional gravel resheeting costs, $0.058m
    - higher garbage collection and recycling costs, $0.048m
- greater Depreciation, $0.463m, including the impact of the first full year of depreciation on recently constructed Windsor Park Community Precinct assets, partially offset by
- increased Rates revenue of $0.889m, due to a higher general rate

After accounting for net interest revenues Council recorded a Net Operating Surplus of $1.247m (2010-11, $2.050m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $0.737m per annum over the past four years.

The Net Operating Surplus of $1.247m was stronger than the budgeted Surplus of $0.557m. Council's budget only included the unpaid balance of the 2011-12 Financial assistance grant, whilst the Statement of Comprehensive Income includes the full grant allocation.

After accounting for Capital grants and Contributions of non-current assets, Council recorded a Net Surplus of $5.239m for 2011-12 (2010-11, $5.660m). The surplus included:

- Capital grants, $0.374m, for 2011-12, a decrease of $0.487m from 2010-11, and included Australian Government Roads to Recovery Fund, $0.350m (2010-11, $0.350m)
- Contributions of non-current assets which represent subdivision handovers. Council does not budget for the receipt of capital subdivision assets because of their inherent uncertainty.

Other Comprehensive Income of $11.074m included:

- Fair value revaluation increment of Council's land, stormwater, roads and bridges assets of $10.707m
- increased investment in Ben Lomond Water of $0.367m being Council's 12.5% interest in higher net assets of the Corporation at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | **2012** | **2011** | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 10 009 | 7 044 | 14 989 |
| Receivables | 729 | 593 | 642 |
| Inventories | 263 | 221 | 207 |
| Other | 154 | 170 | 528 |
| **Total Current Assets** | **11 155** | **8 028** | **16 366** |
| Payables | 1 280 | 933 | 2 027 |
| Borrowings | 220 | 261 | 287 |
| Provisions - employee benefits | 1 678 | 1 460 | 1 362 |
| Other | 95 | 70 | 47 |
| **Total Current Liabilities** | **3 273** | **2 724** | **3 723** |
| **Net Working Capital** | **7 882** | **5 304** | **12 643** |
| Property, plant and equipment | 189 018 | 175 827 | 161 474 |
| Investment in Ben Lomond Water | 61 993 | 61 626 | 59 978 |
| Other | 134 | 149 | 2 |
| **Total Non-Current Assets** | **251 145** | **237 602** | **221 454** |
| Borrowings | 420 | 641 | 827 |
| Provisions - employee benefits | 185 | 159 | 209 |
| Other | 14 | 11 | 14 |
| **Total Non-Current Liabilities** | **619** | **811** | **1 050** |
| **Net Assets** | **258 408** | **242 095** | **233 047** |
| Reserves | 100 291 | 89 218 | 89 180 |
| Accumulated surpluses | 158 117 | 152 877 | 143 867 |
| **Total Equity** | **258 408** | **242 095** | **233 047** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $16.313m. Net assets increased by the same amount to $258.408m. Major line item movements included:

- higher Cash and financial assets of $2.965m which is discussed further in the Statement of Cash Flows section of this Chapter
- higher Payables of $0.347m, due mainly to a capital contract invoice for the purchase and installation of Council's software suite
- increased Property, plant and equipment of $13.191m, primarily due to:
    - revaluation increments of $10.707m
    - additions of $7.906m, offset by
    - depreciation expense of $5.073m
- higher investment in Ben Lomond Water of $0.367m, as discussed in the Statement of Comprehensive Income section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 16 886 | 16 901 | 15 705 |
| Cash flows from government | 3 063 | 2 638 | 2 769 |
| Payments to suppliers and employees | (14 891) | (15 987) | (13 174) |
| Interest received | 572 | 709 | 660 |
| Finance costs | (49) | (66) | (85) |
| **Cash from operations** | **5 581** | **4 195** | **5 875** |
| Capital grants and contributions | 374 | 861 | 2 261 |
| Distributions received - Esk Water | 0 | 0 | 184 |
| Distributions received - Ben Lomond Water | 1 829 | 1 765 | 1 918 |
| Payments for property, plant and equipment | (4 875) | (14 842) | (10 450) |
| Proceeds from sale of property, plant and equipment | 305 | 447 | 177 |
| Loans repaid by debtors | 12 | 6 | 8 |
| Loan receivable advances | 0 | (165) | 0 |
| **Cash (used in) investing activities** | **(2 355)** | **(11 928)** | **(5 902)** |
| Proceeds from borrowings | 0 | 100 | 0 |
| Repayment of borrowings | (261) | (312) | (311) |
| **Cash (used in) financing activities** | **(261)** | **(212)** | **(311)** |
| **Net increase (decrease) in cash** | **2 965** | **(7 945)** | **(338)** |
| Cash at the beginning of the year | 7 044 | 14 989 | 15 327 |
| **Cash at end of the year** | **10 009** | **7 044** | **14 989** |

### Comment

Council's cash balance at 30 June 2012, $10.009m, comprised cash at bank, cash on hand and term deposits. At 30 June 2012, Council reported that $3.273m (2010-11, $0.2724m) of its cash balance was restricted to pay current liabilities. In addition, Council received $1.243m ($0.656m) in Financial assistance grants in advance in June 2012 relating to 2012-13. The balance of cash will assist Council's long-term financial plans, which include significant funding commitments for future capital expenditure for both the renewal of assets and expansion of facilities.

Council's cash position improved by $2.965m, with Cash from operations of $5.581m, Capital grants, $0.374m, Distributions received – Ben Lomond Water, $1.829m, and Proceeds from the sale of property, plant and equipment, $0.305m, being more than sufficient to fund Payments for property, plant and equipment, $4.875m, and Repayment of borrowings, $0.261m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $1.386m to $5.581m which included:

- Council's operating surplus of $1.247m adjusted for depreciation of $5.073m, a non-cash item, providing $6.320m in operating cash inflows
- additional financial assistance grants in advance of $0.587m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011
- the impact of increased Payables of $0.347m during 2011-12, offset by
- cash inflows from distributions received from Ben Lomond Water, $1.829m, being recorded as an investing activity for cash flow purposes.

The payments for Property, plant and equipment included:

- road reseals and reconstructions, $2.115m
- plant and equipment purchases, $0.770m
- local government software suite, $0.505m
- stormwater upgrades, $0.445m
- Parks, Recreation Facilities and Community Amenities, $0.763m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus deficit ($'000s) | | 1 247 | 2 050 | 2 230 | 1 680 |
| Operating surplus ratio * | >0 | 6.00 | 10.35 | 11.42 | 7.53 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 77% | 111% | 65% | 101% |
| Asset renewal funding ratio* ** | 90% - 100% | 85% | 78% | n/a | n/a |
| Road asset consumption ratio * | >60% | 65.9% | 67.0% | 67.6% | 69.9% |
| ***Liquidity*** | | | | | |
| Net financial assets ($'000s) | | 6 846 | 4 102 | 10 858 | 12 043 |
| Net financial liabilities ratio * *** | 0% - (50%) | 32.9% | 20.7% | 55.6% | 54.0% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.73 | 6.04 | 6.65 | 11.00 |
| Current ratio | 1:1 | 3.41 | 2.95 | 4.40 | 5.75 |
| Interest Coverage | | 112.90 | 62.56 | 68.12 | 70.96 |
| Asset investment ratio | >100% | 96% | 322% | 216% | 130% |
| Self financing ratio | | 26.9% | 21.2% | 30.1% | 34.2% |
| Own source revenue | | 88.1% | 86.8% | 85.8% | 87.1% |
| Debt collection | 30 days | 17 | 15 | 17 | 19 |
| Creditor turnover | 30 days | 38 | 11 | 38 | 19 |
| Rates per capita ($) | | 589 | 558 | 526 | 646 |
| Rates to operating revenue | | 64.6% | 63.3% | 59.8% | 63.6% |
| Rates per rateable property ($) | | 1 227 | 1 159 | 1 082 | 1 333 |
| Operating cost to rateable property ($) | | 1 785 | 1 641 | 1 603 | 1 938 |
| Employee costs expensed ($'000s) | | 6 858 | 6 276 | 5 967 | 6 301 |
| Employee costs capitalised ($'000s) | | 248 | 240 | 175 | 183 |
| **Total employee costs ($'000s)** | | **7 106** | **6 516** | **6 142** | **6 484** |
| Employee costs as a % of operating expenses | | 35% | 35% | 34% | 31% |
| Staff numbers (FTEs) | | 91 | 92 | 89 | 97 |
| Average staff costs ($'000s) | | 78 | 71 | 69 | 67 |
| Average leave balance per FTE ($'000s) | | 20 | 18 | 18 | 16 |

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

## Comment

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

Liquidity and Current ratios were well above benchmark in all four years under review which indicated an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end and low levels of unpaid creditors.

Interest coverage ratios reflected Council's low level of finance costs relative to surpluses.

Asset investment ratios indicated Council's total capital expenditure was well above its depreciation expense for the first three years under review and marginally below in 2011-12. In particular, the ratios for 2010-11 and 2009-10 were substantially above benchmark, with Council undertaking major capital projects.

Council's positive Self financing ratios indicated it generated operating cash flows which contributed towards its capital expenditure programs. Own source revenue percentages showed Council generated the majority of its operating revenue from its own sources and in 2011-12 was reliant on recurrent grant funding to the extent of only 11.9% (2010-11, 13.2%).

Creditor turnover was worse than benchmark in two of the four years under review. The higher ratios in 2009-10 and 2011-12 were due to the inclusion of large capital contract payments. Council's policy is to pay outstanding creditors within a 30 day period.

Rates per rateable property is trending upward and corresponds with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs increased to 34% in 2009-10 primarily as a result of decreased operating expenses following the transfer of water and sewerage activities. The ratio remained consistent in subsequent years.

Average staff costs and Average leave balances increased over the period primarily due to pay rises under Council's Enterprise Agreement. In addition, average costs for 2011-12, which increased by $7 000, 9.85%, was inflated by three employees, who were employed for the majority of the year, but left employment before 30 June 2012. These employees are not included in the Staff numbers (FTEs).

# SMALL COUNCILS

# BREAK O'DAY COUNCIL COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 16 August 2012 and re-signed on 28 September 2012. An unqualified audit report was issued on 1 October 2012.

## KEY FINDINGS AND DEVELOPMENTS

In 2010-11 we raised concerns over internal processes and the preparation of financial statements. While procedural and reconciliation items have now been appropriately resolved, Council still needs to ensure it is able to satisfy its statutory reporting obligations in the submission of financial statements within 45 days after the end of the financial year.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit before capital grants of $3.224m in 2011-12 (2010-11, $2.004m). A significant factor in this result was costs associated with the impact of extreme weather events Council had to endure, not all of which were recovered under natural Disaster Relief funding arrangements. While acknowledging these difficulties, to ensure long-term financial sustainability, Council should, as a minimum, aim to operate on a break-even basis. It is therefore disappointing to note Council budgeted for a Net operating deficit of $0.578m in 2011-12.

After accounting for Capital grants, the Net Deficit reduced to $2.305m, (2010-11, deficit $0.873m). Council recorded a Comprehensive Surplus of $6.372m, ($22.805m), which included fair value revaluation of non-current assets, $8.460m, and an increase in its interest in Ben Lomond Water of $0.217m.

Consistent with the Comprehensive surplus of $6.372m, Council's Net Assets increased to $143.419m, up from $137.047m the previous year. As at 30 June 2012 Council had Net Working Capital of $4.576m, down from $5.340m in 2011, mainly due to lower cash balances of $1.110m,an increase in Payables of $1.976m, offset by increase in Receivables of $1.992m. Council's cash from operations has now declined for three consecutive years.

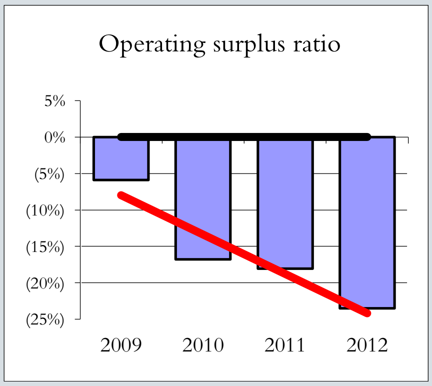
## Assessment of financial sustainability

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

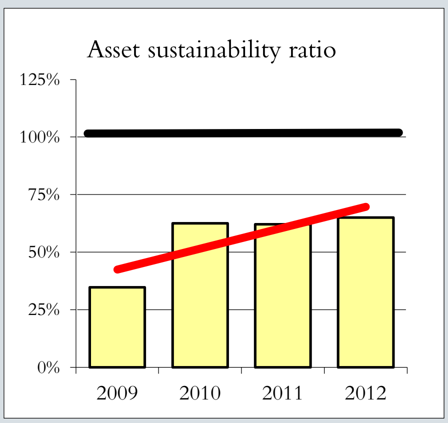
### Relevant financial sustainability ratios

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

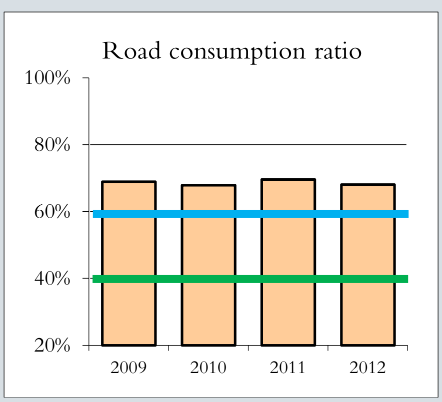
In general, the ratios indicate:




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

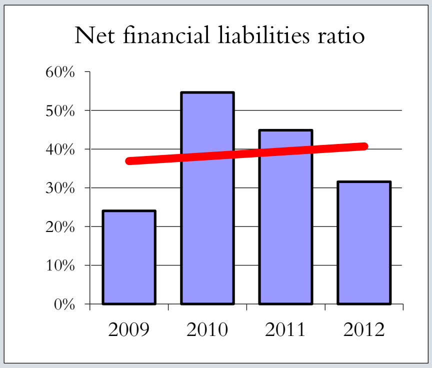



Asset sustainability ratio was below the 100% benchmark in each of the last four years under review. Over the four year period, Council's average ratio was 56%, which is well below the benchmark, indicating, subject to levels of maintenance expenditure, Council did not maintain its investment in existing assets. However, the trend line is showing improvement.




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

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 30% of the service potential of its road infrastructure assets. This indicates a low financial sustainability risk in relation to road assets. Overall, during this period, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded positive Net financial liabilities ratios in all years under review, with its financial assets exceeding total liabilities each year. This indicates that Council was in a strong liquidity position to meet existing commitments with a capacity to borrow should the need arise.

Council's total liabilities consist of payables, provisions, trust funds and deposits. It has been debt free since 2010. Borrowings, $3.079m, and cash of $0.117m were transferred to Ben Lomond Water on 1 July 2009, which is why the ratio improved in 2010.

### Governance

A review of governance arrangements indicated that Council:

- does not have an audit committee or an internal audit function
- is preparing draft long-term asset management and financial management plans.

## Conclusion as to financial sustainability

Taken together these ratios provide differing messages when considering Council's financial sustainability. From a financial operating perspective, Council's increasing operating deficits in the past four years indicate action is needed to increase revenues, reduce costs or some combination of both. However, despite poor operating performance, Council's liquidity is strong, it is debt free and generating positive operating cash flows indicating it is in a sound position to meet its short-term commitments and may have a capacity to borrow should the need arise.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, that it underinvested in existing assets over the period of the analysis. However, Council's road consumption ratio shows low risk, indicating that its road assets continue to provide service capacity to its ratepayers.

From a governance perspective, Council does not have an audit committee nor has it completed long-term asset management or financial management plans. Council needs to address these governance aspects.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at high financial sustainability risk from governance and operating perspectives, moderate risk from an asset management perspective and a low financial sustainability risk from a net financial liabilities perspective.

Management comments on this assessment of its financial sustainability

Council agrees with the assessment and conclusions of the Auditor-General's Report and appreciates the acknowledgement of the impact of the natural disaster events. Any financially robust enterprise should be able to sustain the financial impact of a moderate event but several consecutive declared events and additional undeclared events would test the resources of most Councils. Council's unfunded costs were approximately $1.5m, virtually all of this in 2011-12. As well as this, resources were regularly diverted to "response" actions and back to "recovery" activities which completely precludes any form of operating normalcy, particularly when this extends over more than one calendar and financial year.

However, this does not fully account for Council's operating deficits and Council has responded with an organisational review which resulted in, among other changes:

- an organisational restructure, including involuntary and voluntary redundancies and introduction of cyclical, proactive maintenance cycles
- a review of internal vs contracted works
- investigations of resource sharing.

Council has a draft Long Term Financial Plan and a draft Asset Management Plan for Transport Services and these should be adopted by Council in the near future. The Financial Plan includes a process for moving to at least operational break even on an annual basis. Council has considered the implementation of an Audit Committee and has determined that the existing process of quarterly financial review by whole of Council is appropriate for Council's current situation but this will be reviewed regularly.

Council believes these actions, and a continual improvement in internal processes will mitigate against the sustainability risks identified and ensure its ability to meet statutory reporting obligations.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2010-11 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 6 585 | 6 604 | 6 162 | 5 865 |
| Fees and charges | 792 | 695 | 724 | 789 |
| Grants ** | 2 535 | 5 529 | 3 576 | 2 652 |
| Other revenue | 723 | 639 | 310 | 297 |
| **Total Revenue** | **10 635** | **13 467** | **10 772** | **9 603** |
| Employee costs | 3 779 | 4 599 | 4 468 | 4 037 |
| Depreciation | 3 109 | 3 370 | 3 257 | 3 160 |
| Other expenses | 4 325 | 8 975 | 5 365 | 4 345 |
| **Total Expenses** | **11 213** | **16 944** | **13 090** | **11 542** |
| **Net Operating (Deficit) before** | **(578)** | **(3 477)** | **(2 318)** | **(1 939)** |
| Finance costs | 0 | (4) | (4) | 0 |
| Interest revenue | 0 | 257 | 318 | 280 |
| **Net Operating (Deficit)** | **(578)** | **(3 224)** | **(2 004)** | **(1 659)** |
| Capital grants | 400 | 294 | 1 123 | 878 |
| Financial assistance grant received in advance ** | 0 | 1 216 | 591 | 583 |
| Offset Financial assistance grant in advance ** | 0 | (591) | (583) | (598) |
| **Net Surplus (Deficit)** | **(178)** | **(2 305)** | **(873)** | **(796)** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 8 460 | 13 528 | 4 751 |
| Fair value initial adjustment in Ben Lomond Water | 0 | 0 | 0 | 1 086 |
| Fair value adjustment arising from change in allocation order | 0 | 0 | 9 752 | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 217 | 398 | 0 |
| **Total comprehensive income items** | **0** | **8 677** | **23 678** | **5 837** |
| **Total Comprehensive Surplus (Deficit)** | **(178)** | **6 372** | **22 805** | **5 041** |

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

** *Grants received in advance have been shown separately after Net Operating Deficit.*
*The offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenues of $3.477m, compared to a deficit of $2.318m in 2010-11, an increase of $1.159m. The higher deficit was predominantly due to Other expenses, $3.610m, primarily attributable to an increase in materials and services costs and contract payments in the main associated with the floods in April and August 2011.

These higher costs were offset to an extent by increased:

- Rates revenue of $0.442m, due to a higher general rate
- Grants revenue of $1.953m, primarily due to additional disaster relief funding, $2.810m, (2010-11, $0.992m).

We noted from Council's 2011-12 annual report that the estimated total cost of the flood events, in the 2010-11 and 2011-12 financial years, exceeded $5m with, to date, only some of these costs recovered under Natural Disaster Relief funding.

After accounting for Interest revenue and Finance costs, Council achieved a Net Operating Deficit of $3.224m (2010-11, $2.004m). Net interest revenue was a consistent source of revenue for Council averaging $0.285m over the past three years.

Following the recognition of Capital grants and the impact of Financial assistance grants received in advance, Council recorded a Net Deficit of $2.305m, an increase of $1.432m on the deficit in the prior year.

Other Comprehensive Income totalled $8.677m in 2011-12 and comprised:

- fair value revaluation of Council's bridges and drainage asset classes totalling $8.460m
- an increase in Council's investment in Ben Lomond Water, $0.217m, being Council's 7.40% interest in net assets of the Corporation.

Excluding non-operating items, Council budgeted for a Net operating deficit of $0.578m but generated an actual Net Operating Deficit of $3.224m as previously mentioned. Reasons for this variation is clear from the discussion above. However, we noted that Council under-budgeted for payroll costs by $0.820m or 22%. This occurred because staff reductions resulted in additional overtime in relation to disaster work and higher termination and redundancy payments.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 4 460 | 5 570 | 6 877 |
| Receivables | 3 561 | 1 569 | 465 |
| Inventories | 48 | 77 | 36 |
| Other | 51 | 70 | 111 |
| **Total Current Assets** | **8 120** | **7 286** | **7 489** |
| Payables | 2 854 | 878 | 638 |
| Provisions - employee benefits | 488 | 654 | 649 |
| Other | 202 | 414 | 442 |
| **Total Current Liabilities** | **3 544** | **1 946** | **1 729** |
| **Net Working Capital** | **4 576** | **5 340** | **5 760** |
| Property, plant and equipment | 102 287 | 95 443 | 82 337 |
| Investment in Ben Lomond Water | 36 699 | 36 482 | 26 331 |
| Other | 0 | 0 | 24 |
| **Total Non-Current Assets** | **138 986** | **131 925** | **108 692** |
| Provisions - employee benefits | 63 | 138 | 134 |
| Provisions - rehabilitation | 80 | 80 | 76 |
| **Total Non-Current Liabilities** | **143** | **218** | **210** |
| **Net Assets** | **143 419** | **137 047** | **114 242** |
| Reserves | 126 757 | 118 093 | 103 901 |
| Accumulated surpluses | 16 662 | 18 954 | 10 341 |
| **Total Equity** | **143 419** | **137 047** | **114 242** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $6.372m.

Net Assets increased similarly to $143.419m. Reasons for line item movements included:

- a decrease in Cash and financial assets of $1.110m – this movement is explained later in the Statement of Cash Flows section of this Chapter
- Receivables increased by $1.992m, due to the inclusion of outstanding disaster relief funding claims totalling $2.531m for recent flooding in the municipality
- Payables increased by $1.976m, due to the timing of contractor payments at year end including significant disaster relief work accounts
- Property, plant and equipment increased by $6.844m, due primarily to revaluation of Council's bridges and drainage asset classes, $8.460m, additions, $1.733m, offset by depreciation, $3.346m
- Council's investment in Ben Lomond Water increasing in fair value by $0.217m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 7 605 | 6 975 | 7 226 |
| Cash flows from government | 5 231 | 2 950 | 2 901 |
| Payments to suppliers and employees | (12 750) | (10 017) | (9 045) |
| Interest received | 369 | 433 | 357 |
| **Cash from operations** | **455** | **341** | **1 439** |
| Capital grants and contributions | 30 | 1 068 | 878 |
| Distrubutions - Ben Lomond Water | 133 | 122 | 1 |
| Payments for property, plant and equipment | (1 733) | (3 015) | (3 274) |
| Proceeds from sale of property, plant and equipment | 5 | 177 | 391 |
| **Cash (used in) investing activities** | **(1 565)** | **(1 648)** | **(2 004)** |
| Contribution Ben Lomond Water to repay debt | 0 | 0 | 716 |
| Repayment of borrowings | 0 | 0 | (716) |
| **Cash from financing activities** | **0** | **0** | **0** |
| **Net increase (decrease) in cash** | **(1 110)** | **(1 307)** | **(565)** |
| Cash at the beginning of the year | 5 570 | 6 877 | 7 559 |
| Less cash transferred to Ben Lomond Water | 0 | 0 | (117) |
| **Cash at end of the year** | **4 460** | **5 570** | **6 877** |

### Comment

At 30 June 2012, Council held Cash of $4.460m, comprising cash at bank and on hand, $0.589m, committee accounts, $0.013m, and cash on deposit with short maturities, $3.858m. Cash included both Financial Assistance Grants for 2012-13 received in advance, $1.216m, unspent grant funds of $0.566m and trust funds and deposits held, $0.202m. Other than these commitments and the need to pay creditors, remaining cash held at 30 June 2012 was uncommitted.

Council's cash position decreased by $1.110m during 2011-12. Cash from operations, $0.455m, Capital grants, $0.030m, Distributions received from Ben Lomond Water, $0.133m, and Proceeds from sale of property, plant and equipment, $0.005m, were not sufficient to fund Payments for property, plant and equipment of $1.733m. The shortfall was covered from existing cash held.

Cash was negatively impacted by additional expenditure for Payments to suppliers and employees which included unforseen expenditure due to floods in 2011. As previously noted, disaster relief funding claims due totalling $2.531m had not been received prior to year end. This was the primary reason for the lower Cash from operations in 2011-12.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations of $0.455m included:

- Council's Net operating deficit of $3.224m adjusted for depreciation of $3.370m, a non-cash item, providing $0.146m in operating cash inflows
- plus the net impact of Financial assistance grants in advance, $0.625m, recorded as cash from operations but excluded from the Net operating deficit, offest by
- Distributions of $0.133m treated as operating income but as investing cash flows in the Statement of Cash Flows.

Payments for Property, plant and equipment of $1.733m included expenditure on:

- Roads, $1.015m, including surfacing works of $0.652m throughout the municipality
- Buildings, $0.293m, including the Scamander Surf Club, $0.204m
- Plant, machinery, and other office equipment, $0.242m, including $0.115m on information technology
- Bridges, $0.067m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (3 224) | (2 004) | (1 659) | (710) |
| Operating surplus ratio * | >0 | (23.5%) | (18.1%) | (16.8%) | (5.9%) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 65% | 62% | 63% | 35% |
| Asset renewal funding ratio* ** | 90% - 100% | n/a | n/a | n/a | n/a |
| Road asset consumption ratio * | >60 | 68.0% | 69.6% | 67.8% | 68.9% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | (4 334) | (4 975) | (5 403) | (2 895) |
| Net financial liabilities ratio * *** | 0% - (50%) | 31.6% | 44.9% | 54.7% | 24.1% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 2.62 | 5.53 | 6.80 | 5.00 |
| Current ratio | 1:1 | 2.29 | 3.74 | 4.33 | 3.67 |
| Interest coverage | | - | - | - | 14.39 |
| Asset investment ratio | >100% | 51% | 93% | 104% | 121% |
| Self financing ratio | | 3.3% | 3.1% | 14.6% | 21.0% |
| Own source revenue | | 59.7% | 67.8% | 73.2% | 78.3% |
| Debt collection | 30 days | 38 | 31 | 26 | 31 |
| Creditor turnover | 30 days | 33 | 35 | 29 | 33 |
| Rates per capita ($) | | 1,014 | 946 | 915 | 1 152 |
| Rates to operating revenue | | 48.1% | 55.6% | 59.3% | 60.5% |
| Rates per rateable property ($) | | 1 041 | 986 | 946 | 1 192 |
| Operating cost to rateable property ($) | | 2 672 | 2 095 | 1 862 | 2 088 |
| Employee costs expensed ($'000s) | | 4 599 | 4 468 | 4 037 | 3 835 |
| Employee costs capitalised ($'000s) | | 159 | 172 | 339 | 314 |
| **Total employee costs ($'000s)** | | **4 758** | **4 640** | **4 376** | **4 149** |
| Employee costs as a % of operating expenses | | 27% | 34% | 35% | 30% |
| Staff numbers (FTEs) | | 51 | 61 | 61 | 61 |
| Average staff costs ($'000s) | | 93 | 76 | 72 | 68 |
| Average leave balance per FTE ($'000s) | | 11 | 12 | 13 | 13 |

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

## Comment

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

Liquidity and Current ratios remained strong over the period of review, indicating an ability to meet short-term commitments. This was due mainly to the large cash balances held at each year end and no debt.

Asset investment ratio shows Council's total capital expenditure against depreciation declined from a strong position in 2008-09, 121%, to well below the benchmark in 2011-12, 51%. Council will need to monitor this trend to ensure adequate investment in new and existing assets.

Self financing ratio remained low in 2011-12 due to continued lower cash flows from operations as outlined under the Statement of Cash Flows section of this Chapter. Own source revenue over the last four years indicates Council generates an average of 69.7% of its operating revenue from its own sources, such as Rates, and Fees and charges. The decline in 2011-12 to 59.7% was mainly due to higher operating grant funding as a result of disaster recovery flood funding.

As previously noted in the Statement of Financial Position section of this Chapter, creditors was significantly higher due to outstanding contractor accounts at year end relating to disaster relief works performed. Creditor turnover including these items resulted in a time taken to pay suppliers of 92 days. Excluding these unusual events, turnover decreases to 33 days, which is consistent with prior years. Similarly for the Debt collection days, including disaster recovery claims indicated an increase in collection of receivables above the benchmark.

Council's rate statistics indicated a small increase in 2011-12 in Rates per rateable property and Operating costs per rateable property in line with rate increases. Its rate statistics and ratios all deceased in 2009-10, primarily due to water and sewerage rates not being raised following the water and sewerage reforms.

Employee costs as a percentage of operating costs decreased to 27% in 2011-12, primarily due to the higher operating expenses as a result of additional disaster expenditure. Average staff costs generally increased over the period under review in line with Council's EBA increases. The average was higher in 2011-12 due to the reduction in Staff numbers combined with additional overtime in relation to disaster work and higher termination and redundancy payments.

# CENTRAL HIGHLANDS COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012, and an unqualified audit report was issued on 28 September 2012.

The audit was completed satisfactorily with no major items outstanding.

## KEY FINDINGS AND DEVELOPMENTS

### Infrastructure Revaluation

In 2011-12 Council engaged two independent firms to assess various asset groups. One revalued roads, kerbs, guttering and footpaths resulting in higher valuations of $15.593m (roads) and $0.780m (footpaths and cycleways). Another undertook a revaluation of bridges and associated assets resulting in a revaluation of $2.559m. The valuations were based on fair value which is replacement cost less accumulated depreciation.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $1.534m a slight increase of $0.048m from last year (2010-11, $1.582m). It recorded a Net Deficit of $0.525m ($1.441m), which included Capital grants of $0.528m and the net impact of Financial assistance grants received in advance of $0.481m.

The Comprehensive Result was a surplus of $18.427m (2010-11, deficit, $1.010m) including the net asset revaluation increments resulting from asset revaluations of $18.932m.

Consistent with the Comprehensive Result of $18.427m, Council's Net Assets increased to $139.956m (2010-11, $121.529m). As at 30 June 2012 Council had Net Working Capital of $7.643m, up $0.898m from the previous year.

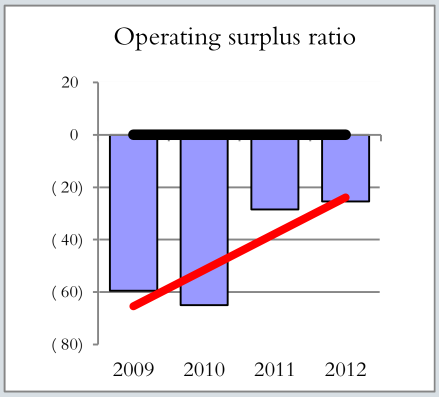
### Assessment of financial sustainability

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

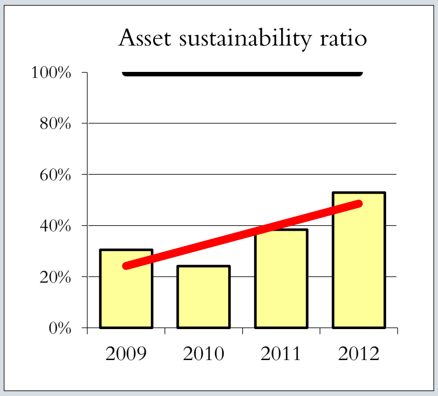
#### Relevant financial sustainability ratios

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

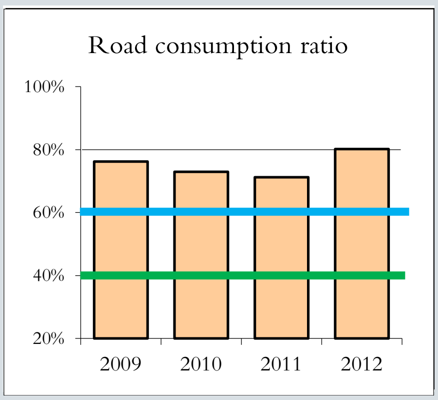
In general, the ratios indicate




Council's Operating surplus ratio reflects operating deficits in all four years under review. While the trend is heading in the right direction, Council is not generating sufficient revenue to fulfil its operating requirements, including its depreciation charges.

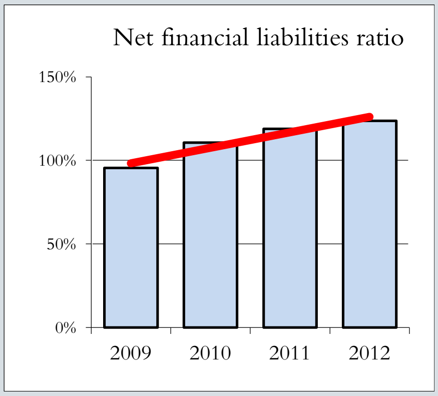



Asset sustainability ratio was well below benchmark in all four years under review with the improvement this year due to the investment in Property, plant and equipment increasing by $0.518m, or 46%, compared to 2010-11. Subject to levels of maintenance expenditure, the development of a long-term asset management plan, and based on our 100% benchmark, Council was significantly under investing in existing assets.




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

The graph indicates at 30 June 2012 Council had used (consumed) approximately 20% of the service potential of its road infrastructure assets. This was reasonably consistent over the four year period and indicates a low financial sustainability risk. Roads represents Council most significant asset. When read together the road consumption and asset sustainability ratios provide for differing conclusions. This may be because the relatively low level of road asset consumption has led to a lower need for investment in those assets over the past four years. However, in the absence of long-term asset management and financial plans, a conclusion on this cannot be definitive.




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

### Governance

A review of Council's governance arrangements indicated that it has an audit committee which reviews the annual financial statements but only after these have already been signed. However, as previously noted, Council does not have long-term asset management or financial management plans.

Based on our assessment, Council's governance could be strengthened if its audit committee included both internal and external members, met regularly, was supported by an internal audit function, had some oversight regarding Council's financial sustainability and had a role in recommending to the General Manager signature of financial statements. Such a review of the financial statements could, for example, cover accounting policies used, methods used to account for significant or unusual transactions, significant estimates and judgements.

## Conclusion as to financial sustainability

Council incurred operating deficits at in each of the past four years indicating high financial sustainability risk.

Council's Net financial liabilities ratio was strong, due to its large cash and investment balances and no borrowings. Council has the capacity to meet short-term commitments and could borrow should the need arise.

Council's asset sustainability ratio indicates, based on our 100% benchmark, that it significantly under-invested in existing assets over the period of the analysis, with an average ratio of 30%. However, its road asset consumption ratio remained in the low risk range.

Council has an audit committee in place but no long-term asset management or financial management plans. On the basis of these factors we concluded Council's governance was in the high risk range.

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council was at high financial sustainability risk from an operating and governance perspective, moderate risk from an asset management perspective and low risk from a financial liabilities perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 2 764 | 2 803 | 2 680 | 2 531 |
| Fees and charges | 220 | 258 | 339 | 450 |
| Grants ** | 1 753 | 2 268 | 1 955 | 1 894 |
| Other revenue | 586 | 379 | 251 | 471 |
| **Total Revenue** | **5 323** | **5 708** | **5 225** | **5 346** |
| Employee costs | 1 617 | 1 713 | 1 583 | 1 536 |
| Depreciation | 2 700 | 3 026 | 2 916 | 4 700 |
| Other expenses | 3 169 | 2 895 | 2 627 | 2 994 |
| **Total Expenses** | **7 486** | **7 634** | **7 126** | **9 230** |
| **Net Operating (Deficit) before** | **(2 163)** | **(1 926)** | **(1 901)** | **(3 884)** |
| Interest revenue | 0 | 392 | 319 | 246 |
| **Net Operating (Deficit)** | **(2 163)** | **(1 534)** | **(1 582)** | **(3 638)** |
| Capital grants | 380 | 528 | 121 | 410 |
| Asset received for no consideration | 0 | 0 | 0 | 250 |
| Financial assistance grant received in advance ** | 0 | 948 | 467 | 447 |
| Offset Financial assistance grant in advance ** | 0 | ( 467) | (447) | (417) |
| **Net (Deficit)** | **(1 783)** | **( 525)** | **(1 441)** | **(2 948)** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 18 932 | 378 | 5 215 |
| Fair value initial adjustment Southern Water | 0 | 0 | 0 | (116) |
| Current year fair value adjustment Southern Water | 0 | 20 | 53 | 0 |
| **Total comprehensive income items** | **0** | **18 952** | **431** | **5 099** |
| **Total Comprehensive Surplus (Deficit)** | **(1 783)** | **18 427** | **(1 010)** | **2 151** |

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

## Comment

In 2011-12 Council recorded a Net Operating Deficit before interest revenue of $1.926m compared to a deficit of $1.901m in 2010-11. The deficit improved after taking interest revenue into account and reduced still further after accounting for Capital and Financial assistance grants. Movements in revenue and expenses included:

- increasee Rates revenue, $0.123m, due to higher general and garbage rates and fire levies
- lower, Fees and charges $0.081m, mainly due to some revenue items recognised in this line item in 2010-11 now being included in Other revenue
- higher grants revenue, $0.313m, with the inclusion of new grant income, $0.280m, for a Commonwealth funded program being the Healthy Communities Initiative
- net financial assistance grants revenue in advance, $0.481m.
- higher Other revenue, $0.128m, mainly reflecting an increase in private works of $0.116m and, as noted previously, the reallocation of revenue items this year.

- increased Employee costs, $0.130m, due to general increases and one additional staff member engaged this year
- higher Depreciation, $0.110m, reflecting updated revaluations
- increased Other expenses, $0.268m, with the increase spread over a number of items including insurance, $0.040m, community support & donations, $0.048m, payroll tax $0.011m, fuel, light and power, $0.060m, and communications, $0.019m
- higher capital grants, $0.407m, relating to additional Roads to Recovery funding received this year.

Other Comprehensive Income included the Net asset revaluation increment of $18.932m, referred to earlier.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 8 481 | 6 882 | 6 522 |
| Receivables | 266 | 453 | 402 |
| Inventories | 17 | 17 | 13 |
| Other | 74 | 102 | 103 |
| **Total Current Assets** | **8 838** | **7 454** | **7 040** |
| Payables | 549 | 195 | 242 |
| Finance lease | 20 | 0 | 0 |
| Provisions - employee benefits | 626 | 514 | 502 |
| **Total Current Liabilities** | **1 195** | **709** | **744** |
| **Net Working Capital** | **7 643** | **6 745** | **6 296** |
| Property, plant and equipment | 123 108 | 105 610 | 107 116 |
| Investment in Southern Water | 9 231 | 9 211 | 9 158 |
| **Total Non-Current Assets** | **132 339** | **114 821** | **116 282** |
| Provisions - employee benefits | 26 | 37 | 38 |
| **Total Non-Current Liabilities** | **26** | **37** | **38** |
| **Net Assets** | **139 956** | **121 529** | **122 540** |
| Reserves | 113 139 | 93 600 | 93 074 |
| Accumulated surpluses | 26 817 | 27 929 | 29 466 |
| **Total Equity** | **139 956** | **121 529** | **122 540** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased during 2011-12 by $18.427m.

Net Assets increased by the same amount to $139.956m. Reasons for major line item movements included:

- improved cash position of $1.599m. Refer to the Statement of Cash Flows section of this Chapter for further explanation
- a decrease in Receivables of $0.187m due to a significant reduction in rates debtors
- a rise in Payables of $0.354m due to a number of large capital expenditure invoices received in June 2012
- increase in Property, plant and equipment of $17.498m attributable to upward revaluation movements, $18.932m, additions, $1.641m, offset by depreciation charges, $2.997m, and asset disposals, $0.050m
- a rise in total employee benefit provisions, $0.101m, mainly resulting from an increase in on-costs applied to annual, long service and sick leave balances, which had been understated in the prior year.

## STATEMENT OF CASH FLOWS

| | 2012-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 4 055 | 3 577 | 4 477 |
| Cash flows from government | 2 713 | 1 922 | 1 484 |
| Payments to suppliers and employees | (4 489) | (4 576) | (4 701) |
| Interest & Distrubutions received | 369 | 320 | 222 |
| **Cash from operations** | **2 648** | **1 243** | **1 482** |
| Capital grants and contributions | 527 | 121 | 410 |
| Payments for property, plant and equipment | (1 642) | (1 124) | (1 625) |
| Proceeds from sale of property, plant and equipment | 66 | 119 | 140 |
| **Cash (used in) investing activities** | **(1 049)** | **(884)** | **(1 075)** |
| **Net increase in cash** | **1 599** | **359** | **407** |
| Cash at the beginning of the year | 6 882 | 6 523 | 6 116 |
| **Cash at end of the year** | **8 481** | **6 882** | **6 523** |

## Comment

At 30 June 2012, Council held Cash and financial assets of $8.481m (2011, $6.882m), comprised of cash at bank and on hand, $1.886m, and short-term and at call deposits, $6.595m. Council's cash position improved $1.599m during 2011-12.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $1.405m to $2.648m which included:

- Council's operating deficit of $1.534m adjusted for depreciation, $3.026m, a non-cash item, providing $1.492m in operating cash inflows
- net Financial assistance grants provided in advance of $0.481m
- the positive cash flow impact of lower Receivables and higher Payables at 30 June 2012 of $0.541m.

Payments for property, plant and equipment totalled $1.642m with $0.826m spent on roads, $0.215m on bridges and $0.412m on replacement plant and equipment, $0.308m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Net Operating (deficit) ($'000s) | | (1 534) | (1 582) | (3 638) | (3 507) |
| Operating surplus ratio * | > 0 | (25.48) | (28.54) | (65.06) | (59.51) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 53% | 38% | 24% | 31% |
| Asset renewal funding ratio* ** | 90% - 100% | n/a | n/a | n/a | n/a |
| Road asset consumption ratio * | >60% | 80.1% | 71.2% | 72.9% | 76.2% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 7 526 | 6 589 | 6 189 | 5 632 |
| Net financial liabilities ratio * *** | 0 - (50%) | 123.7% | 118.8% | 110.7% | 95.6% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 15.37 | 37.62 | 35.51 | 33.59 |
| Current ratio | 1:1 | 7.40 | 10.51 | 10.10 | 8.33 |
| Asset investment ratio | >100% | 54% | 39% | 35% | 49% |
| Self financing ratio | | 43.5% | 22.4% | 26.5% | 38.3% |
| Own source revenue | | 62.7% | 64.7% | 66.1% | 67.3% |
| Debt collection | 30 days | 32 | 55 | 49 | 35 |
| Creditor turnover | 30 days | 44 | 25 | 18 | 16 |
| Rates per capita ($) | | 1 194 | 1 141 | 1 092 | 1 217 |
| Rates to operating revenue | | 46.1% | 48.3% | 45.3% | 47.8% |
| Rates per rateable property ($) | | 763 | 729 | 694 | 779 |
| Operating cost to rateable property ($) | | 2 078 | 1 940 | 2 532 | 2 599 |
| Employee costs expensed ($'000s) | | 1 713 | 1 583 | 1 536 | 1 684 |
| Employee costs capitalised ($'000s) | | 115 | 94 | 7 | 218 |
| **Total employee costs ($'000s)** | | **1 828** | **1 677** | **1 543** | **1 902** |
| Employee costs as a % of operating expenses | | 22% | 22% | 17% | 18% |
| Staff numbers (FTEs) | | 29 | 28 | 27 | 32 |
| Average staff costs ($'000s) | | 63 | 60 | 57 | 59 |
| Average leave balance per FTE ($'000s) | | 23 | 20 | 20 | 20 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** Information not available to calculate ratio.*

**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive, as is the case with Central Highlands Council, liquid assets exceed total liabilities.*

## Comment

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

Liquidity and Current ratios were above benchmark in all four years under review indicating a sound ability to meet short-term commitments.

Council's positive Self financing ratio indicates it was generating operating cash flows which were contributing towards its capital expenditure programs. The reduction in the 2009-10 ratio mainly related to the loss of water and sewerage rating income. Own source revenue shows Council generated the majority of its operating revenue from its own sources, around 63%.

Debt collection improved this year due to a concerted effort to reduce rate debtors. The increase in 2010-11 mainly related to higher rates outstanding.

Rates per rateable property were consistent with prior years as was the percentage of Rates to Operating revenue.

Total employee cost showed a decrease in 2009-10 due to the transfer of employees to Southern Water.

# CIRCULAR HEAD COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012, re-signed on the 27 September 2012 and an unqualified audit report was issued on 28 September 2012.

The audit was completed satisfactorily with no major items outstanding.

## KEY FINDINGS AND DEVELOPMENTS

### Resource Sharing Arrangements

Council entered into a resource sharing agreement in December 2008 with Waratah-Wynyard Council to share the services of a General Manager. The arrangement was expanded to include other shared employees as positions became available or opportunities were identified. Council entered into the Resource Sharing arrangement with the aim of enabling continual improvement in areas such as asset management, risk and human resources which support Council's future strategic objectives, to ensure Council continues to attract and keep quality staff, provide succession planning and extend service provision that would not be viable on an individual council basis. The arrangement enabled Council to better progress asset management planning, address business risks and improve human resource practices.

A Resource Sharing Committee comprising three Councillors from each Council was established to identify opportunities to improve services and manage the resource sharing arrangements.

An outcome of these arrangements is that the two Councils have formed a Business Strategy Unit (BSU) that is tasked with the primary objectives of progressing outcomes of each Council's five year Strategic Plans and facilitating special projects. The Unit also investigates opportunities to further the strategic intent of each Council or allow each Council to think outside the square and initiate a 'new way of doing things' for the community.

At 30 June 2012 there were 14 (2011, 12) resource shared positions with 8 (6) employed by Circular Head Council and 6 (6) employees employed by Waratah-Wynyard Council.

## FINANCIAL RESULTS

Our analysis shows that Council generated a Net Operating Deficit before net interest earned of $0.909m in 2011-12, (2010-11, $0.439m). After accounting for net interest earned, Council generated a Net Operating Deficit of $0.453m, (surplus, $0.118m). This highlights the importance to Council of interest earned on its cash and investment balances which averaged $0.574m over the past three years.

Council reported a Net Surplus of $2.731m, (2010-11, $0.916m), and a Comprehensive surplus of $4.598m, ($28.660m). The Comprehensive surplus included asset revaluation increments, $1.843m, ($27.705m), and net fair value adjustments to Council's interest in Cradle Mountain Water, $0.024m, ($0.039m).

Consistent with its Comprehensive surplus of $4.598m, Council's Net Assets increased to $147.791m, from $143.193m in the previous year. As at 30 June 2012, Council had Net Working Capital of $10.483m, up from $7.900m, due mainly to higher cash holdings.

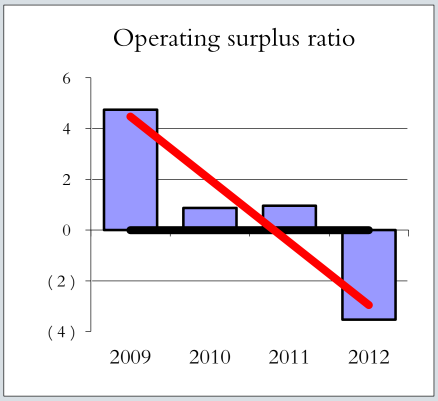
## Assessment of financial sustainability

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

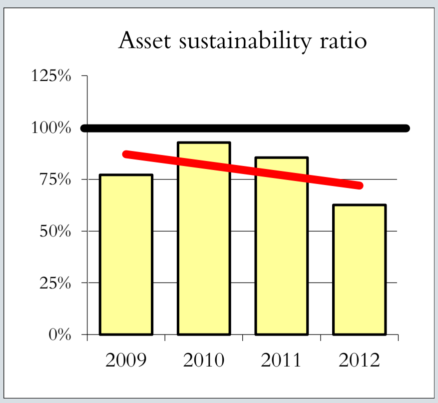
### Relevant financial sustainability ratios

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

In general, the ratios indicate:



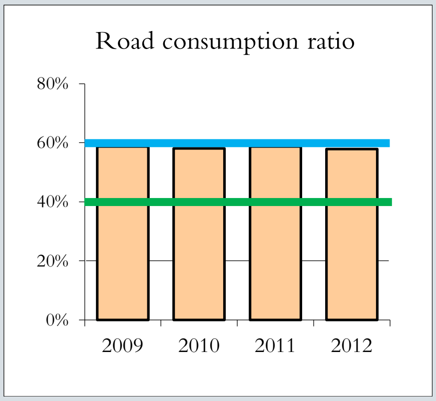

The deficit from operations resulted in a negative ratio in 2011-12, which indicates that Council did not generate sufficient revenue to fulfil its operating requirements, including depreciation charges in that financial year. This is in contrast to positive operating ratios in the three previous years. The significant decline in 2010 was most likely due to the transfer of Council water and sewerage activities.




The asset sustainability ratio was below benchmark in each of the four years under review, dropping to 63% in 2011-12. This indicates, subject to levels of maintenance expenditure, the long-term asset management plan, and based on our 100% benchmark, Council was under investing in existing assets.

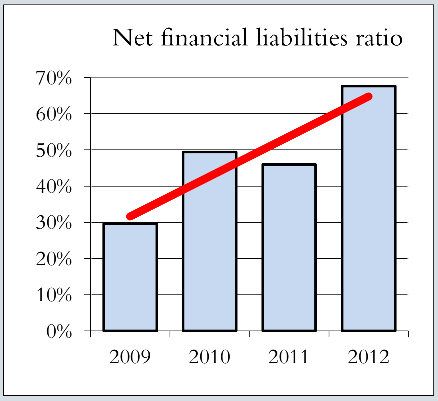
## Asset renewal funding ratio

Council's long-term Asset management plan indicated the asset renewal funding ratio was 139% at 30 June 2012, based on planned asset replacement expenditure. The ratio is well above our benchmark of 90% to 100%. Council's current plan forecasts intended and required renewal expenditure to 2029-30 and covers transport infrastructure, stormwater, solid waste, building and recreation assets.




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

The graph indicates at 30 June 2012 Council had used (consumed) approximately 42% of the service potential of its road assets. Based on our benchmark, this indicates moderate financial sustainability risk.




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

### Governance

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

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

## Conclusion as to financial sustainability

From a financial operating perspective, Council incurred an operating deficit in 2011-12 but operating surpluses in each of the previous three years. Over the four year period Council's average ratio was 0.76.

Asset sustainability ratio indicates Council, based on our 100% benchmark, under invested in existing assets in each of the past four years. While its road asset consumption ratios indicated that there was sufficient capacity to continue to provide services to its ratepayers.

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

Council does not have an audit committee. It is investigating the future introduction of an Audit Committee. It is in the process of finalising a financial management plan. It is anticipated that the plan will be adopted in December 2012. Council has a long-term asset management plan.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at moderate risk from a governance, asset management and operating perspective and low risk from a net financial liabilities perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## Statement of Comprehensive Income

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 6 481 | 6 554 | 6 219 | 5 933 |
| Fees and charges | 1 770 | 1 697 | 1 752 | 1 904 |
| Grants ** | 2 949 | 2 919 | 2 679 | 2 904 |
| Other revenue | 755 | 1 065 | 1 099 | 497 |
| **Total Revenue** | **11 955** | **12 235** | **11 749** | **11 238** |
| Employee costs | 4 541 | 4 024 | 3 958 | 3 417 |
| Depreciation | 2 460 | 3 130 | 2 579 | 2 419 |
| Other expenses | 5 894 | 5 990 | 5 651 | 5 810 |
| **Total Expenses** | **12 895** | **13 144** | **12 188** | **11 646** |
| **Net Operating (Deficit) before** | **(940)** | **(909)** | **(439)** | **(408)** |
| Finance costs | (90) | (131) | (33) | (34) |
| Interest revenue | 400 | 587 | 590 | 545 |
| **Net Operating Surplus (Deficit)** | **(630)** | **(453)** | **118** | **103** |
| Capital grants | 1 500 | 2 767 | 347 | 2 015 |
| Financial assistance grant received in advance ** | 0 | 1 235 | 633 | 631 |
| Offset Financial assistance grant in advance ** | 0 | (633) | (631) | (650) |
| Unrealised gain on investment | 0 | 0 | 0 | 134 |
| Impairment on investments | 0 | (185) | 271 | 0 |
| Recognition of assets | 0 | 0 | 178 | 149 |
| **Net Surplus** | **870** | **2 731** | **916** | **2 382** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 1 843 | 27 705 | 0 |
| Fair value initial adjustment in Cradle Mountain Water | 0 | 0 | 0 | (1 965) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | (65) | 0 |
| Current year fair value adjustment Cradle Mountain Water | 0 | 24 | 104 | 0 |
| **Total comprehensive income items** | **0** | **1 867** | **27 744** | **(1 965)** |
| **Comprehensive Surplus** | **870** | **4 598** | **28 660** | **417** |

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

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing costs of $0.909m, compared to a deficit of $0.439m in the prior year, worse by $0.470m. The poorer result was mainly due to:

- higher Depreciation expense, $0.551m, due to the impact of transport infrastructure assets revalued in 2010-11
- higher Other expenses, $0.339m, due predominantly to an increase in consultancy costs of $0.254m, partially offset by
- higher Grants received, $0.240m, with additional funding provided for broadband and digital communications. At 30 June 2012 these funds had not all been expended
- increased Rates revenue of $0.335m, consistent with rate increases approved by Council in June 2011.

After accounting for net interest revenues, Council achieved a Net Operating Deficit of $0.453m, (2010-11 Surplus, $0.118m). Interest revenue remained a significant source of income for Council averaging $0.574m per annum over the past three years.

After Capital grants, Impairment on investments and the impact of financial assistance grants received in advance, Council achieved a Net Surplus of $2.731m in 2011-12. Capital grants included receipt of $1.500m for the upgrade of Harcus River Road in June 2012. The impairment related to the reduction in market valuation of Council's remaining Collateralised Debt Obligation (CDO) asset.

Other Comprehensive income totalled $1.867m in 2011-12, comprising:

- fair value revaluation of non-current assets of $1.843m related to transport infrastructure and land and buildings
- an increase in Council's investment in Cradle Mountain Water of $0.024m, being Council's 0.68% interest in net assets of the Corporation.

Council budgeted for a Net Operating Deficit of $0.630m, which was $0.177m below the actual Net Operating Deficit of $0.453m. The improved result included additional other revenue, $0.310m, and interest, $0.187m, offset by higher expenses, $0.249m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash | 11 338 | 8 951 | 6 924 |
| Financial assets | 96 | 281 | 510 |
| Receivables | 841 | 633 | 563 |
| Inventories | 152 | 182 | 133 |
| Other | 48 | 67 | 84 |
| **Total Current Assets** | **12 475** | **10 114** | **8 214** |
| Payables | 903 | 1 200 | 990 |
| Borrowings | 384 | 361 | 100 |
| Provisions - employee benefits | 705 | 653 | 586 |
| **Total Current Liabilities** | **1 992** | **2 214** | **1 676** |
| **Net Working Capital** | **10 483** | **7 900** | **6 538** |
| Property, plant and equipment | 116 705 | 115 078 | 86 314 |
| Investment in Cradle Mountain Water | 22 215 | 22 191 | 22 153 |
| Other | 0 | 0 | 23 |
| **Total Non-Current Assets** | **138 920** | **137 269** | **108 490** |
| Borrowings | 1 450 | 1 834 | 395 |
| Provisions - employee benefits | 162 | 142 | 100 |
| **Total Non-Current Liabilities** | **1 612** | **1 976** | **495** |
| **Net Assets** | **147 791** | **143 193** | **114 533** |
| Reserves | 55 873 | 53 980 | 26 086 |
| Accumulated surpluses | 91 918 | 89 213 | 88 447 |
| **Total Equity** | **147 791** | **143 193** | **114 533** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $4.598m at 30 June 2012.

Net Assets increased to $147.791m. Reasons for significant line item movements included:

- increased Cash of $2.387m, explained later in the Statement of Cash Flows section of this Chapter
- Financial assets declined by $0.185m following the redemption of a CDO investment during the year and revised market valuation at 30 June 2012
- Payables decreased by $0.297m comprising lower trade creditors due mainly to timing of project expenditure and lower interest accruals
- lower borrowings of $0.361m, with no new loans in 2011-12
- Property, plant and equipment increased by $1.627m due primarily to the net fair value revaluation for stormwater and transport infrastructure, $1.843m, additions, $2.933m, offset by depreciation, $3.130m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 9 445 | 9 156 | 8 783 |
| Cash flows from government | 3 521 | 2 681 | 2 885 |
| Payments to suppliers and employees | (11 069) | (10 054) | (10 053) |
| Interest received | 587 | 590 | 521 |
| Finance costs | (132) | (28) | (34) |
| **Cash from operations** | **2 352** | **2 345** | **2 102** |
| Capital grants and contributions | 2 767 | 347 | 2 015 |
| Distributions received - Cradle Mountain Water | 531 | 520 | 328 |
| Redemption of Financial Assets | 0 | 500 | 0 |
| Payments for property, plant and equipment | (2 967) | (3 704) | (4 127) |
| Proceeds from sale of property, plant and equipment | 65 | 319 | 892 |
| **Cash from (used in) investing activities** | **396** | **(2 018)** | **(892)** |
| Proceeds from borrowings | 0 | 1 800 | 0 |
| Repayment of borrowings | (361) | (100) | (94) |
| **Cash from (used in) financing activities** | **(361)** | **1 700** | **(94)** |
| **Net increase in cash** | **2 387** | **2 027** | **1 116** |
| Cash at the beginning of the year | 8 951 | 6 924 | 5 808 |
| **Cash at end of the year** | **11 338** | **8 951** | **6 924** |

### Comment

Council's cash position increased $2.387m during the year with Cash from operations of $2.352m, Capital grant contributions of $2.767m, Distributions received of $0.531m and Proceeds from sale of property, plant and equipment, $0.065m, being more than sufficient to fund Payments for property plant and equipment, $2.967m, and Repayment of borrowings, $0.361m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations of $2.352m included:

- Council's Net operating deficit of $0.453m adjusted for depreciation of $3.130m, a non-cash item, providing $2.677m in operating cash inflows
- the net impact of Financial assistance grants in advance, $0.602m, recorded as cash from operations but excluded from the Net operating deficit, offset by
- Distributions received of $0.531m being recorded as investing activites for cash flows purposes.

Capital grants and contributions increased by $2.420m this year which included additional funds from the Department of Economic Development, Tourism and the Arts, $1.500m, for Harcus River Road and $0.967m from the Commonwealth for the Roads to Recovery program. The Harcus River Road funds were unspent at 30 June 2012 leading to higher cash on hand at year end.

The major capital expenditure items in 2011-12 comprised:

- buildings, $0.143m, including the Smithon Skate Park Stage 2, $0.091m
- transport infrastructure, $2.110m, including Beach Road,$0.138m, Grey Street, $0.265, Massey Street, $0.309m, Park Road Togari, $0.786m and bridge replacements, $0.429m
- Parks and Reserves, $0.145m, including Tatlows Beach remedial works, $0.047m
- work in progress, $0.205m, including Trowutta Road Black Spot works, $0.102m.

# FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (453) | 118 | 103 | 701 |
| Operating surplus ratio * | > 0 | (3.53) | 0.96 | 0.87 | 4.75 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 63% | 85% | 93% | 77% |
| Asset renewal funding ratio* ** | 90% - 100% | 139% | n/a | n/a | n/a |
| Road asset consumption ratio * | > 60% | 57.8% | 58.7% | 58.1% | 58.7% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 8 671 | 5 675 | 5 826 | 4 373 |
| Net financial liabilities ratio *** | 0% - (50%) | 67.6% | 46.0% | 49.4% | 29.6% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 9.46 | 6.14 | 6.87 | 4.87 |
| Current ratio | 1:1 | 6.26 | 4.57 | 4.90 | 3.68 |
| Interest Coverage | | 16.82 | 82.75 | 60.82 | 115.93 |
| Asset investment ratio | >100% | 95% | 144% | 158% | 162% |
| Self financing ratio | | 18.3% | 19.0% | 17.8% | 32.5% |
| Own source revenue | | 77.2% | 78.3% | 75.4% | 82.3% |
| Debt collection | 30 days | 37 | 29 | 26 | 23 |
| Creditor turnover | 30 days | 34 | 30 | 20 | 25 |
| Rates per capita ($) | | 793 | 753 | 715 | 919 |
| Rates to operating revenue | | 51.1% | 50.4% | 50.4% | 51.1% |
| Rates per rateable property ($) | | 1 370 | 1 302 | 1 244 | 1 598 |
| Operating cost to rateable property ($) | | 2 775 | 2 558 | 2 449 | 2 977 |
| Employee costs expensed ($'000s) | | 4 024 | 3 958 | 3 417 | 3 273 |
| Employee costs capitalised ($'000s) | | 195 | 124 | 86 | 162 |
| **Total employee costs ($'000s)** | | **4 219** | **4 082** | **3 503** | **3 435** |
| Employee costs as a % of operating expenses | | 30% | 32% | 29% | 23% |
| Staff numbers (FTEs) | | 52 | 56 | 52 | 52 |
| Average staff costs ($'000s) | | 81 | 73 | 67 | 66 |
| Average leave balance per FTE ($'000s) | | 17 | 14 | 13 | 13 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2011-12. Information was not available to calculate this ratio in prior years.*
**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Circular Head Council, liquid assets exceed total liabilities.*

## Comment

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

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

Asset investment ratio was below benchmark in 2011-12 indicating a reduction in the level of capital expenditure in the period. However, over the four year period of review the average ratio was 140%, which is well above benchmark.

Self financing ratio remained relatively consistent across the previous four years, indicating Council generated operating cash flows which contributed towards capital expenditure programs. Own source revenue percentages show Council generated the majority of its operating revenues from its own sources and in 2011-12 was reliant on recurrent grant funding to the extent of 22.8%, (2010-11, 21.7%).

Rates to operating revenue was fairly consistent in all four years under review. Council's other rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Average staff costs increased 7.6% due to pay rises under Council's Enterprise Agreement, 3.6%, combined with a slight reduction in Staff numbers, 3.9%. This resulted in decreased Employee costs as a percentage of operating expenses.

# DORSET COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2012 and an unqualified audit report was issued on 28 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

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

## FINANCIAL RESULTS

Council generated a Net Operating Surplus after net financing revenue of $0.080m in 2011-12 (2010-11, $0.911m). The reduced result was due primarily to higher Other expenses, Depreciation and lower Other revenue offset partly by higher Rates and Grants.

Council achieved a Net Surplus, after Capital grants and grants in advance of $1.445m (2010-11, $3.843m), with the decrease attributable to newly recognised assets of $1.697m in 2010-11. The Comprehensive Surplus of $11.503m ($1.056m) included the net impacts of asset revaluations, $9.950m, and an increase in Council's interest in Ben Lomond Water of $0.108m.

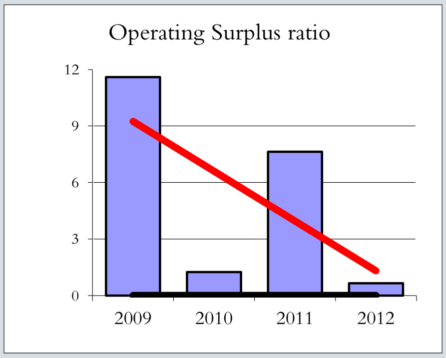
Council's Net Assets increased to $173.057m, up from $161.554m the previous year. As at 30 June 2012 Council had Net Working Capital of $16.193m, up from $14.808m in 2011, due mainly to increased Cash and financial assets of $1.477m.

## Assessment of financial sustainability

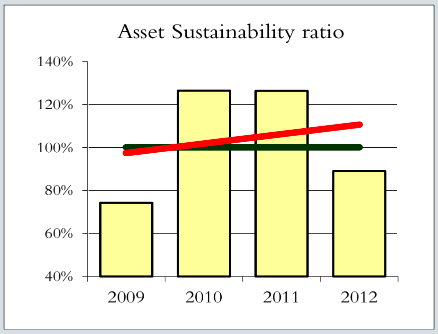
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

### Relevant financial sustainability ratios

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




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

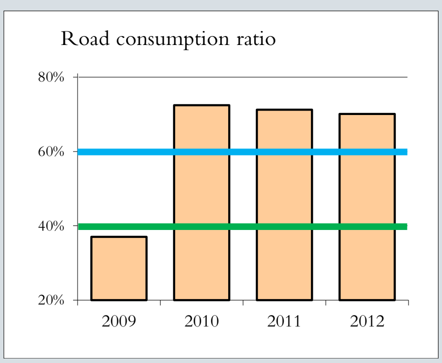



Asset sustainability ratio fluctuated over the four year period. Council's average ratio was 104%, slightly above the benchmark, indicating, subject to levels of maintenance expenditure and the long-term asset management plan, Council maintained its investment in existing assets.

## Asset renewal funding ratio

Council implemented a long-term asset management plan during 2011-12. The plan forecasts planned and required renewal expenditure to 2031-32 and covers transport infrastructure only.

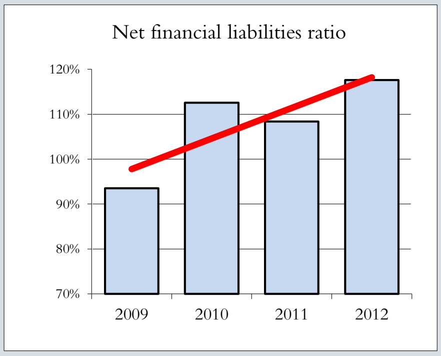
The plan indicates that, based on planned asset replacement expenditure, its asset renewal funding ratio is 58% at 30 June 2012. The ratio was significantly below our benchmark of between 90% and 100%. Council is aware of a $23.316m funding shortfall and is reviewing its long-term financial plan.




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

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 29% of the service potential of its road infrastructure assets.

This indicates a low financial sustainability risk. The improvement in the ratios over the period was primarily due to the revaluation of road assets at 30 June 2010. The revaluation, undertaken by an external engineer, reviewed useful lives and residual values, and resulted in reduction in both the depreciation expense and accumulated depreciation. Overall, at this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers.




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

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

### Governance

A review of governance arrangements indicated that Council does not have an audit committee nor an internal audit function. Council did have a long-term asset management plan for transport infrastructure and a long-term financial management plan covering a ten year period. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's continuing operating surpluses indicated it generated more than sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio averaged 104%, above our 100% benchmark. This indicates Council maintained its investment in existing assets over the past four years. Council's road consumption ratios improved over the four year period, indicating its roads had sufficient capacity to continue to provide services to its ratepayers. However, the Asset renewal funding ratio of 58% indicates Council has a substantial funding gap between its planned and required future asset replacement expenditure.

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

Council does not have an audit committee or internal audit function. These aspects of governance need to be addressed. However, Council does have long-term financial management and asset management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at moderate risk from a governance and asset management perspective but a low financial sustainability risk from an operating and net financial liabilities perspective.

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

Council are currently reviewing capital expenditure limits in its long-term financial plan to improve its Asset renewal funding ratio and to bring net financial liabilities within benchmarks over the life of the plan. This will address the funding gap between planned and required future asset replacement expenditure in roads and bridge and will be included in future versions of those plans.

Council have maintained a position of not having an audit committee, but have maintained a practice of discussing all audit matters with Council during workshops or at Council meetings. Council will consider audit recommendations on establishing an audit committee during the year.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 5 804 | 5 822 | 5 600 | 5 365 |
| Fees and charges | 793 | 882 | 843 | 885 |
| Grants ** | 3 873 | 4 076 | 3 777 | 3 207 |
| Other revenue | 661 | 489 | 770 | 436 |
| **Total Revenue** | **11 131** | **11 269** | **10 990** | **9 893** |
| Employee costs | 3 749 | 3 992 | 3 935 | 3 615 |
| Depreciation | 3 012 | 3 584 | 3 211 | 3 364 |
| Other expenses | 5 135 | 4 530 | 3 844 | 3 511 |
| **Total Expenses** | **11 896** | **12 106** | **10 990** | **10 490** |
| **Net Operating (Deficit) before** | **(765)** | **(837)** | **0** | **(597)** |
| Finance costs | 0 | (21) | (27) | (12) |
| Interest revenue | 630 | 938 | 938 | 742 |
| **Net Operating Surplus (Deficit)** | **(135)** | **80** | **911** | **133** |
| Capital grants | 0 | 595 | 1 197 | 1 339 |
| Financial assistance grant received in advance ** | 0 | 1 522 | 752 | 714 |
| Offset Financial assistance grant in advance ** | 0 | (752) | (714) | (691) |
| Recognition of assets | 0 | 0 | 1 697 | 0 |
| **Net Surplus (Deficit)** | **(135)** | **1 445** | **3 843** | **1 495** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 9 950 | 1 403 | 43 440 |
| Fair value adjustment arising from change in allocation order | 0 | 0 | (4 389) | (5 055) |
| Current year fair value adjustment Ben Lomond Water | 0 | 108 | 199 | 0 |
| **Total Comprehensive Income Items** | **0** | **10 058** | **(2 787)** | **38 385** |
| **Comprehensive Surplus (Deficit)** | **(135)** | **11 503** | **1 056** | **39 880** |

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

## Comment

In 2011–12 Council recorded a Net Operating Deficit before net financing revenues of $0.837m compared to a break-even result in the prior year. The deteriorating result was due to a combination of the following factors:

- additional Other expenses of $0.686m, due to increased electricity, materials and fuel costs, and a greater emphasis on road maintenance during 2011-12
- increased Depreciation of $0.373m, due to the impact of a revaluation of bridge assets undertaken on 1 July 2011, which included a review of useful lives
- lower Other revenue of $0.281m due primarily to a decrease in private works in comparison to 2010-11, offset by

- higher Rates revenue of $0.222m, in line with Council's budgeted increase
- increased Grants revenue of $0.299m, which included State Government Natural Disaster Local Government Relief funding of $0.226m (majority expended in 2010-11).

Council budgeted for a Net Operating Deficit of $0.135m, which was $0.215m below the actual Net Operating Surplus of $0.080m. The improved result from budget included additional revenue from grants, $0.203m, and interest, $0.308m, offset by higher expenses, $0.210m.

After accounting for net interest revenues Council recorded a Net Operating Surplus of $0.080m (2010-11, $0.911m) highlighting the importance of interest revenue to Council's annual operating performance with interest revenue averaging $0.859m per annum over the past four years.

Council recorded a Net Surplus of $1.445m in 2011-12, a decrease of $2.398m from the surplus in 2010-11. The Net Surplus improvement of $1.365m from the Net Operating deficit was mainly attributed to:

- capital grants of $0.595m, which included $0.550m for the Roads to Recovery Project
- higher Financial assistance grants in advance of $0.770m, with the Government paying 50% of the 2012-13 grant to Council in June 2012. In June 2011, Council received 25% of the grant in advance.

Other Comprehensive Income totalled $10.058m and comprised:

- fair value revaluation increment of Council's bridges, $3.025m, and stormwater assets, $1.347m, which were revalued in 2011-12. In addition, road assets were indexed during 2011-12 and increased $5.578m
- an increase in Council's investment in Ben Lomond Water being Council's 3.70% interest in the higher net assets of Ben Lomond Water at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 17 389 | 15 912 | 15 446 |
| Receivables | 682 | 825 | 464 |
| Inventories | 103 | 105 | 84 |
| Other | 253 | 204 | 194 |
| **Total Current Assets** | **18 427** | **17 046** | **16 188** |
| Payables | 333 | 310 | 321 |
| Borrowings | 25 | 95 | 89 |
| Provisions - employee benefits | 1 003 | 947 | 1 057 |
| Provisions - tip rehabilitation | 546 | 560 | 693 |
| Other | 327 | 326 | 214 |
| **Total Current Liabilities** | **2 234** | **2 238** | **2 374** |
| **Net Working Capital** | **16 193** | **14 808** | **13 814** |
| Property, plant and equipment | 139 994 | 129 989 | 125 695 |
| Investment in Ben Lomond Water | 18 349 | 18 241 | 22 431 |
| Other | 2 | 91 | 125 |
| **Total Non-Current Assets** | **158 345** | **148 321** | **148 251** |
| Borrowings | 230 | 255 | 350 |
| Provisions - employee benefits | 61 | 57 | 87 |
| Provisions - tip rehabilitation | 1 190 | 1 263 | 1 130 |
| **Total Non-Current Liabilities** | **1 481** | **1 575** | **1 567** |
| **Net Assets** | **173 057** | **161 554** | **160 498** |
| Reserves | 106 153 | 56 846 | 55 229 |
| Accumulated surpluses | 66 904 | 104 708 | 105 269 |
| **Total Equity** | **173 057** | **161 554** | **160 498** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $11.053m. Net assets increased in 2011-12 by the same amount to $173.057m. Major line item movements included:

- increased Cash of $1.477m which is discussed further in the Statement of Cash Flows section of this Chapter
- decreased Receivables of $0.143m, due to two significant outstanding debts at 30 June 2011 for the Department of Health and Aging and Dorset Economic Development being settled in 2011-12
- increased Property, plant and equipment of $10.005m primarily due to:
    - revaluation increments of $9.950m
    - additions of $3.978m, offset by
    - disposals, $0.339m, and depreciation expense of $3.584m
- an increase in Council's investment in Ben Lomond Water of $0.108m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 7 985 | 7 607 | 7 765 |
| Cash flows from government | 4 743 | 3 815 | 3 230 |
| Payments to suppliers and employees | (8 871) | (8 663) | (7 653) |
| Interest received | 849 | 938 | 742 |
| Finance costs | (21) | (27) | (12) |
| **Cash from operations** | **4 685** | **3 670** | **4 072** |
| Capital grants and contributions | 595 | 1 197 | 1 339 |
| Distributions received - Ben Lomond Water | 67 | 104 | 14 |
| Payments for property, plant and equipment | (4 065) | (4 591) | (6 669) |
| Proceeds from sale of property, plant and equipment | 291 | 175 | 425 |
| **Cash (used in) investing activities** | **(3 112)** | **(3 115)** | **(4 891)** |
| Proceeds from borrowings | 0 | 0 | 300 |
| Repayment of borrowings | (96) | (89) | (62) |
| **Cash from (used in) financing activities** | **(96)** | **(89)** | **238** |
| **Net increase (decrease) in cash** | **1 477** | **466** | **(581)** |
| Cash at the beginning of the year | 15 912 | 15 446 | 16 627 |
| Less cash transferred to Ben Lomond Water | 0 | 0 | (600) |
| **Cash at end of the year** | **17 389** | **15 912** | **15 446** |

### Comment

Council's cash balance at 30 June 2012, $17.389m, comprised cash at bank, cash on hand and term deposits. At 30 June 2012, Council reported that $2.200m of its cash balance was restricted to pay current liabilities. In addition, Council received $1.522m (2010-11, $0.752m) in Financial assistance grants in advance in June 2012 relating to 2012-13. The balance of $13.667m will assist Council's long-term financial plans, which we understand includes funding commitments for future capital expenditure for both the renewal of assets and expansion of facilities.

Council's cash position improved by $1.477m during 2011-12 with Cash from operations, $4.685m, Capital grants and contributions, $0.595m, and Proceeds from sale of property, plant and equipment, $0.291m, being more than sufficient to fund Payments for property, plant and equipment of $4.065m and the Repayment of borrowings, $0.096m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $1.015m to $4.685m which included:

- Council's operating surplus of $0.080m adjusted for depreciation of $3.584m, a non-cash item, providing $3.664m in operating cash inflows
- additional financial assistance grants in advance of $0.770m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011.

Payments for property, plant and equipment of $4.065m included plant purchases of $0.756m and capital expenditure for roads and bridges of $2.197m, mainly on:

- Fullbrooks Road's bridge, Nabowla, $0.164m
- road works at:
    - Westwood Street, Bridport, $0.721m
    - Ellenor Street, Bridport, $0.669m
    - Mathinna Plains Road, Mathinna, $0.116m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 80 | 911 | 133 | 1 541 |
| Operating surplus ratio * | >0 | 0.66 | 11.59 | 1.25 | 11.59 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 89% | 74% | 126% | 74% |
| Asset renewal funding ratio* ** | 90%-100% | 58% | n/a | n/a | n/a |
| Road consumption ratio * | >60% | 70.1% | 71.2% | 72.5% | 37.0% |
| ***Liquidity*** | | | | | |
| Net financial assets ($'000s) | | 14 356 | 12 924 | 11 969 | 12 429 |
| Net financial liabilities ratio * *** | 0-(50%) | 117.6% | 108.4% | 112.5% | 93.5% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 26.38 | 22.90 | 25.50 | 21.37 |
| Current ratio | 1:1 | 8.25 | 7.62 | 6.82 | 9.85 |
| Interest Coverage | | 388.67 | 134.93 | 338.33 | 60.53 |
| Asset investment ratio | >100% | 121% | 143% | 198% | 92% |
| Self financing ratio | | 38.4% | 30.8% | 38.3% | 46.3% |
| Own source revenue | | 66.6% | 68.3% | 69.8% | 74.3% |
| Debt collection | 30 days | 37 | 47 | 27 | 28 |
| Creditor turnover | 30 days | 12 | 12 | 10 | 16 |
| Rates per capita ($) | | 819 | 761 | 727 | 902 |
| Rates to operating revenue | | 47.7% | 46.9% | 50.4% | 49.5% |
| Rates per rateable property ($) | | 1 133 | 1 093 | 1 052 | 1 302 |
| Operating cost to rateable property ($) | | 2 361 | 2 150 | 2 059 | 2 325 |
| Employee costs expensed ($'000s) | | 3 992 | 3 935 | 3 615 | 3 342 |
| Employee costs capitalised ($'000s) | | 370 | 340 | 276 | 267 |
| **Total employee costs ($'000s)** | | **4 362** | **4 275** | **3 891** | **3 609** |
| Employee costs as a % of operating expenses | | 33% | 36% | 34% | 28% |
| Staff numbers (FTEs) | | 60 | 57 | 54 | 54 |
| Average staff costs ($'000s) | | 73 | 76 | 73 | 67 |
| Average leave balance per FTE ($'000s) | | 18 | 18 | 21 | 18 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2011-12. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Dorset Council, liquid assets exceed total liabilities.*

## Comment

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

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

Interest coverage ratios reflect Council's low level of finance costs associated with its borrowings. The unusually high ratio in 2009-10 was due to the transfer of loan debt to Ben Lomond Water on 1 July 2009, with the high ratio in 2011-12 attributable to increased Cash from operations.

Asset investment ratios indicate Council invested strongly in new and existing assets for three of the four years under review. This ratio should be read in conjunction with the Asset sustainability ratio in the Financial Results section of this Chapter.

Self financing ratio fluctuated over the period under review, primarily due to the movement in Cash from operations, as detailed in the Statement of Cash Flows section of this Chapter. Own source revenue was constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2011-12 it was reliant on grant funding to the extent of 33% (2010-11, 32%).

Debt collection days were worse than benchmark for the last two years. The 2010-11 days were affected by several large outstanding balances, as detailed in the Statement of Financial Position section of this Chapter. The ratio improved in 2011-12 and Council is confident that it can recover all amounts that were due at 30 June 2012.

Council's rate statistics are trending upwards and correspond with rate increases over the period under review. Rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Over the period of review there was a consistent margin between Operating cost to rateable property and Rates per rateable property. Together with the Own source revenue ratio, this indicates Council's reliance on non-rate income to assist in funding its operating costs.

Employee costs as a percentage of operating costs have been fairly constant over the past three years. The percentage increased in 2009-10 primarily due to the impact of the transfer of water and sewerage activities.

Average staff costs fluctuated during the period under review. The lower average costs in 2011-12 was primarily due to three new employees engaged towards the end of the year. In addition, during 2010-11 Council reviewed its employee expense costings which resulted in costs previously recorded as other expenditure being included as payroll expenses. Prior period balances were not amended as the impact was assessed as immaterial.

# FLINDERS COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 10 September 2012, with an amended version received on 31 October 2012. An unqualified audit report was issued on 6 November 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Submission Financial Statements

Section 17 (1) of the *Audit Act 2008,* requires financial statements to be submitted to the Auditor-General within 45 days of the end of each financial year.

Council will need to review its year end reporting processes to ensure it complies with the requirements in future.

### Asset Management System

In our last Report, we noted Council maintained asset registers in excel spreadsheets. During 2011-12, Council recorded its road infrastructure assets in an asset management system. It is expected other asset classes will be transferred in 2012-13.

### Revaluation of Assets

As noted in our 2011-12 Report, Council had not undertaken a full revaluation of its road assets since 30 June 2006. Instead, Council had been applying ABS indexation increases to the carrying amount of roads.

We recommended Council update its road valuation based on a full revaluation. During 2011-12, Council undertook a full independent revaluation of road and bridge assets, which included a condition assessment. The revaluation was undertaken by Brighton Council (roads) and TasSpan (bridges). The valuation was at fair value based on replacement cost less accumulated depreciation as at 30 June 2012. The revaluation concluded that the remaining service potential of Council's road assets was high, resulting in the road asset increasing by $35.665m, of which $22.912m related to a decrease in accumulated depreciation.

### Residual values on assets

The revaluation of road assets included the recognition of residual values as follows:

- 50% on roads seals
- 30% on sealed road pavements
- 95% unsealed road pavements.

The implementation of a residual reduces the depreciable amount of an asset resulting in it not being fully depreciated over its life.

We consider the concept of residual values, as it relates to infrastructure assets, ignores the impact of technical or commercial obsolescence over the asset's life. The residual balance should be depreciated on some basis, even if over an extended useful life, to ensure the calculation of depreciation complies with the requirements of AASB 116 Property Plant and Equipment.

As a result of our audit, Council removed the residual of 95% applied to the unsealed pavement asset, but maintained the seal and seal pavement residuals.

We recommended Council review the use of both seal and seal pavement residuals.

## Cape Barren Island Infrastructure

The *Aboriginal Lands Act 1995* vested title in Cape Barren Island, including all road assets on the island to the Aboriginal Land Council of Tasmania. Council had recorded road assets in its financial statements, believing an official transfer order would be provided by the Department of Infrastructure, Energy and Resources and that the transfer could not be affected in absence of this order. The balance at 30 June 2011, prior to any transfer was $0.600m.

During 2011-12, Council determined that it was not responsible for maintaining the Island's road assets, it had no control over the assets and a transfer order would not be issued. Consequently, the assets have been treated as a transfer to the Aboriginal Land Council of Tasmania.

Council determined the transfer represented a restructure of administrative arrangements, with the asset being transferred between two not-for-profit entities. Consequently, the transfer was treated as a return of equity and, therefore, recorded directly to equity, not through the Statement of Comprehensive Income. As a result, Council recognised a change against its equity of $0.600m for the de-recognition of roads and drainage assets on the island.

## Ben Lomond Water – Land transfer

During 2011-12, Council transferred land and buildings to Ben Lomond Water under a vesting order issued by the water corporation. The land and building should have been transferred as part of the initial movement of assets to the water corporation. The amount involved was $0.230m.

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

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $0.324m in 2011-12 (2010-11, $0.607m). We acknowledge this result was considerably better than the estimated deficit of $1.009m and an improvement on the deficit of $0.607m in 2010-11, but continue to hold the view that Council should at least be budgeting for a break-even result. The deficit of $0.324m represented 6.8% (15.2%) of operating revenues (including interest). This situation needs to be addressed by Council.

Council recorded a Net Surplus of $0.047m (2010-11, $0.172m), which was achieved by the recognition of capital grants, $0.269m, additional Financial assistance grants in advance, $0.332m, offset by the removal of assets not controlled, $0.230m. In addition, Council recorded a Comprehensive Surplus of $35.844m ($4.088m), which included the net impact of upward asset revaluations, $35.776m.

Council's Net Assets increased by $35.244m from $51.175m in the previous year to $86.419m at 30 June 2012. At this date, Council had Net Working Capital of $7.755m, slightly up from $7.592m in 2010-11.

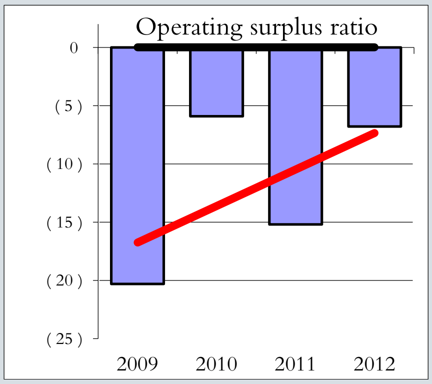
## Assessment of financial sustainability

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

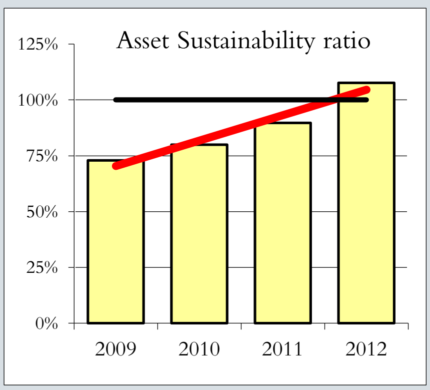
### Relevant financial sustainability ratios

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

In general, the ratios indicate:




Council recorded operating deficits in each of the past four years with the trend line indicating these deficits, while improving, were below benchmark in all years. The negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

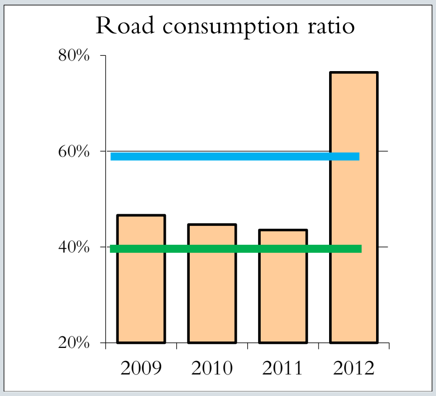



Asset sustainability ratio improved steadily over the period and was above the 100% benchmark in 2011-12. Over the four year period, Council's average ratio was 88%. Council was under investing in existing assets, but the ratio is trending upwards.

## Asset renewal funding ratio

Council's draft long-term asset management plan indicated an asset renewal funding ratio of 56% based on planned asset replacement expenditure over the next 20 years. This compares unfavourably with our benchmark of not less than 90%. Council's asset management plan forecasts expected and required renewal expenditure to 2031-32 and covers transport assets.

It is pleasing Council completed the draft long-term asset management plan during 2011-12. The plan allows Council to identify funding gaps in its asset renewal. With this information, Council will be better able to address its future funding requirements.

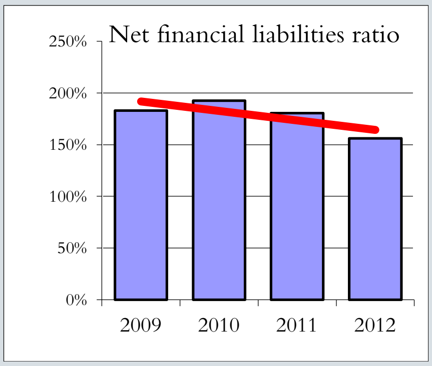



The ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 24% of its road assets indicating that, at that point in time, the remaining service potential was relatively high.

The significant increase in the 2011-12 ratio was due to:

- Council revaluing its road assets at 30 June 2012. A condition assessment of roads found the majority of assets were in a good condition, especially unsealed roads, which are subject to regular re-sheeting
- the impact of residuals on roads seals and pavements (as noted in the Key findings and development section of this Chapter).




Council's positive net financial liabilities ratios indicated a strong liquidity position, whereby Council is able to meet all existing commitments.

Council's total liabilities consist of payables, employee provisions and a quarry reinstatement provision. It had no borrowings in the period under review.

### Governance

A review of Council's governance arrangements indicated Council has recently established an Audit and Finance Committee. The Committee met in July 2012 to determine its terms of reference, which will include long-term financial planning and investment strategies.

The Committee comprises 5 members which include three councillors, an independent Community representative and the Corporate Service Manager.

There is currently no intention to extend the Committee's role to include an internal audit function.

During 2011-12, Council completed a draft long-term asset management plan. The plan covers the period 2012-13 to 2031-32 and addresses transport assets. In addition, Council has prepared a draft long-term financial plan covering a ten year period to 2022. Neither plan has been formally adopted by Council.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating deficit in each of the four years under review.

The Asset sustainability ratio indicates Council, based on our 100% benchmark, underinvested in existing assets over the past four years although levels of investment improved. Council's Road consumption ratios increased and at 30 June 2012, there was a low risk to the service potential of road assets. Council has calculated an Asset renewal funding ratio of 56%, well below our 90% benchmark, which identified a significant funding gap at 30 June 2012.

However, Council's Net financial liabilities ratio was positive and it had no debt indicating that at 30 June 2012 it was in a position to meet short-term commitments and had capacity to borrow should the need arise.

Council does have a draft long-term asset management plan and draft long-term financial plan. It also established an Audit and Finance Committee, but does not have an active internal audit function.

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council was at high financial sustainability risk from an operating, moderate risk from governance and asset management perspectives, but low risk from a net financial liabilities perspective.

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

Flinders Council generally accepts the assessment provided and appreciates the Auditor General recognising the continued efforts of Council to improve its governance systems, asset and financial management planning and the implementation of recommendations from preceding assessments.

Council is however at odds with the position outlined relating to residual values on sealed and unsealed road pavements. Following revaluations of infrastructure and detailed re-assessments of asset condition and expected useful lives, as occurred during the financial year, Council does not agree that the unsealed pavement should have nil residual value over the life of the asset.

Council has calculated that the reconstruction of an existing sealed pavement at the end of its useful life costs 30% less than the construction of new pavement. This indicates that a clear residual value exists in the remaining sealed pavement that has not been consumed at end of the assets useful life. Resealing a road costs on average 50% less than sealing a newly constructed road - indicating a residual value in the order of 50%. An unsealed road pavement is rarely, if ever reconstructed, except in the case where isolated small sections are damaged and replaced. The cyclical gravel surface asset (which has a nil residual) is applied to the unsealed pavement and inadvertently ensures that the top layer of pavement is compacted (due to vehicular traffic) with new material each time it is resurfaced (every 5 years). Hence, Council's position is that on average only 5% of each unsealed road pavement will require replacement over the asset useful life – hence a 95% residual value remains.

The assumption that 100% of all road assets will be obsolete in the next 100 years is not based on any factual reality and when applied as recommended, creates an approach at odds with the engineered condition or long term serviceability of the asset. When this approach is applied across a large quantity of unsealed roads, it creates a false and unrealistic expectation of the capital investment required to maintain or renew the asset over the short and long term. This in effect, compromises long term financial and asset management plans by artificially corrupting the data used to base these important strategies on.

The apparent disconnect between an engineering based assessment of assets and their inherent serviceable life cycle with the current accounting standards and their application, is a serious concern that will require attention and discussion between Council and the Auditor General in the period ahead.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 1 221 | 1 221 | 1 142 | 1 041 |
| Fees and charges | 688 | 918 | 732 | 809 |
| Grants ** | 1 375 | 2 220 | 1 606 | 1 582 |
| Other revenue | 67 | 41 | 99 | 24 |
| **Total Revenue** | **3 351** | **4 400** | **3 579** | **3 456** |
| Employee costs | 1 518 | 1 496 | 1 381 | 1 203 |
| Depreciation | 1 426 | 1 446 | 1 421 | 1 412 |
| Other expenses | 1 688 | 2 153 | 1 801 | 1 431 |
| **Total Expenses** | **4 632** | **5 095** | **4 603** | **4 046** |
| **Net Operating (Deficit) before** | **(1 281)** | **(695)** | **(1 024)** | **(590)** |
| Interest revenue | 272 | 371 | 417 | 364 |
| **Net Operating Surplus (Deficit)** | **(1 009)** | **(324)** | **(607)** | **(226)** |
| Capital grants | 278 | 269 | 284 | 215 |
| Financial assistance grant received in advance ** | 0 | 630 | 298 | 281 |
| Offset Financial assistance grant received in advance ** | 0 | (298) | (281) | (255) |
| Assets not previously recognised | 0 | 0 | 478 | 0 |
| Removal of assets not controlled | 0 | (230) | 0 | 0 |
| **Net Surplus (Deficit)** | **(731)** | **47** | **172** | **15** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 35 776 | 1 928 | 4 555 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | 0 | 319 |
| Fair value adjustment arising from change in allocation order | 0 | 0 | 1 950 | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 21 | 38 | 0 |
| **Total comprehensive income items** | **0** | **35 797** | **3 916** | **4 874** |
| **Comprehensive Surplus (Deficit)** | **(731)** | **35 844** | **4 088** | **4 889** |

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

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenues of $0.695m, compared to a deficit of $1.024m in the prior year, an improvement of $0.329m, and better than budget by $0.586m. The lower deficit was predominantly due to:

- a general increase in rates income of $0.079m
- higher Fees and charges of $0.186m, mainly due to:
  - Council undertaking works on behalf of Ben Lomond Water to install water meters on the Island, $0.047m
  - higher airport fees, $0.029m
  - additional private work income from DIER, $0.043m, and work on a private airport strip, $0.065m
- additional grant revenue, mainly due to $0.226m for Cape Barren Island airstrip upgrade and a grant of $0.195m to purchase a property at Lady Barron to enable an upgrade to the port facilities, partially offset by
- higher Employee costs, $0.115m, primarily due to a 3.5% Enterprise Agreement increase and Council recognising a sick leave provision under the Agreement, $0.052m, during the year that was fully expensed
- increased Other expenses, $0.352m, mainly due to:
  - the installation of water meters on the Island for Ben Lomond Water
  - the purchase of a property at Lady Barron costing $0.166m to enable an upgrade to the port facilities, referred to earlier
  - an independent engineering evaluation of the airport's existing pavement strength, $0.082m
  - the completion of a sustainable energy plan, $0.087m
  - work undertaken on the Cape Barren Island airstrip, $0.095m.

Council achieved a Net Operating Deficit of $0.324m (2010-11, $0.607m). Interest revenue remained a significant source of income for Council averaging $0.397m per annum over the past four years.

Excluding non-operating items, Council budgeted for a Deficit of $1.009m, which was $0.685m lower than the actual deficit of $0.324m. The improved result was mainly due to additional grant revenue, offset by higher Other expenses. The reason for these movements has been noted.

After Capital grants, $0.269m, Financial assistance grants in advance, $0.332m, offset by the removal of assets not controlled of $0.230m, Council produced a Net Surplus of $0.047m in 2011-12.

Other Comprehensive income totalled $35.797m in 2011-12 comprising:

- fair value revaluation of non-current assets of $35.776m which represented roads and bridges
- Council's 0.70% interest, $0.021m, in the increased net assets of Ben Lomond Water at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and cash equivalents | 3 577 | 1 777 | 1 177 |
| Financial assets | 4 213 | 6 057 | 6 703 |
| Receivables | 370 | 115 | 125 |
| Inventories | 90 | 89 | 85 |
| Other | 57 | 65 | 44 |
| **Total Current Assets** | **8 307** | **8 103** | **8 134** |
| Payables | 24 | 33 | 203 |
| Provisions - employee benefits | 268 | 151 | 134 |
| Other | 260 | 327 | 95 |
| **Total Current Liabilities** | **552** | **511** | **432** |
| **Net Working Capital** | **7 755** | **7 592** | **7 702** |
| Property, plant and equipment | 75 270 | 40 262 | 38 135 |
| Investment in Ben Lomond Water | 3 472 | 3 451 | 1 463 |
| Other | 84 | 93 | 12 |
| **Total Non-Current Assets** | **78 826** | **43 806** | **39 610** |
| Provisions - employee benefits | 32 | 33 | 60 |
| Provisions - Quarry pit reinstatement | 130 | 190 | 165 |
| **Total Non-Current Liabilities** | **162** | **223** | **225** |
| **Net Assets** | **86 419** | **51 175** | **47 087** |
| Reserves | 46 923 | 12 153 | 10 505 |
| Accumulated surpluses | 39 496 | 39 022 | 36 582 |
| **Total Equity** | **86 419** | **51 175** | **47 087** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $35.844m during 2011-12. This, along with the $0.600m reduction in equity resulting from the decision to remove road assets associated with Cape Barren Island, resulted in equity of $86.419m at 30 June 2012.

Major line item movements in Net Assets included:

- increased Cash and cash equivalents, $1.800m, and decreased Financial assets, $1.844m, which are both discussed further in the Statement of Cash Flows section of this Chapter
- higher Receivables of $0.255m, mainly due to several larger debts outstanding at balance date, for which payment was subsequently received
- higher current Provisions – employee benefits of $0.117m, primarily due to Council recognising a sick leave provision of $0.052m and applying on-costs to the leave calculation, in full, for the first time at 30 June 2012
- increased Property, plant and equipment, $35.008m, due to revaluation of roads and bridges, $35.776m and additions, $1.560m, offset by Depreciation, $1.437m, disposals, $0.290m, and the transfer of Cape Barren Island infrastructure, $0.600m

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 2 267 | 2 084 | 2 319 |
| Cash flows from government | 2 412 | 1 666 | 1 608 |
| Payments to suppliers and employees | (3 915) | (3 349) | (2 793) |
| Interest received | 378 | 395 | 344 |
| **Cash from operations** | **1 142** | **796** | **1 478** |
| Capital grants and contributions | 269 | 332 | 215 |
| Redemption of financial assets | 1 845 | 646 | 0 |
| Purchase of financial assets | 0 | 0 | (2 185) |
| Payments for property, plant and equipment | (1 556) | (1 274) | (1 129) |
| Proceeds from sale of property, plant and equipment | 68 | 71 | 0 |
| Distributions from Ben Lomond Water | 32 | 29 | 24 |
| **Cash from (used in) investing activities** | **658** | **(196)** | **(3 075)** |
| **Net increase (decrease) in cash** | **1 800** | **600** | **(1 597)** |
| Cash at the beginning of the year | 1 777 | 1 177 | 2 774 |
| **Cash at end of the year** | **3 577** | **1 777** | **1 177** |

### Comment

At 30 June 2012, Council held cash and cash equivalents of $3.577m, comprising cash at bank and on hand, $2.058m, and deposits on call, $1.519m. In addition, it held $4.213m in longer term investments. Council's cash position improved by $1.800m during 2011-12, but was offset by a $1.844m decrease in its investment balance. Overall, at 30 June 2012 Council held $7.790m in cash and investments. The significant cash balance will fund Council's asset replacement reserves of $4.280m. Council also holds trust funds of $0.106m, bonds of $0.059m and grants in advance of $0.630m.

Cash from operations, $1.142m, Capital grants and contributions, $0.269m, and Proceeds from the sale of property, plant and equipment, $0.068m, part-funded Payments for property, plant and equipment, $1.556m. The Redemption of financial assets, $1.845m, was the primary reason for the improved cash balance at year-end.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.346m to $1.142m which included:

- Council's operating deficit of $0.324m adjusted for Depreciation of $1.446m, a non-cash item, providing, $1.122m, in operating cash inflows
- the net impact of Financial assistance grants in advance, $0.332m, recorded as Cash from operations but excluded from the net operating deficit, offset by
- cash inflows from Ben Lomond Water, $0.032m, recorded as an investing activity for cash flow purposes
- the impact of higher Receivables of $0.255m at 30 June 2012.

Payments for property, plant and equipment of $1.556m mainly comprised:

- reseal and sheeting of roads, $0.350m
- bridge reconstruction, $0.176m
- fleet purchases, $0.250m
- upgrade Whitemark hall, $0.230m
- Airport reseal main runway, $0.334m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | (324) | (607) | (226) | (767) |
| Operating surplus ratio * | >0 | -6.79 | -15.19 | -5.92 | -20.32 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 108% | 90% | 80% | 73% |
| Asset renewal funding ratio* ** | 90%-100% | 56.0% | n/a | n/a | n/a |
| Road asset consumption ratio * | >60% | 77.8% | 39.0% | 40.5% | 41.9% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($000s) | | 7 446 | 7 215 | 7 348 | 6 905 |
| Net financial liabilities ratio * *** | 0%-(50%) | 156.1% | 180.6% | 192.4% | 183.0% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 13.52 | 10.28 | 4.37 | 32.51 |
| Current ratio | 1:1 | 15.05 | 15.86 | 18.83 | 22.22 |
| Asset investment ratio | >100% | 108% | 90% | 80% | 73% |
| Self financing ratio | | 23.9% | 19.9% | 38.7% | 31.6% |
| Own source revenue | | 53.5% | 59.8% | 58.6% | 57.4% |
| Debt collection | 30 days | 63 | 22 | 25 | 32 |
| Creditor turnover | 30 days | 21 | 22 | 25 | 24 |
| Rates per capita ($) | | 1 519 | 1 269 | 1 161 | 1 168 |
| Rates to operating revenue | | 25.6% | 28.6% | 27.3% | 28.0% |
| Rates per rateable property ($) | | 1 050 | 1 022 | 945 | 979 |
| Operating cost to rateable property ($) | | 4 381 | 4 121 | 3 672 | 4 201 |
| Employee costs expensed ($'000s) | | 1 496 | 1 381 | 1 203 | 1 150 |
| Employee costs capitalised ($'000s) | | 105 | 62 | 56 | 32 |
| **Total employee costs ($'000s)** | | **1 601** | **1 443** | **1 259** | **1 182** |
| Employee costs as a % of operating expenses | | 29% | 30% | 30% | 25% |
| Staff numbers (FTEs) | | 20 | 20 | 20 | 19 |
| Average staff costs ($'000s) | | 80 | 73 | 64 | 62 |
| Average leave balance per FTE ($'000s) | | 15 | 9 | 10 | 8 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *New ratio in 2011-12. Information not obtained or available to calculate prior years ratios.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Flinders Council, liquid assets exceed total liabilities.*

## Comment

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

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

Council's Asset investment ratio mirrors the Asset sustainability ratio because there has not been any expenditure on new assets over the four-year period. The ratio was below benchmark in the first three years under review but moved above benchmark in 2011-12. Although the ratio is improving, an average ratio of 88%, suggests Council may have been under investing in new and existing assets although not significantly.

Self financing ratio fluctuated over the period due to movements in net operating cash flows as outlined in the Statement of Cash Flows section of this Chapter. Own source revenue was constant over the period, with Council generating approximately 54% of its operating revenue from its own sources, such as rates, fees and charges. Council has a high degree of reliance on grant funding.

Debt collection was worse than benchmark in 2011-12 due to a number of larger invoices unpaid at 30 June 2012. Creditor turnover was better than benchmark in all years under review reflecting Council's policy of paying outstanding creditors within a 30 day period.

Rates per capita increased in 2011-12, with the population on the Island decreasing in 2011-12. Over the period of review there was a consistent margin between Operating cost to rateable property and Rates per rateable property. Together with the Own source revenue ratio, this indicates Council's reliance on non-rate income to assist in funding its operating costs.

Employee costs as a percentage of operating expenses remained fairly stable, as no employees were transferred to Ben Lomond Water.

The increase in Average staff costs in 2011-12 was due to:

- additional employee costs incurred at Flinders Island Airport related to birds nesting and settling on the runway
- Council seeking to move to a certified airport under the Civil Aviation Safety Authority's regulations
- redundancy costs related to the termination of an employee.

The increase in Average staff costs for 2011-12 included a 3.5% Enterprise Agreement increase and Council recognising a sick leave provision of $0.052m during the year that was fully expensed. Average leave balances increased in 2012 due to the recognition of the sick leave provision, a liability for rostered days off and the recognition of all leave on-costs for the first time.

# GEORGE TOWN COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 28 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Validity of rates

In August 2011, applications were made to the Supreme Court against Council seeking judical review of the rates resolution made for the 2011-12 financial year.

On 8 August 2012, the Court determined that the applications against Council were dismissed and orders were made requiring the applicants to pay Council's legal costs. Council's lawyers are pursuing execution of costs orders in this matter with the Court and the other party's solicitors. Council are hopeful the costs will recovered during the 2012-13 financial year.

The audit was completed satisfactorily with no major items outstanding

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.386m this year (2010-11, Deficit $0.651m). The 2011-12 result is particularly encouraging due, in the main, to lower operating costs and an 11.8% increase rates revenue. It was also pleasing to note Council budgeted for a Net Operating Surplus.

Council achieved a Net Surplus of $1.549m (2010-11, $0.438m) and a Comprehensive Surplus of $9.662m ($2.278m). The Comprehensive Surplus included the net impacts of non-current asset fair value revaluations of $7.987m and a gain in Council's interest in Ben Lomond Water by $0.126m.

Consistent with the Comprehensive Surplus of $9.662m, Council's Net Assets increased to $112.632m, up from $102.970m the previous year. As at 30 June 2012, Council had Net Working Capital of $5.338m, up from $3.763m in 2011, due mainly to increased Cash and financial assets of $1.647m.

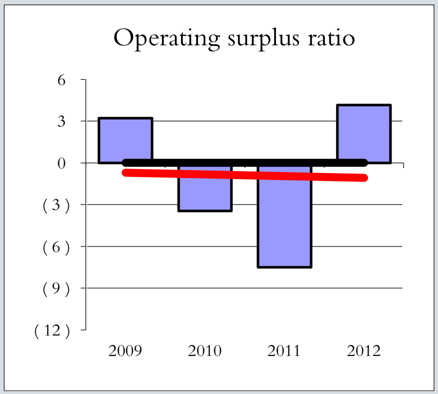
### Assessment of financial sustainability

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

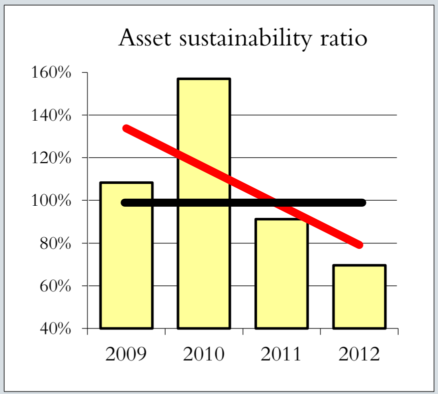
#### Relevant financial sustainability ratios

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

In general, the ratios indicate:



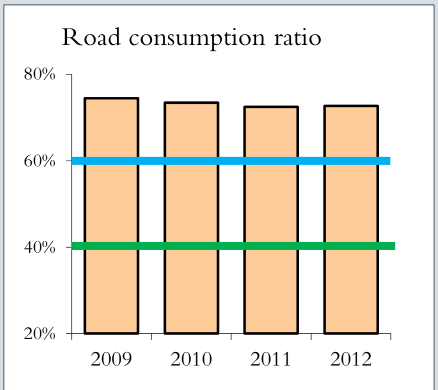

Council recorded an average Operating surplus ratio of 0.90% (average deficit, $0.054m) in the four years under review. Overall, negative Operating surplus ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including depreciation charges. However, the result in 2011-12 was positive and it was encouraging to see Council budgeted for an operating surplus this year.




Asset sustainability ratio was below benchmark in the past two of the years under review. Over the four year period, Council's average ratio was 107% indicating it maintained its investment in existing assets at benchmark levels. However, capital expenditure appears to be trending down, against depreciation expenses that are increasing.

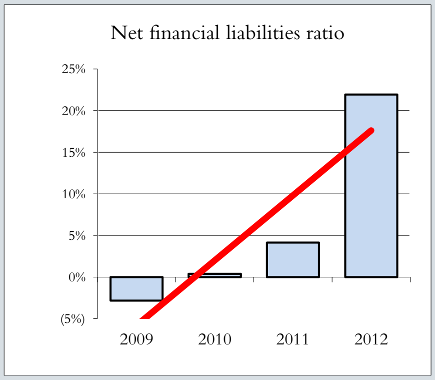
## Asset renewal funding ratio

Council's long-term asset management plan indicated the asset renewal funding ratio was 100%, in line with our 90%-100% benchmark, at 30 June 2012 for its infrastructure assets. This is based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's draft long-term asset management plan for the period 2013 to 2022.




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

The graph shows that at 30 June 2012 Council had used (consumed) approximately 27% of the service potential of its road infrastructure assets. This indicates a low financial sustainability risk in relation to road assets. The strong ratios are primarily due to Council's valuation method that incorporates a regular review of useful lives and utilisation of residual values in the calculation of depreciation, which results in a lower accumulated depreciation balance indicating road assets have a longer useful life. Overall, at 30 June 2012, Council's road infrastructure assets had sufficient capacity to continue to provide service to ratepayers.




Council recorded a positive Net financial liabilities ratio in the last three years under review with liquid assets in excess of current and non-current liabilities. Council's positive ratios indicate a strong liquidity position, with Council able to meet its current commitments. The ratio improved in 2011-12 due to an increase in cash balances held at 30 June 2012.

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

### Governance

A review of Council's governance arrangements indicated it does not have an audit committee or internal audit function.

Council does have a draft infrastructure asset management plan covering all infrastructure assets for the period 2012-22 and a draft a financial management plan covering the same period. However, steps are needed to formalise these draft arrangements.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating surplus in the current year, but averaged a deficit of $0.054m over the four year period.

Asset sustainability ratio shows Council averaged 107%, which was above our 100% benchmark. This indicates Council maintained its investment in existing assets at, on average, above benchmark. Council's Road consumption ratio remained above 70% over the four year period, indicating its road infrastructure assets were at low sustainability risk. Its Asset renewal funding ratio of 100% indicates Council intends to fund its capital renewal requirements identified in its draft infrastructure asset management plan.

Council's Net financial liabilities ratio was positive indicating its liquidity was sound and it had the capacity to borrow should the need arise.

From a governance perspective, Council does not have an audit committee although it did have a long-term infrastructure management plan and a long-term financial management plan but these were still in draft form.

Based on these ratios and governance arrangements we have concluded that at 30 June 2012, Council was at moderate sustainability risk from a governance and operating perspective and at low risk in all other respects.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 6 396 | 6 425 | 5 746 | 5 681 |
| Fees and charges | 666 | 517 | 610 | 622 |
| Grants ** | 1 266 | 1 690 | 1 637 | 1 600 |
| Other revenue | 528 | 412 | 495 | 386 |
| **Total Revenue** | **8 856** | **9 044** | **8 488** | **8 289** |
| Employee costs | 3 161 | 3 152 | 3 027 | 2 547 |
| Depreciation | 1 868 | 2 047 | 1 868 | 1 808 |
| Other expenses | 3 669 | 3 514 | 4 253 | 4 130 |
| **Total Expenses** | **8 698** | **8 713** | **9 148** | **8 485** |
| **Net Operating Surplus (Deficit) before** | **158** | **331** | **(660)** | **(196)** |
| Finance costs | (184) | (179) | (173) | (239) |
| Interest revenue | 150 | 234 | 182 | 143 |
| **Net Operating Surplus (Deficit)** | **124** | **386** | **(651)** | **(292)** |
| Capital grants | 241 | 691 | 625 | 1 336 |
| Financial assistance grant received in advance ** | 0 | 849 | 415 | 409 |
| Offset Financial assistance grant in advance ** | 0 | (415) | (409) | (394) |
| Insurance recovery - misappropriation | 0 | 0 | 390 | 0 |
| Misappropriation loss | 0 | 0 | 0 | (186) |
| Insurance recovery - Hillwood Football Club building | 0 | 38 | 250 | 0 |
| Write off - Hillwood Football Club building | 0 | 0 | (182) | 0 |
| **Net Surplus** | **365** | **1 549** | **438** | **873** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 7 987 | 2 584 | 8 558 |
| Fair value initial adjustment Ben Lomond Water | 0 | 0 | 0 | (8 069) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | (975) | 0 |
| Current year fair value adjustment Ben Lomond Water | 0 | 126 | 231 | 0 |
| **Total comprehensive income items** | **0** | **8 113** | **1 840** | **489** |
| **Comprehensive Surplus** | **365** | **9 662** | **2 278** | **1 362** |

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

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenues of $0.331m, compared to a deficit of $0.660m in 2010-11. The increase of $0.991m was predominantly due to:

- higher rate revenue of $0.679m, mainly due to an 8% increase in the general rate (excluding varied rates), supplementary rates on new properties and an increase in rates received in advance
- a reduction in Other expenses of $0.739m, due mainly to Council reducing the number of contractors and consultants employed during the current year without increasing employee costs significantly, partially offset by
- higher Employee costs of $0.125m
- an increase in Depreciation of $0.179m mainly due to the impact of asset revaluations.

Council budgeted for a Net Operating Surplus of $0.124m, which was $0.262m lower than the actual Net Operating Surplus of $0.386m. The improved result from budget included additional revenue from grants, $0.424m, and interest, $0.084m, offset by lower fees and charges and Other revenue, $0.265m.

After accounting for Interest revenue, Council recorded a Net Operating Surplus of $0.386m (2010-11, deficit $0.651m). Council's Interest revenue exceeded its Finance costs in each of the past two financial years.

After Capital grants, Insurance recoveries and the impact of Financial assistance grants received in advance, Council recorded a Net Surplus of $1.549m in 2011-12, compared with $0.438m in 2010-11. The result was mainly due to Council's improved operating surplus in 2011-12. Increased Financial assistance grants in advance of $0.434m, were offset by insurance recoveries in 2010-11.

Capital grants totalled $0.691m for 2011-12, an increase of $0.066m from 2010-11. These grants included:

- Australian Government Roads to Recovery Fund, $0.241m (2010-11, $0.241m)
- NBN Digital Funding, $0.244m, to develop on-line service applications between Council and ratepayers.

Other Comprehensive income totalled $8.113m and included:

- fair value revaluation of Council's roads, drainage, bridges, jetties and pontoons totalling $7.987m
- an increase in Council's investment in Ben Lomond Water of $0.126m, being its 4.3% interest in the increase in the net assets of the Corporation.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 5 710 | 4 063 | 3 375 |
| Receivables | 265 | 254 | 610 |
| Non-current assets held for sale | 707 | 704 | 699 |
| Other | 41 | 48 | 91 |
| **Total Current Assets** | **6 723** | **5 069** | **4 775** |
| Payables | 384 | 624 | 713 |
| Borrowings | 159 | 54 | 51 |
| Provisions - employee benefits | 458 | 447 | 281 |
| Other | 384 | 181 | 191 |
| **Total Current Liabilities** | **1 385** | **1 306** | **1 236** |
| **Net Working Capital** | **5 338** | **3 763** | **3 539** |
| Property, plant and equipment | 88 523 | 80 660 | 77 926 |
| Investment in Ben Lomond Water | 21 325 | 21 199 | 21 943 |
| **Total Non-Current Assets** | **109 848** | **101 859** | **99 869** |
| Borrowings | 2 363 | 2 522 | 2 576 |
| Provisions - employee benefits | 191 | 130 | 140 |
| **Total Non-Current Liabilities** | **2 554** | **2 652** | **2 716** |
| **Net Assets** | **112 632** | **102 970** | **100 692** |
| Reserves | 66 339 | 56 793 | 53 154 |
| Accumulated surpluses | 46 293 | 46 177 | 47 538 |
| **Total Equity** | **112 632** | **102 970** | **100 692** |

### Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $9.662m during 2011-12. Net Assets increased by the same amount to $112.632m. Major line item movements included:

- higher Cash and financial assets of $1.647m which is discussed further in the Statement of Cash Flows section of this Chapter
- decreased Payables of $0.240m due to the 2011 balance including significant creditor balances relating to the Low Head Walkway
- increased Property, plant and equipment of $7.863m due to:
    - revaluation increments, $7.987m
    - additions, $1.931m, offset by
    - depreciation expense, $2.047m
- increased investment in Ben Lomond Water of $0.126m, as discussed in the Statement of Comprehensive Income section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 7 907 | 8 257 | 6 875 |
| Cash flows from government | 2 124 | 1 643 | 1 614 |
| Payments to suppliers and employees | (7 326) | (7 769) | (7 010) |
| Interest received | 234 | 182 | 144 |
| Finance costs | (179) | (173) | (239) |
| Misappropriation loss | 0 | 0 | (186) |
| **Cash from operations** | **2 760** | **2 140** | **1 198** |
| Capital grants and contributions | 691 | 625 | 1 336 |
| Payments for property, plant and equipment | (1 934) | (2 199) | (2 939) |
| Proceeds from sale of property, plant and equipment | 8 | 0 | 23 |
| Distributions received - Ben Lomond Water | 176 | 173 | 152 |
| **Cash (used in) investing activities** | **(1 059)** | **(1 401)** | **(1 428)** |
| Proceeds from borrowings | 0 | 0 | 0 |
| Repayment of borrowings | (54) | (51) | (48) |
| **Cash (used in) financing activities** | **(54)** | **(51)** | **(48)** |
| **Net increase (decrease) in cash** | **1 647** | **688** | **(278)** |
| Cash at the beginning of the year | 4 063 | 3 375 | 3 653 |
| **Cash at end of the year** | **5 710** | **4 063** | **3 375** |

## Comment

At 30 June 2012, Council's total cash balance of $5.710m comprised cash at bank, on hand and short-term investments. Its cash position improved by $1.647m, with Cash from operations of $2.760m and Capital grants and contributions $0.691m being more than sufficient to fund Payments for property, plant and equipment of $1.934m and the Repayment of borrowings, $0.054m.

Cash was held by Council in relation to restricted funds for Deposits and trust funds, $0.383m, provisions, $0.649m, and Reserves, $3.441m. Cash also included Financial Assistance Grants received in advance, $0.849m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.620m to $2.760m which included:

- Council's operating surplus of $0.386m, adjusted for depreciation of $2.047m, a non-cash item, providing $2.433m in operating cash inflows
- the net impact of Financial assistance grants in advance, $0.434m, recorded as Cash from operations but excluded from the net operating surplus, offset by
- cash inflows from Ben Lomond Water, $0.176m, recorded as an investing activity for cash flow purposes.

Payments for Property, plant and equipment of $1.931m included:

- Low Head Walkway, $0.324m
- Egg Island Creek bridge reconstruction, $0.287m
- York Cove walkway paving and safety fencing, $0.214m
- bitumen resealing, $0.297m
- purchase of plant and equipment, $0.192m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 386 | (651) | (292) | 341 |
| Operating surplus ratio * | > 0 | 4.16 | (7.51) | (3.46) | 3.22 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 70% | 91% | 157% | 108% |
| Asset renewal funding ratio* ** | 90%-100% | 100% | n/a | n/a | n/a |
| Road asset consumption ratio * | >60% | 72.7% | 72.4% | 73.4% | 74.4% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabiltities) ($'000s) | | 2 036 | 359 | 33 | (298) |
| Net financial liabilities ratio * *** | 0% - (50%) | 21.9% | 4.1% | 0.4% | (2.8%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.45 | 5.03 | 4.17 | 6.01 |
| Current ratio | 1:1 | 4.85 | 3.88 | 3.86 | 4.84 |
| Interest Coverage | | 14.42 | 11.37 | 4.01 | 13.01 |
| Asset investment ratio | >100% | 94% | 118% | 163% | 123% |
| Self financing ratio | | 29.7% | 24.7% | 14.2% | 26.5% |
| Own source revenue | | 81.8% | 81.1% | 81.0% | 81.5% |
| Debt collection | 30 days | 14 | 15 | 35 | 14 |
| Creditor turnover | 30 days | 14 | 13 | 32 | 7 |
| Rates per capita ($) | | 930 | 834 | 832 | 1 002 |
| Rates to operating revenue | | 69.2% | 66.3% | 67.4% | 63.7% |
| Rates per rateable property ($) | | 1 469 | 1 330 | 1 326 | 1 577 |
| Operating cost to rateable property ($) | | 2 033 | 2 157 | 2 037 | 2 395 |
| Employee costs expensed ($'000s) | | 3 152 | 3 027 | 2 547 | 2 992 |
| Employee costs capitalised ($'000s) | | 390 | 293 | 278 | 190 |
| **Total employee costs ($'000s)** | | **3 542** | **3 320** | **2 825** | **3 182** |
| Employee costs as a % of operating expenses | | 35% | 32% | 29% | 29% |
| Staff numbers (FTEs) | | 45 | 44 | 39 | 46 |
| Average staff costs ($'000s) | | 79 | 75 | 73 | 69 |
| Average leave balance per FTE ($'000s) | | 14 | 13 | 11 | 12 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** New ratio included in 2011-12. Information not obtained or unavailable to calcuate prior year ratios.*

**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive, as is the case with George Town Council, liquid assets exceed total liabilities.*

## Comment

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

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

Interest coverage ratio reflects Council's relatively low level of borrowings. The ratio continued to improve in 2011-12 in line with stronger net cash flows from operations.

Asset investment ratio was below benchmark in 2011-12 indicating a reduction in the level of capital expenditure in the period. This is due to delays in commencement/finalisation of capital works projects planned for 2011-12. These projects should be completed in 2012-2013. However, over the four year period the average ratio was 124%, which is well above benchmark.

Self financing ratio remained relatively consistent across all years under review. The decrease in 2009-10 was attributable to lower cash flows as water and sewerage operations were transferred to Ben Lomond Water. Own source revenue was also constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2011-12, it was reliant on grant funding to the extent of 18% (2010-11, 19%).

Rates per capita and rateable property are trending upward and correspond with rate increases over the period under review. Its Council's rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs gradually increased over the four year period under review in line with annual enterprise agreement pay rises and movement in staff numbers. The increase in 2011-12 was also affected by a general decrease in other operating costs.

Average staff cost increased over the period in line with general Enterprise Agreement increments. In the past two years, employees received 4.2% and 3.9% in increases.

# GLAMORGAN SPRING BAY COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 with an unqualified audit report issued on 28 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Asset revaluations

Roads, bridges, infrastructure and related assets were revalued as at 30 June 2012 using adjustment indices sourced from the Australian Bureau of Statistics. Applying indices in this manner does not constitute a full revaluation with Council's last full revaluation of its infrastructure assets conducted on 1 July 2005.

Considerable time has therefore elapsed since the last full revaluation resulting in a risk that the carrying amount of these infrastructure assets does not reflect fair value, which in Council's case is written down replacement cost.

Accordingly, it was recommended, and Council agreed to, update its land, buildings, bridges and infrastructure valuations based on a full revaluation in 2012-13.

Other than this finding, the audit was completed satisfactorily with no other major matters outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.433m in 2011-12 (2010-11, $0.433m). It achieved a Net Surplus of $1.065m ($0.816m) and a Comprehensive Surplus of $2.533m ($2.050m). The Comprehensive Surplus was after bringing to account a revaluation increment, $1.385m, and an increase in the fair value of Council's investment in Southern Water, $0.083m.

Consistent with the Comprehensive Surplus of $2.533m, Council's Net Assets increased to $90.804m, up from $88.271m. As at 30 June 2012, Council had Net Working Capital of $1.245m, a drop of $0.289m from the prior year, due mainly to Council's high capital expenditure program this year.

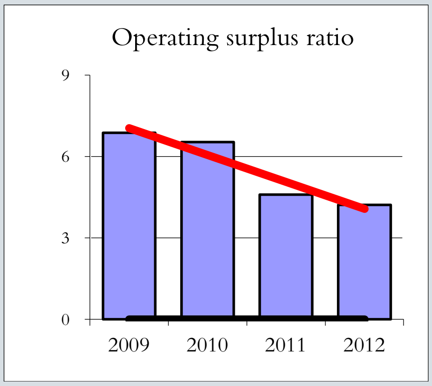
### Assessment of financial sustainability

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

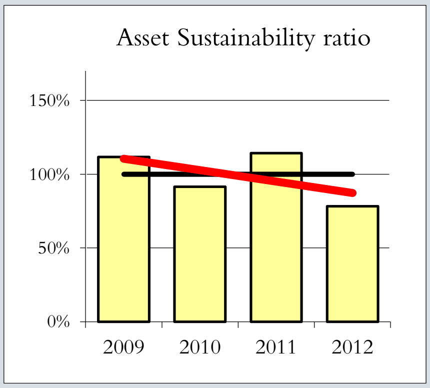
### Relevant financial sustainability ratios

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

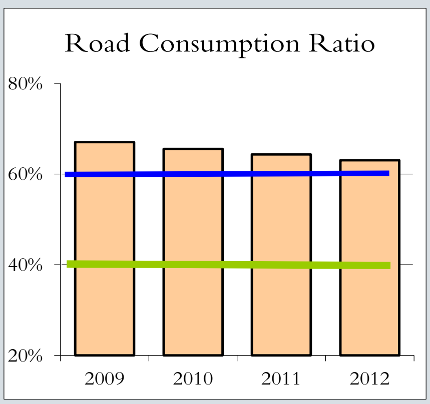
In general, the ratios indicate:




Council recorded an operating surplus ratio above benchmark in each of the four years under review. However, the ratio is trending downward over the period.

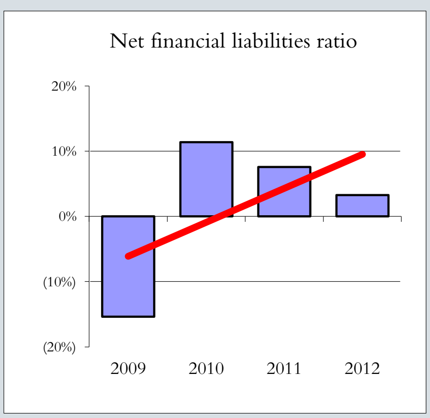



Asset sustainability ratio was below benchmark in two of the four years under review but over the four year period veraged 99%, which was slightly below the benchmark. This indicates adequate investment over the period in existing assets.




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

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 37% of the service potential of roads which means that, which means the assets had sufficient capacity to continue to provide service to ratepayers.




Council's Net financial liabilities ratio moved to positive in 2009-10 following the transfer of water and sewerage loans to Southern Water. A positive Net financial liabilities ratio indicates Council is in a position to meet its short-term commitments and has a capacity to borrow should the need arise.

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

### Governance

A review of Council's governance arrangements indicated it:

- did not have an audit committee or an internal audit function
- is currently developing asset management and financial management plans, both of which are due to be finalised in December 2012. We understand the plans will cover the period from 2012-13 to 2019-20, inclusive.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded operating surpluses in each of the four years under review.

The Asset sustainability ratio indicated Council maintained existing assets at the rate of 99% of its depreciation charges over the period, slightly below the 100% benchmark. Road asset consumption ratio indicated Council's roads had sufficient remaining capacity to provide service to ratepayers.

Council's Net financial liabilities ratio indicates it is able to meet its short-term commitments and had a capacity to borrow should the need arise.

Council did not have an audit committee and is currently developing asset management and financial management plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2012, Council was at a high risk from a governance perspective but at low financial sustainability risk from an operating, asset management and net financial liabilities perspective.

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

**Governance**

Council does not believe that it was at high risk from a governance perspective. Council has not had an audit committee since 2006 which was an internal Council committee made up of Councillors and has not considered it necessary at this stage as a full set of accounts are detailed in each agenda on a monthly basis.

Council did have a long term asset management plan that expired 30 June 2011, which is currently being updated in line with the long term financial plan. Council has a long term financial forecast but this needs to be adjusted by any findings in the new strategic and asset management plans which are expected to be completed this year.

**Conclusion as to financial sustainability**

Council has found it increasingly difficult with increasing electricity and service costs, but still remains positive and above benchmark ratios.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 5 862 | 5 845 | 5 651 | 5 273 |
| Fees and charges | 1 682 | 1 214 | 1 173 | 998 |
| Grants ** | 1 516 | 2 209 | 1 887 | 1 957 |
| Other revenue | 930 | 852 | 521 | 398 |
| **Total Revenue** | **9 990** | **10 120** | **9 232** | **8 626** |
| Employee costs | 3 458 | 3 229 | 2 962 | 2 626 |
| Depreciation | 1 700 | 1 959 | 1 600 | 1 461 |
| Other expenses | 5 069 | 4 638 | 4 409 | 4 066 |
| **Total Expenses** | **10 227** | **9 826** | **8 971** | **8 153** |
| **Net Operating Surplus (Deficit) before** | **(237)** | **294** | **261** | **473** |
| Finance costs | (30) | (21) | (29) | (57) |
| Interest revenue | 100 | 160 | 201 | 158 |
| **Net Operating Surplus (Deficit)** | **(167)** | **433** | **433** | **574** |
| Capital grants | 292 | 322 | 378 | 632 |
| Financial assistance grant received in advance ** | 0 | 627 | 317 | 312 |
| Offset Financial assistance grant in advance ** | 0 | (317) | (312) | (300) |
| **Net Surplus** | **125** | **1 065** | **816** | **1 218** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 1 385 | 1 017 | 1 001 |
| Fair value initial adjustment Southern Water | 0 | 0 | 0 | 22 540 |
| Current fair value adjustment Southern Water | 0 | 83 | 217 | 0 |
| **Total comprehensive income items** | **0** | **1 468** | **1 234** | **23 541** |
| **Comprehensive Surplus** | **125** | **2 533** | **2 050** | **24 759** |

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was no subject to audit.*
*** Grants received in advance has been shown separately after net Operating Surplus (Deficit).*
*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing costs of $0.294m, compared to a surplus of $0.261m in the prior year, an increase of $0.033m. The higher surplus was predominately due to increased:

- Rates, $0.194m, arising out of higher AAVs (assessed annual value), lower general rate combined with an increase in the minimum rate charge
- Grants, $0.322m, mainly due to Digital Hubs Program grants of $0.342m received in June 2012 from the Department of Broadband, Communications and the Digital Economy with these funds to be spent in future years
- Other revenue, $0.331m, mainly due to:
    - reimbursement of $0.140m from the Swansea Hall Committee for the hall facilities upgrade
    - reimbursement of administration expenses of $0.053m from a doctor who provided services using the Spring Bay Medical Centre facilities. The medical centre charged Council a fee for the use of those facilities
    - contribution of $0.047m for maintaining road infrastructure on army land at Buckland
    - flood damage financial assistance of $0.030m under the Natural Disaster Relief and Recovery Arrangements.

The forgoing were partly offset by higher:

- Employee costs, $0.267m, mainly attributable to annual salary increments and increase in long service leave expenses as a result of movements in discount factors, probability factors and salary
- Depreciation $0.359m, mainly due to additions to assets in recent years
- Other expenses, $0.229m, mainly due to:
    - larger remittances to accommodation providers, $0.171m, resulting from increased accommodations and tour bookings at the Triabunna, Bicheno and Swansea information centres. The current arrangement is that 85% of sales at these centres are remitted to accommodation providers
    - $0.070m for computer systems integration of the information centres.

After accounting for Interest revenue and Finance costs, Council made a Net Operating Surplus of $0.433m (2010-11, $0.433m). Interest revenue, while not a large amount, did contribute to the Net Operating surplus.

Council's Net Surplus amounted $1.065m (2010-11, $0.816m). Capital grants in 2011-12 included:

- Roads to Recovery, $0.322m
- higher Financial assistance grant received in advance of $0.310m was a result of the Commonwealth Government's economic stimulus initiative to bring forward 50% of the 2012-13 grants into June 2012, compared with only 25% of the 2011-12 grants received in June 2011.

Other comprehensive income totalled $1.468m in 2011-12 comprising:

- fair value revaluation of non-current assets, $1.385m, which represented one year's indexation of infrastructure, buildings, bridges and related structures
- an increase in the fair value of Council investment in Southern Water, $0.083m, reflecting, Council's 4.1% interest in higher net assets of the Corporation at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 1 924 | 1 618 | 1 282 |
| Receivables | 373 | 291 | 334 |
| Investments | 11 | 910 | 1 085 |
| Other | 227 | 211 | 43 |
| **Total Current Assets** | **2 535** | **3 030** | **2 744** |
| Payables | 624 | 828 | 505 |
| Borrowings | 55 | 67 | 49 |
| Provisions - employee benefits | 467 | 441 | 416 |
| Other | 144 | 160 | 167 |
| **Total Current Liabilities** | **1 290** | **1 496** | **1 137** |
| **Net Working Capital** | **1 245** | **1 534** | **1 607** |
| Property, plant and equipment | 52 346 | 49 527 | 47 577 |
| Investment in Southern Water | 37 849 | 37 766 | 37 549 |
| Receivables | 47 | 51 | 54 |
| **Total Non-Current Assets** | **90 242** | **87 344** | **85 180** |
| Borrowings | 424 | 464 | 531 |
| Provisions - employee benefits | 259 | 143 | 35 |
| **Total Non-Current Liabilities** | **683** | **607** | **566** |
| **Net Assets** | **90 804** | **88 271** | **86 221** |
| Reserves | 28 655 | 27 242 | 25 960 |
| Accumulated surpluses | 62 149 | 61 029 | 60 261 |
| **Total Equity** | **90 804** | **88 271** | **86 221** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $2.533m.

Council's Net Assets increased by the same amount with major line item movements being:

- increased Cash and financial assets, $0.306m, discussed further in the Statement of Cash Flows section in this Chapter
- lower Investments, $0.899m. Council's investments are term deposits with maturities of more than three months at balance date. Levels of Investments varies from year to year dependent upon availability of funds for investment which is impacted by Council's capital program
- higher Provisions – employee benefits, $0.142m, mainly attributable to increased long service leave due to movements in discount factors, probability factors and salaries
- lower Payables, $0.204m, which are subject to timing of invoices. There were several large one-off invoices for capital works as at 30 June 2011, in particular an outstanding amount to Tas Span for $0.175m

- Property, plant and equipment increased by $2.819m due primarily to:
  - capital additions of $3.458m, mainly comprising Swansea Heritage Centre upgrade, $0.544m, Spring Bay Medical Centre refurbishment, $0.336m, plant and vehicle replacements, $0.612m, and road and bridges construction and resealing, $1.940m
  - revaluation increment of $1.385m due to the indexation of roads, bridges, infrastructure and related structures at 30 June 2012, offset by
  - depreciation expense of $1.959m
- an increase in fair value in the investment in Southern Water of $0.083m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 7 832 | 7 225 | 7 579 |
| Cash flows from government | 2 595 | 1 962 | 2 013 |
| Payments to suppliers and employees | (8 135) | (7 004) | (7 711) |
| Interest received | 176 | 188 | 128 |
| Finance costs | (27) | (30) | (49) |
| **Cash from operations** | **2 441** | **2 341** | 1 960 |
| Capital grants and contributions | 322 | 378 | 632 |
| Investments realised/(made) | 899 | 175 | (1 085) |
| Payments for property, plant and equipment | (3 438) | (2 571) | (1 889) |
| Proceeds from sale of property, plant and equipment | 130 | 62 | 190 |
| **Cash (used in) investing activities** | **(2 087)** | **(1 956)** | **(2 152)** |
| Repayment of borrowings | (48) | (49) | (78) |
| **Cash from financing activities** | **(48)** | **(49)** | (78) |
| **Net increase (decrease) in cash** | **306** | **336** | (270) |
| Cash at the beginning of the year | 1 618 | 1 282 | 2 317 |
| Transfer of cash to Southern Water | 0 | 0 | (765) |
| **Cash at end of the year** | **1 924** | **1 618** | 1 282 |

### Comment

At 30 June 2012, Council held Cash and financial assets of $1.924m, comprising cash at bank and on hand, $0.922m, committee accounts, $0.103m, and short-term deposits, $0.899m. Council's cash position improved by $0.306m during the 2011-12 financial year. However, taking cash and investments in to account, overall cash declined by $0.593m. This was because cash generated from operations was insufficient to fund the 2011-12 capital works program.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.100m to $2.441m which included:

- Council's operating surplus of $0.348m adjusted for depreciation of $1.959m, and the impact of increased Provisions, $0.142m, both non-cash items, providing $2.449m in operating cash inflows
- additional financial assistance grants in advance of $0.310m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011, offset by
- the impact of higher Receivables, $0.082m, and lower Payables, $0.204m, at 30 June 2012.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 433 | 433 | 574 | 774 |
| Operating surplus ratio * | >0 | 4.21 | 4.59 | 6.53 | 6.87 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 78% | 114% | 91% | 112% |
| Asset renewal funding ratio** | 90% - 100% | n/a | n/a | n/a | n/a |
| Roads consumption ratio * | >60% | 63.1% | 64.3% | 65.5% | 67.0% |
| ***Liquidity*** | | | | | |
| Net financial liabilities ($'000s) | | 335 | 716 | 998 | 1 730 |
| Net financial liabilities ratio * *** | 0% - (50%) | 3.3% | 7.6% | 11.4% | (15.4%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 3.40 | 3.15 | 4.88 | 1.39 |
| Current ratio | 1:1 | 1.97 | 2.03 | 2.41 | 1.11 |
| Interest coverage | | 89.41 | 77.03 | 39.00 | 17.09 |
| Asset investment ratio | >100% | 175% | 161% | 129% | 147% |
| Self financing ratio | | 23.7% | 24.8% | 22.3% | 23.4% |
| Own source revenue | | 78.5% | 80.0% | 77.7% | 84.8% |
| Debt collection | 30 days | 19 | 16 | 19 | 38 |
| Creditor turnover | 30 days | 22 | 22 | 19 | 29 |
| Rates per capita ($) | | 1 326 | 1 254 | 1 172 | 1 608 |
| Rates to operating revenue | | 56.9% | 59.9% | 60.0% | 63.8% |
| Rates per rateable property ($) | | 1 052 | 1 016 | 966 | 1 317 |
| Operating cost to rateable property ($) | | 1 773 | 1 618 | 1 505 | 1 923 |
| Employee costs expensed ($'000s) | | 3 229 | 2 962 | 2 626 | 2 365 |
| Employee costs capitalised ($'000s) | | 221 | 170 | 133 | 219 |
| **Total employee costs ($'000s)** | | **3 450** | **3 132** | **2 759** | **2 584** |
| Employee costs as a % of operating expenses | | 33% | 33% | 32% | 23% |
| Staff numbers (FTEs) | | 49 | 48 | 45 | 44 |
| Average staff costs ($'000s) | | 70 | 66 | 61 | 59 |
| Average leave balance per FTE ($'000s) | | 15 | 12 | 10 | 9 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** Information not available to calculate ratio.*

**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive, as is the case with Glamorgan Spring Bay Council, liquid assets exceed total liabilities.*

## Comment

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

Liquidity and Current ratios were strong in each of the four years. This was mainly attributable to the transfer of water and sewerage loans to Southern Water on 1 July 2009 and positive operating results since then.

Interest coverage ratio improved significantly from 2009-10, for the same reason. The high Interest coverage indicates Council is generating sufficient revenue to meet its interest obligations.

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

Council's positive Self financing ratios indicated it was generating operating cash flows which contributed towards its capital expenditure programs.

Own source revenue indicates Council generated the majority of its operating revenue from its own sources, such as Rates and user charges. The reduction in 2009-10 was directly related to the loss of water and sewerage rating income. Subsequently, grant revenue as a percentage of total revenue increased indicating Council was more reliant on financial assistance grants.

Debt collection improved over the four year period and was worse than benchmark in 2008-09 due to issuing invoices for water meter debtors in June 2009. These debtors were usually not invoiced until October. However, Council was required to bring forward this process in June 2009 due to water and sewerage reforms.

Creditor turnover remained relatively consistent from 2009-10 and was better than benchmark, reflecting Council's policy of paying outstanding creditors within a 30 day period.

Rates statistics were relatively consistent over the first two years of the review. Council rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised.

Employee costs as a percentage of operating expenses remained constant from 2008-09 when the ratio was much lower because Council contracted out rubbish and childcare functions in that year.

The change in Average staff costs in 2011-12 was commensurate with the employee benefits increases mentioned previously in this Chapter.

# LATROBE COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012. An unqualified audit report was issued on 30 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

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

### Resource Sharing Arrangements

Council entered into a strategic alliance agreement in 2008 with Kentish Council. In March 2010, the councils agreed to share, for an interim period, the services of a General Manager. In June 2010, a formal resource sharing arrangement was entered into with an intention of extending it to include other employees, as positions became available or opportunities were identified.

A Municipal Alliance Committee, comprising two Councillors from each Council and the shared General Manager, was established to identify further opportunities to improve services and manage the arrangement. As Local Government looks at ways and means for providing cost effective practises, resource sharing is one of the strategies that can be used to ensure Councils continue to attract and keep quality staff, provide succession planning and extend service provision that might not be viable on an individual council basis.

At 30 June 2012 Latrobe and Kentish Councils had three regular and two occasional (2011, one regular) resource shared positions.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.304m in 2011-12 (2010-11, $0.486m). The lower result was not significant and exceeded the budgeted operating surplus of $0.285m. However, while the situation is positive, Council's operating results benefit from strong interest income and distributions from Cradle Mountain Water.

Council recorded a Net Surplus of $1.191m (2010-11, $2.331m), which included Capital grants of $0.171m ($0.930m), net additional Financial Assistance Grants of $0.343m ($0.021m) and contributions of non-monetary assets of $0.208m ($0.565m).

The Comprehensive Surplus of $5.223m (2010-11, $36.194m) included a Fair value revaluation of non-current assets, $3.988m ($31.732m).

Consistent with the Comprehensive Surplus of $5.223m Council's Net Assets increased to $161.869m from $156.646m the previous year. As at 30 June 2012 Council had Net Working Capital of $6.505m, up from $5.350m the previous year.

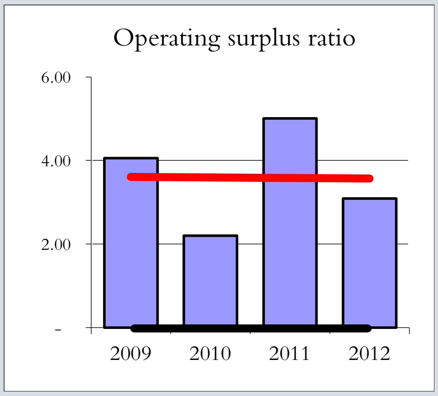
### Assessment of financial sustainability

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

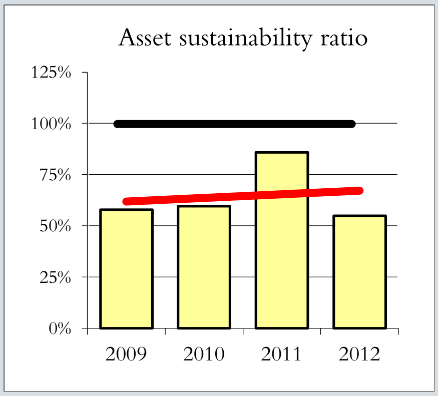
### Relevant financial sustainability ratios

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

In general, the ratios indicate:




The positive operating surplus ratios reflected operating surpluses over the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges. The results were assisted by the receipt of priority distributions from Cradle Mountain Water, which averaged $0.348m per annum over the past three years. Net operating surpluses averaged $0.331m per annum over this period.



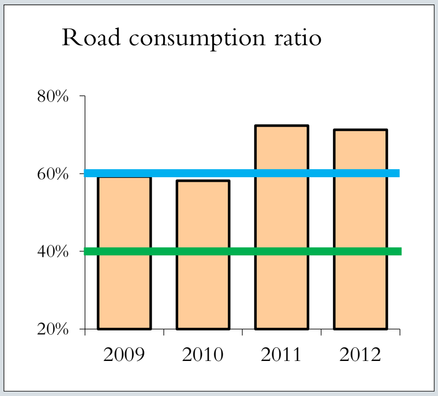

Asset sustainability ratio was below benchmark in all years under review and averaged 65% over the four year period. The ratio indicated, subject to levels of maintenance expenditure and the long-term asset management plan, Council may be under investing in existing assets.

## Asset renewal funding ratio

Council's long-term Asset management plan indicated that, based on planned asset replacement expenditure, its asset renewal funding ratio was 106% at 30 June 2012 and 77% at 30 June 2011. The ratio improved during 2011-12 and is now above our benchmark of between 90% and 100%.

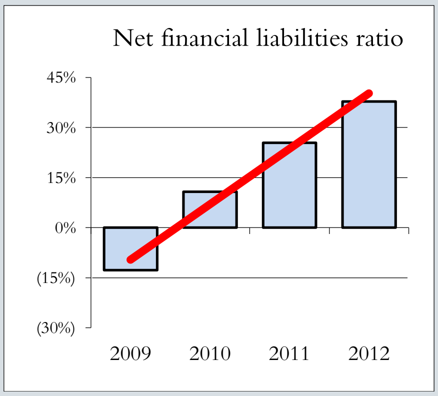
Council's current long-term asset management plan forecasts planned and required renewal expenditure for:

- Transport asset services, updated in December 2011 and extends to 2030-31
- Parks and reserves – land improvements to 2019-20.




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

The graph indicates at 30 June 2012 Council had used (consumed) approximately 29% of the service potential of its road assets. The ratio improved in 2010-11 due to a revaluation of roads on 1 July 2010 which included a review of useful lives and residual values used in the calculation of asset lives. Overall, at 30 June 2012, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.




Council recorded positive Net financial liabilities ratios, with liquid assets in excess of current and non-current liabilities for the last three years. The positive ratios indicate a strong liquidity position, with Council able to meet existing commitments.

The significant improvement in 2009-10 was primarily due to the transfer of loan debt to Cradle Mountain Water on 1 July 2009.

Council's total liabilities consisted of Payables, employee provisions, rehabilitation provision, bonds, security deposits, refundable donor fees – elderly units and borrowings.

## Governance

A review of Council's governance arrangements indicated Council does not have an audit committee nor an internal audit function.

Council has long-term asset management and financial management plans. The asset management plan for transport infrastructure was reviewed in December 2011 and covers 2011-12 to 2030-31. The asset management plan for parks and reserves – land improvements covers 2010-11 to 2019-20. These plans were both given low risk ratings as they were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council.

The long-term financial management plan was adopted by Council in 2005-06, has been recently reviewed and extends to 2015-16. Council is currently developing a 10 year financial management plan, to replace its current five year plan, expected to be completed during 2012-13.

## Conclusion as to financial sustainability

From a financial operating perspective, Council's continuing operating surpluses indicate it was generating sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicated based on our 100% benchmark, it under-invested in existing assets over the period of the analysis, with an average ratio of 65%. However, the road consumption ratio indicates Council's road consumption was in the low risk range, with road infrastructure assets only being 29% consumed. Its Asset renewal funding ratio indicated Council is planning to fund necessary replacement of existing assets over the life of its asset management plans.

Council's liquidity position was strong with it able to meet all its short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise.

From a governance perspective, Council does not have an audit committee or an internal audit function, but has both long-term asset management and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2012, Council was at moderate risk from a governance and asset management perspective but low financial sustainability risk from an operating and net financial liabilities perspective.

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

Despite the Asset sustainability ratio being below the benchmark, Council's asset management plans show it is not under-investing in asset renewals. Depreciation is a relatively even long-term average whilst renewal demand can be highly variable depending upon the age profile of Council's assets. The current below-benchmark investment in existing assets will be offset by above-benchmark expenditure in the future.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12<br>Estimate*<br>$'000s | 2011-12<br>Actual<br>$'000s | 2010-11<br>Actual<br>$'000s | 2009-10<br>Actual<br>$'000s |
|---|---|---|---|---|
| Rates | 5 732 | 5 765 | 5 374 | 5 018 |
| Fees and charges | 1 282 | 1 442 | 1 496 | 1 536 |
| Grants ** | 1 435 | 1 480 | 1 615 | 1 649 |
| Other revenue | 1 173 | 745 | 880 | 801 |
| **Total Revenue** | **9 622** | **9 432** | **9 365** | **9 004** |
| Employee costs | 2 838 | 2 811 | 2 714 | 2 715 |
| Depreciation | 2 591 | 2 484 | 2 368 | 2 258 |
| Other expenses | 4 220 | 4 216 | 4 107 | 4 003 |
| **Total Expenses** | **9 649** | **9 511** | **9 189** | **8 976** |
| **Net Operating Surplus (Deficit) before** | **(27)** | **(79)** | **176** | **28** |
| Finance costs | (25) | (25) | (27) | (31) |
| Interest revenue | 337 | 408 | 337 | 206 |
| **Net Operating Surplus (Deficit)** | **285** | **304** | **486** | **203** |
| Capital grants | 0 | 171 | 930 | 339 |
| Financial assistance grant received in advance ** | 0 | 734 | 391 | 370 |
| Offset Financial assistance grant in advance ** | 0 | (391) | (370) | (324) |
| Contributions for non-current assets - other | 195 | 165 | 329 | 175 |
| Contributions of non-current assets - infrastructure | 735 | 208 | 565 | 444 |
| **Net Surplus** | **1 215** | **1 191** | **2 331** | **1 207** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets - Council | 2 902 | 3 988 | 31 732 | 3 129 |
| Fair value revaluation of non-current assets - Associates | 0 | 15 | 57 | (8) |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | 0 | (4 503) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | 1 949 | 0 |
| Current year fair value adjustment Cradle Mountain Water | 141 | 29 | 125 | 0 |
| **Total Comprehensive Income Items** | **3 043** | **4 032** | **33 863** | **(1 382)** |
| **Comprehensive Surplus (Deficit)** | **4 258** | **5 223** | **36 194** | **(175)** |

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

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

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income*

## Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenues of $0.079m, compared to the 2010-11 surplus of $0.176m. Council's results for the last three years have fluctuated near break-even. The decrease of $0.255m was not significant and resulted from higher rates revenue, $0.391m, consistent with Council's budgeted 6.4% increase being exceeded by lower other revenue, $0.324m, and increases in all operating expenses, $0.322m. Council's Net Operating Deficit was slightly larger than the budgeted deficit of $0.027m.

However, after accounting for net interest revenues and expenses Council recorded an Operating Surplus of $0.304m (2010-11, $0.486m) which was better than budget and highlights the importance of Interest revenue to Council's annual operating performance with Interest revenue averaging $0.282m per annum over the past four years.

After accounting for Capital grants, Contributions of non-current assets and Financial assistance grants in advance, Council recorded a Net Surplus of $1.191m for 2011-12 (2010-11, $2.331m).

Capital grants totalled $0.171m for 2011-12, a decrease of $0.759m from 2010-11. The only capital grant received during 2011-12 was the Australian Government Roads to Recovery Fund, $0.171m (2010-11, $0.234m).

Other Comprehensive Income totalled $4.032m (2010-11, $33.863m), mainly due to the revaluation of Council infrastructure assets, $3.988m ($31.732m). The most significant increase was to stormwater infrastructure, $3.753m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 6 840 | 5 429 | 4 093 |
| Receivables | 265 | 275 | 277 |
| Inventories | 25 | 22 | 28 |
| Other | 1 277 | 1 411 | 1 395 |
| **Total Current Assets** | **8 407** | **7 137** | **5 793** |
| Payables | 835 | 705 | 745 |
| Borrowings | 21 | 20 | 41 |
| Provisions – employee benefits | 657 | 631 | 561 |
| Other | 389 | 431 | 384 |
| **Total Current Liabilities** | **1 902** | **1 787** | **1 731** |
| **Net Working Capital** | **6 505** | **5 350** | **4 062** |
| Property, plant and equipment | 129 387 | 125 280 | 92 706 |
| Investments in associates | 532 | 521 | 446 |
| Investment in water corporation | 26 789 | 26 760 | 24 686 |
| Receivables | 140 | 186 | 201 |
| **Total Non-Current Assets** | **156 848** | **152 747** | **118 039** |
| Borrowings | 349 | 370 | 630 |
| Provisions – employee benefits | 69 | 42 | 26 |
| Provisions – rehabilitation | 656 | 656 | 656 |
| Other | 410 | 383 | 337 |
| **Total Non-Current Liabilities** | **1 484** | **1 451** | **1 649** |
| **Net Assets** | **161 869** | **156 646** | **120 452** |
| Reserves | 89 130 | 85 098 | 53 184 |
| Accumulated surpluses | 72 739 | 71 548 | 67 268 |
| **Total Equity** | **161 869** | **156 646** | **120 452** |

## Comment

As detailed in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $5.223m. Net assets increased by the same amount to $161.869m. Major line item movements included:

- higher Cash of $1.411m, which is discussed further in the Statement of Cash Flows section of this Chapter
- increased Property, plant and equipment of $4.107m primarily due to:
  - revaluation increments, $3.988m
  - additions and contributions, $2.864m, offset by
  - depreciation expense, $2.484m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 8 041 | 7 847 | 7 457 |
| Cash flows from government | 1 896 | 1 563 | 1 710 |
| Payments to suppliers and employees | (7 255) | (7 171) | (7 149) |
| Interest received | 372 | 313 | 183 |
| Finance costs | (25) | (27) | (31) |
| **Cash from operations** | **3 029** | **2 525** | **2 170** |
| Capital grants and contributions | 171 | 690 | 339 |
| Capital contributions - cash | 165 | 197 | 15 |
| Distributions received - Cradle Mountain Water | 399 | 402 | 244 |
| Elderly persons unit donor fees | 117 | 124 | 109 |
| Community loans | 24 | 13 | (33) |
| Payments for property, plant and equipment | (2 639) | (2 770) | (2 173) |
| Proceeds from sale of property, plant and equipment | 165 | 196 | 109 |
| **Cash (used in) investing activities** | **(1 598)** | **(1 148)** | **(1 390)** |
| Proceeds from borrowings | 0 | 0 | 240 |
| Repayment of borrowings | (20) | (41) | (69) |
| **Cash from (used in) financing activities** | **(20)** | **(41)** | **171** |
| **Net increase in cash** | **1 411** | **1 336** | **951** |
| Cash at the beginning of the year | 5 429 | 4 093 | 4 028 |
| Less cash transferred to Cradle Mountain Water | 0 | 0 | (886) |
| **Cash at end of the year** | **6 840** | **5 429** | **4 093** |

### Comment

Council's cash balance at 30 June 2012, $6.840m, comprised cash at bank, on hand and short-term deposits. Council has indicated that approximately $4.920m of the balance is being held to fund repayment of deposits and bonds, employee entitlements, unspent specific purpose grants and capital expenditure carried forward. In addition, Council received $0.734m (2010-11, $0.391m) in Financial assistance grants in advance in June 2012 relating to 2012-13.

The balance of currently uncommitted cash will assist Council's long-term financial plans, which include significant funding commitments for future Capital expenditure for both the renewal of assets and expansion of facilities.

Council's cash position improved by $1.411m to $6.840m at 30 June 2012. Cash from operations, $3.029m, Capital grants and contributions, $0.171m, Capital contributions – cash, $0.165m, and Distributions received - Cradle Mountain Water, $0.399m, were more than sufficient to meet Payments for property, plant and equipment, $2.639m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.504m to $3.029m which included:

- Council's operating surplus, $0.304m, adjusted for depreciation, $2.484m, a non-cash item, providing $2.788m in operating cash inflows
- additional financial assistance grants in advance of $0.343m, with 50% of the 2012-13 grant received in June 2012, compared with only 25% of the 2011-12 grant received in June 2011, offset by
- cash inflows from Cradle Mountain Water, $0.399m, being recorded as an investing activity for cash flow purposes.

Capital expenditure during the period included:

- road infrastructure works, $1.205m
- bridge renewals, $0.372m
- plant replacements, $0.257m
- Port Sorell Caravan Park electrical upgrade and amenities block, $0.233m
- Latrobe Recreation Ground irrigation system & drainage, $0.154m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus ($'000s) | | 304 | 486 | 203 | 474 |
| Operating surplus ratio * | >0 | 3.09 | 5.01 | 2.20 | 4.06 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 55% | 86% | 60% | 58% |
| Asset renewal funding ratio* ** | 90% - 100% | 106% | 77% | N/A | N/A |
| Road asset consumption ratio * | >60% | 71.3% | 72.4% | 58.2% | 59.3% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 3 719 | 2 466 | 990 | (1 486) |
| Net financial liabilities ratio* *** | 0% - (50%) | 37.8% | 25.4% | 10.7% | (12.7%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 5.71 | 4.93 | 3.74 | 1.27 |
| Current ratio | 1:1 | 4.42 | 3.99 | 3.35 | 1.35 |
| Interest coverage | | 120.16 | 92.52 | 69.00 | 52.69 |
| Asset investment ratio | >100% | 106% | 110% | 96% | 116% |
| Self financing ratio | | 30.8% | 26.0% | 23.6% | 30.8% |
| Own source revenue | | 85.0% | 83.4% | 82.1% | 87.8% |
| Debt collection | 30 days | 13 | 15 | 15 | 12 |
| Creditor turnover | 30 days | 35 | 30 | 38 | 32 |
| Rates per capita ($) | | 565 | 536 | 522 | 829 |
| Rates to operating revenue | | 58.6% | 55.4% | 54.5% | 66.2% |
| Rates per rateable property ($) | | 1 030 | 977 | 928 | 1 456 |
| Operating cost to rateable property ($) | | 1 704 | 1 676 | 1 665 | 2 109 |
| Employee costs expensed ($'000s) | | 2 811 | 2 714 | 2 715 | 3 095 |
| Employee costs capitalised ($'000s) | | 225 | 181 | 135 | 221 |
| **Total employee costs ($'000s)** | | **3 036** | **2 895** | **2 850** | **3 316** |
| Employee costs as a % of operating expenses | | 29% | 29% | 30% | 28% |
| Staff numbers (FTEs) | | 45 | 45 | 42 | 53 |
| Average staff costs ($'000s) | | 67 | 65 | 68 | 63 |
| Average leave balance per FTE ($'000s) | | 16 | 15 | 14 | 12 |

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*
**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*
*Where the ratio is positive, as is the case with Latrobe Council since 2009-10, liquid assets exceed total liabilities.*

## Comment

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

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

Interest coverage ratios reflected Council's low level of finance costs because of its low level of borrowings.

Asset investment ratio shows Council's total capital expenditure was well above depreciation expense for all years under review, except for 2009-10. The expenditure averaged 107% over the four years. This indicates Council is investing strongly in new assets but, based on our calculation of the Asset sustainability ratio, it is under-investing in existing assets.

Council's positive Self financing ratios indicate it generated operating cash flows which contributed towards capital expenditure programs. Own source revenue percentages show Council generated the majority of its operating revenue from its own sources and in 2011-12 was reliant on recurrent grant funding to the extent of only 15.0% (2010-11, 16.6%).

Creditor turnover was around benchmark in two of the four years under review. The higher ratios in 2009-10 and 2011-12 were due to the inclusion of large capital contract payments. Council's policy is to pay outstanding creditors within a 30 day period.

Rates per rateable property is trending upward and correspond with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs were consistent across the period.

Average staff costs and Average leave balances increased over the review period, mainly due to pay rises in response to increases in CPI. Council does not have a current Enterprise Agreement. The 2009-10 Average costs were higher mainly due to the FTE numbers at 30 June 2010 excluding recently vacated positions, but Employee costs including salary costs for those positions.

# SOUTHERN MIDLANDS COUNCIL

## INTRODUCTION

Council has a controlling interest in two entities. In 2010-11 Council created two companies based on a strategic objective of developing its heritage base to generate employment and business growth and because of its large stock of heritage assets requiring conservation and restoration work. It invested a total of $0.200m in these two companies in 2010-11. The financial statements of these entities have been consolidated into Council's financial statements and in the related notes. Refer to Results of Subsidiary Entities at the end of this Chapter for details about each of these subsidiaries which are:

- Heritage Building Solutions Pty Ltd
- Heritage Education & Skills Centre Pty Ltd.

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 28 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Comparing budget to actual financial performance

As previously mentioned, Council's financial report is prepared on a consolidated basis. However, its budget is based on Council's operations excluding its subsidiaries. Consequently, comparison in the Statement of Comprehensive Income section of this Chapter between actual and budget is impractical and difficult and lowering accountability. Council should consider preparing a budget covering all of its activities.

The audit was completed satisfactorily with no major issues outstanding.

## FINANCIAL RESULTS

Council generated a Net Operating Deficit of $1.315m in 2011-12 (2010-11, $0.909m). While we acknowledge this result was better than the estimated Deficit of $1.482m, the fact that Council is budgeting for a deficit and has generated deficits in each year under review is of concern. It is our view that, to assure long-term financial sustainability, Council should, as a minimum, operate on a break-even basis before capital grants and infrastructure adjustments but inclusive of Depreciation. The deficit of $1.315m represented 14.8% (11.0%) of operating revenues including interest.

In reaching this conclusion, we acknowledge that Council generates positive operating cash flows.

Council achieved a Net Deficit, after capital grants of $0.057m (Net Surplus 2010-11, $0.909m) and a Comprehensive Surplus of $0.495m ($5.138m). The Comprehensive Surplus included asset revaluation increments of $0.522m and fair value adjustments to Council's interest in Southern Water of $0.030m.

Consistent with its Comprehensive Surplus of $0.495m, Council's Net Assets increased to $98.359m. As at 30 June 2012 Council had Net Working Capital of $7.343m, slightly down on prior year of $7.598m.

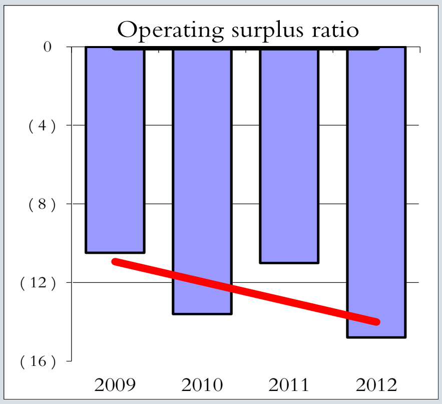
## Assessment of financial sustainability

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

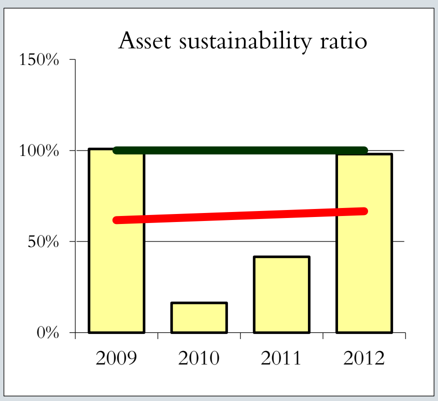
### Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. As was the position at 30 June 2011, we were not able to comment on the asset renewal funding ratio, as Council was in the process of finalising a long-term asset management and financial management plans.

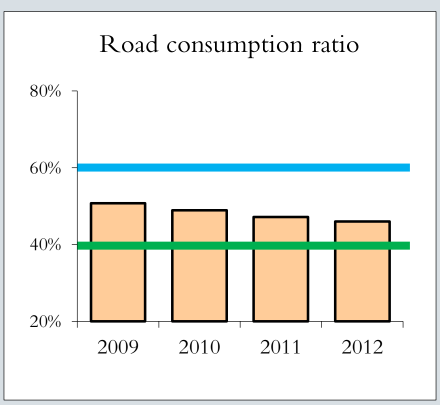
In general, the ratios indicate:




Council's Operating surplus ratios show operating deficits recorded in each of the four years under review. The negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. The trend line suggests this situation is not improving.

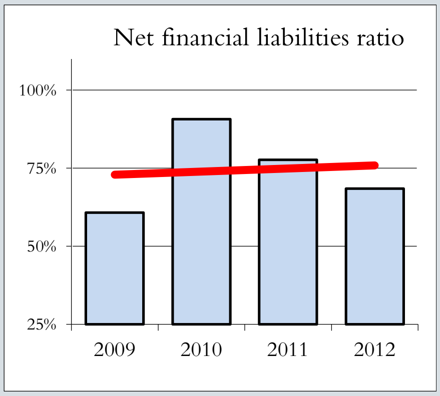



Asset sustainability ratios were below the 100% benchmark in three of the four years, and averaged 64% of the four year period. The ratio indicated, subject to levels of maintenance expenditure and long-term asset management plans, Council may be under-investing in existing assets.




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

The graph indicates that at 30 June 2012, Council had used (consumed) approximately 54% of the service potential of its road infrastructure assets. This indicated a moderate financial sustainability risk. Overall, at that point in time, Council's road assets had sufficient capacity to continue to provide service to its ratepayers. Of concern is the steady decline in the ratio which seems consistent with our observation when discussing the Asset sustainability ratio.




Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of current and non-current liabilities, in each year under review. Council's total liabilities consist of payables, employee provisions and borrowings. Its positive ratios indicate a strong liquidity position and an ability to meet existing short-term commitments.

### Governance

A review of Council's governance arrangements indicated Council does not have an audit committee or internal audit function.

Council are currently finalising its long-term asset management and financial management plans.

## Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating deficit in each of the four years under review. Of concern is that Council continues to budget for deficits.

The Asset sustainability ratio indicated, based on our benchmark, that Council under-invested in existing assets in the period of the analysis, with an average ratio of 64%. Its Road consumption ratio was declining although still within our moderate risk range.

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

Council does not have an audit committee and is still finalising long-term financial management and asset management plans. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we have concluded that at 30 June 2012, Council was at a high financial sustainability risk from an operating and governance perspective, moderate risk from an asset management perspective and low risk from a net financial liabilities perspective.

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

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 3 795 | 3 811 | 3 617 | 3 422 |
| Fees and charges | 1 041 | 783 | 711 | 641 |
| Grants ** | 2 852 | 3 140 | 3 001 | 2 802 |
| Other revenue | 42 | 797 | 583 | 32 |
| **Total Revenue** | **7 730** | **8 531** | **7 912** | **6 897** |
| Employee costs | 3 340 | 3 377 | 2 908 | 2 613 |
| Depreciation | 3 049 | 3 114 | 3 185 | 3 075 |
| Other expenses | 3 017 | 3 652 | 3 011 | 2 388 |
| **Total Expenses** | **9 406** | **10 143** | **9 104** | **8 076** |
| **Net Operating (Deficit) before** | **(1 676)** | **(1 612)** | **(1 192)** | **(1 179)** |
| Finance costs | (56) | (64) | (69) | (55) |
| Interest revenue | 250 | 361 | 352 | 260 |
| **Net Operating (Deficit)** | **(1 482)** | **(1 315)** | **(909)** | **(974)** |
| Capital grants | 451 | 519 | 1 784 | 1 752 |
| Financial assistance grant received in advance ** | 0 | 1 459 | 720 | 686 |
| Offset Financial assistance grant in advance ** | 0 | (720) | (686) | (649) |
| **Net Surplus (Deficit)** | **(1 031)** | **(57)** | **909** | **815** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 522 | 1 402 | 392 |
| Fair value initial adjustment Southern Water | 0 | 0 | 0 | (322) |
| Fair value adjustment arising from change in allocation order | 0 | 0 | 2 747 | 0 |
| Current year fair value adjustment Southern Water | 0 | 30 | 80 | 0 |
| **Total comprehensive income items** | **0** | **552** | **4 229** | **70** |
| **Comprehensive Surplus (Deficit)** | **(1 031)** | **495** | **5 138** | **885** |

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

*** Grants received in advance have been shown separately after Net Operating Deficit.*

*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income*

### Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenues of $1.612m (2010-11, $1.192m), an increase of $0.420m. The higher Deficit was predominantly due to:

- increased Employee costs of $0.469m, primarily due an EBA increase of 2.7% applied from July 2011, and higher employee costs of $0.156m attributable to Council's wholly owned subsidiary, Heritage Building Solutions Pty Ltd, which operated for a full year in 2011-12
- additional Other expenses of $0.641m, primarily due to the refund of a grant overpayment of $0.108m to DIER for underground power recognised in 2010-11, and increased expenditure related to Council's wholly owned subsidiaries of $0.185m, offset by

- higher Rates revenue of $0.194m, primarily attributable to an increase in the general rate charged
- increased Other revenue of $0.214m, primarily due to higher external sales revenue derived from Council's wholly owned subsidiary, Heritage Building Solutions Pty Ltd, of $0.229m.

After accounting for Interest revenue and Finance costs, Council achieved a Net Operating Deficit of $1.315m (2010-11, $0.909m). Net interest revenue was a consistent source of revenue for Council averaging $0.322m over the past four years.

Excluding non-operating items, Council budgeted for a Deficit of $1.482m, which was $0.167m lower than the actual deficit of $1.315m. The improved result was mainly due to both Other revenue and expenses excluding the impact of the subsidiaries transactions.

Following the recognition of Capital grants, Council recorded a Net Deficit of $0.057m for 2011-12, a decrease of $0.966m from the $0.909m Surplus in 2010-11.

Other Comprehensive Income totalled $0.552m in 2011-12 and comprised:

- fair value revaluation of Council's bridge assets, with increments of $0.522m
- an increase in the recorded value of Council's investment in Southern Water of $0.030m being Council's 1.50% interest in the increase in net assets of Southern Water at 30 June 2012.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 8 081 | 8 281 | 8 457 |
| Receivables | 691 | 750 | 579 |
| Inventories | 330 | 246 | 97 |
| **Total Current Assets** | **9 102** | **9 277** | **9 133** |
| Payables | 657 | 568 | 531 |
| Borrowings | 115 | 102 | 96 |
| Provisions - employee benefits | 987 | 1 009 | 914 |
| **Total Current Liabilities** | **1 759** | **1 679** | **1 541** |
| **Net Working Capital** | **7 343** | **7 598** | **7 592** |
| Property, plant and equipment | 78 098 | 77 383 | 75 149 |
| Investment in water corporation | 13 847 | 13 817 | 10 990 |
| **Total Non-Current Assets** | **91 945** | **91 200** | **86 139** |
| Borrowings | 838 | 804 | 905 |
| Provisions - employee benefits | 91 | 130 | 100 |
| **Total Non-Current Liabilities** | **929** | **934** | **1 005** |
| **Net Assets** | **98 359** | **97 864** | **92 726** |
| Reserves | 41 712 | 41 677 | 37 941 |
| Accumulated surpluses | 56 647 | 56 187 | 54 785 |
| **Total Equity** | **98 359** | **97 864** | **92 726** |

## Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $0.495m. Net Assets increased in 2012 by the same amount to $98.359m. Reasons for major line item movements included:

- lower Cash and financial assets of $0.200m which is discussed further in the Statement of Cash Flows section of this Chapter
- higher Inventories of $0.084m primarily due to an increase in stock held for Callington Mill of $0.053m, and an increase in billable work in progress of $0.064m attributable to Council's wholly owned subsidiary, Heritage Building Solutions Pty Ltd
- increased Payables of $0.089m primarily attributable to the inclusion of outstanding invoices for Council's wholly owned subsidiaries, Heritage Building Solutions Pty Ltd and Heritage Education & Skills Centre Pty Ltd. This was expected based on the increased levels of activity of these two companies compared to last year.
- increased Property, plant and equipment of $0.715m primarily due to:
    - revaluation increments of $0.522m
    - additions of $3.349m, offset by
    - depreciation expense of $3.114m
- fair value adjustments to Council's investment in Southern Water of $0.030m, as discussed in the Statement of Comprehensive Income section of this Chapter.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 5 614 | 5 170 | 4 521 |
| Cash flows from government | 3 879 | 3 035 | 2 839 |
| Payments to suppliers and employees | (7 284) | (6 309) | (5 024) |
| Interest received | 361 | 352 | 259 |
| Finance costs | (64) | (69) | (55) |
| **Cash from operations** | **2 506** | **2 179** | **2 540** |
| Capital grants and contributions | 519 | 1 784 | 1 860 |
| Payments for property, plant and equipment | (3 697) | (4 224) | (3 324) |
| Proceeds from sale of property, plant and equipment | 420 | 179 | 326 |
| Distributions Southern Water | 5 | 0 | 0 |
| **Cash (used in) investing activities** | **(2 753)** | **(2 261)** | **(1 138)** |
| Proceeds from borrowings | 150 | 0 | 150 |
| Repayment of borrowings | (103) | (94) | (84) |
| **Cash from (used in) financing activities** | **47** | **(94)** | **66** |
| **Net increase (decrease) in cash** | **(200)** | **(176)** | **1 468** |
| Cash at the beginning of the year | 8 281 | 8 457 | 7 026 |
| Less cash transferred to Southern Water | 0 | 0 | (37) |
| **Cash at end of the year** | **8 081** | **8 281** | **8 457** |

## Comment

Council's cash balance at 30 June 2011-12, $8.081m, comprised cash at bank, on hand and short-term deposits.

Council's cash position reduced by $0.200m during 2011-12 with Cash from operations of $2.506m, Capital grants and contributions of $0.519m and Proceeds from sale of property, plant and equipment, $0.420m, being insufficient to fund Payments for property, plant and equipment of $3.697m and the Repayment of borrowings, $0.103m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.327m to $2.506m which included:

- Council's Net operating deficit $1.315m adjusted for depreciation of $3.114m, a non-cash item, providing $1.799m in operating cash inflows
- the net impact of Financial assistance grants in advance, $0.739m, recorded as Cash from operations but excluded from the Net operating deficit.

Payments for property, plant and equipment of $3.697m largely comprised capital expenditure for:

- Roads, $1.353m, with major expenditure on High Street - Underground Cabling project, $0.337m, road re-sheeting, $0.439m, and Huntington Tier Road (to Dysart Tip) works, $0.148m
- Bridges, $0.801m, with major expenditure on the Elderslie Rd (Jordan River Bridge) bridge $0.757m
- Buildings, $0.846m, including the Community Library Extension, $0.279m, and works undertaken to the Heritage Centre, $0.181m, and 79 High Street, $0.120m
- Plant and equipment, $0.872m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating (deficit) ($'000s) | | (1 315) | (909) | (974) | (872) |
| Operating surplus ratio * | > 0 | (14.79) | (11.00) | (13.61) | (10.49) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 98% | 42% | 16% | 101% |
| Asset renewal funding ratio* ** | 90% - 100% | n/a | n/a | n/a | n/a |
| Roads consumption ratio * | >60% | 46.0% | 47.2% | 48.9% | 50.8% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 6 084 | 6 418 | 6 490 | 5 052 |
| Net financial liabilities ratio * *** | 0% - (50%) | 68.4% | 77.7% | 90.7% | 60.8% |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 11.36 | 13.48 | 14.41 | 13.19 |
| Current ratio | 1:1 | 5.17 | 5.53 | 5.93 | 5.68 |
| Interest Coverage | | 44.40 | 31.04 | 45.18 | 37.53 |
| Asset investment ratio | >100% | 119% | 133% | 108% | 115% |
| Self financing ratio | | 28.2% | 26.4% | 35.5% | 36.2% |
| Own source revenue | | 64.7% | 63.7% | 60.8% | 65.8% |
| Debt collection | 30 days | 52 | 63 | 52 | 63 |
| Creditor turnover | 30 days | 30 | 26 | 31 | 22 |
| Rates per capita ($) | | 609 | 589 | 565 | 627 |
| Rates to operating revenue | | 42.9% | 43.8% | 47.8% | 44.8% |
| Rates per rateable property ($) | | 1 077 | 1 035 | 983 | 1 089 |
| Operating cost to rateable property ($) | | 2 886 | 2 625 | 2 336 | 2 686 |
| Employee costs expensed ($'000s) | | 3 222 | 2 908 | 2 613 | 2 873 |
| Employee costs capitalised ($'000s) | | 155 | 362 | 284 | 223 |
| **Total employee costs ($'000s)** | | **3 377** | **3 270** | **2 897** | **3 096** |
| Employee costs as a % of operating expenses | | 33% | 32% | 32% | 31% |
| Staff numbers (FTEs) | | 47 | 47 | 44 | 45 |
| Average staff costs ($'000s) | | 73 | 70 | 66 | 69 |
| Average leave balance per FTE ($'000s) | | 23 | 24 | 23 | 20 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

** *Information not available to calculate ratio.*

*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive, as is the case with Southern Midlands Council, liquid assets exceed total liabilities.*

## Comment

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

Liquidity ratios show Council had sufficient liquid assets to meet its short-term liabilities as they fall due.

Current ratio reflects a strong financial position and was well above benchmark in all four years under review, which indicated an ability to meet Council's short-term commitments.

Interest coverage ratios were consistent with Council's low level of borrowings.

Asset investment ratios indicate Council's investment in new and existing assets for the four years under review was above benchmark. This was assisted by work undertaken on the refurbishment of the Callington Mill. This ratio should be read in conjunction with the Asset sustainability ratio shown in graphical format in the Financial Results section of this Chapter.

Own source revenue shows Council generated the majority of its operating revenue from its own sources although in 2011-12 it was reliant on grant funding to the extent of 35% (2010-11, 36%).

Debt collection ratios were worse than benchmark for all four years under review. This is because Council's Receivables were high in relation to its Rate revenue and Fees and charges. This suggests Council could improve its debt collection processes, with rate and other debtors remaining relatively high in each of the four years under review.

Rates per rateable property is trending upwards, but corresponds with rate increases over the period under review. Its rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates no longer being raised.

Employee costs as a percentage of operating costs remained relatively unchanged during the four year period under review.

Average staff costs increased over the period under review in line with Council's EBA increases. The decrease in 2009-10 was impacted by the departure of three employees to Southern Water. In both 2010-11 and 2011-12 Average salary cost included employees from Council's subsidiaries.

## RESULTS OF SUBSIDIARY ENTITIES

### Heritage Building Solutions Pty Ltd

| | 2012 | 2011 |
|---|---|---|
| | $'000s | $'000s |
| Total Revenue | 834 | 938 |
| Total Expenses | 864 | 879 |
| **Net Profit (Loss)** | **(30)** | **59** |
| Total Assets | 385 | 473 |
| Total Liabilities | 356 | 414 |
| **Net Assets** | **29** | **59** |
| **Total Equity** | **29** | **59** |

### Comment

Heritage Building Solutions Pty Ltd (the Company) is a wholly owned small proprietary company. Council has determined the Company as not being a reporting entity and it was not subject to an audit. However, financial results were reviewed as part of our audit of Council's financial statements.

The Company has a Board comprising three directors who undertake a management and governance role in its operations. The directors include Council's General Manager and two external appointments.

The Company was established on 19 July 2010, with the purpose to provide professional heritage conservation and restoration services to property owners, specialising in heritage and special restorations, additions and renovations, including stonemasonry. As at 30 June 2012, Council had invested $0.150m in the Company.

During 2011-12, the Company generated a Net Loss of $0.030m (2010-11, Profit, $0.059m). The loss was predominantly due to travel costs incurred, which were not recoverable as the costs were not included in tenders provided. The Company has taken action to correct the omission of travel costs from future tenders. The Board has considered this issue and taken a decision to focus on projects undertaken on either a cost recovery basis, or projects that reduce the level of risk for the Company as the key contractor.

During 2011-12 the Company generated the majority of its income from external sources, with only $0.085m (2010-11, $0.417m) attributable to Council. Council related transactions are at arm's length and eliminated on consolidation.

## Heritage Education & Skills Centre Pty Ltd

| | 2012 | 2011 |
|---|---|---|
| | $'000s | $'000s |
| Total Revenue | 11 | 0 |
| Total Expenses | 24 | 2 |
| **Net Profit (Loss)** | **(13)** | **(2)** |
| Total Assets | 44 | 50 |
| Total Liabilities | 59 | 52 |
| **Net Assets** | **(15)** | **(2)** |
| **Total Equity** | **(15)** | **(2)** |

## Comment

Heritage Education & Skills Centre Pty Ltd (the Company) is a wholly owned small proprietary company. Council has determined the Company as not being a reporting entity and it was not subject to an audit.

The Company has a Board comprising three directors who undertake a management and governance role in its operations. The directors include Council's General Manager and two external appointments.

The Company was established on 28 July 2010, with the objectives to facilitate research and provide education and training in all aspects of traditional heritage building skills, reducing skills shortages and skills gaps.

The Company did not trade in the financial period to 30 June 2011. It generated Net Loss for 2011-12 of $0.013m, as revenue derived from short courses offered was not sufficient to cover costs of service delivery. Going forward, the Company will seek to ensure it obtains sufficient revenue from participants in training courses and income received from consultancy services to cover its costs.

# TASMAN COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012. Following the audit, the financial statements were re-signed on 26 September 2012 and an unqualified audit report was issued on 30 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

### Road revaluation

Council undertook a full independent revaluation of road and bridge assets in 2011-12, which included a condition assessment, by engaging Brighton Council engineers and TasSpan. The valuation was at fair value based on replacement cost less accumulated depreciation as at 30 June 2012 and concluded that the remaining service potential of Council's road and bridge assets was high, resulting in the asset revaluation reserve increasing by $28.893m.

The following residuals were determined:

- seal residual at 40% of replacement cost
- seal pavement residual at 30% of replacement cost
- unsealed road residual of 95%.

The effect of establishing these residuals is that they will not be depreciated over the life of these assets. So, for example, in the case of seal road pavement, only the replacement cost to the extent of 70% will be subject to depreciation.

In our view, roads have limited useful lives and therefore are depreciable assets in their entirety. Therefore, residual amount should be depreciated over the period which roads are expected to be available for use by a council. The useful life is determined by various factors such as expected usage, expected physical wear and tear and technical or commercial obsolescence arising from changes or improvements.

Subsequently, Council adjusted the unsealed pavement residual amount from 95% to nil, resulting in the written down value of unsealed pavement decreasing by $4.238m. The seal and seal pavement residual remained unadjusted.

We recommended Council review in 2012-13 their approach to establishing seal and seal pavement residuals.

### Rates revaluation

The Valuer-General carries out a full valuation of Council's properties once every six years. The Assessed Annual Value of rateable property increased by 43% in 2011-12. In response to this, Council remodelled its rates charges to ensure an increase in total General rates did not exceed a CPI based index. This resulted in Council making a General Rate comprising 6.487214 cents (2010-11: 11.666933 cents) in the dollar on the Assessed Annual Value, with a fixed charge of $268.63 on all rateable land.

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.482m in 2011-12 (2010-11, $0.718m). It reported a Net Surplus of $1.849m ($1.012m), which included Capital grants of $0.571m ($0.145m), net Financial Assistance Grants received in advance of $0.283m ($0.019m) and Contributions – non-monetary assets, $0.513m ($0.130m).

Council achieved a Comprehensive Surplus of $30.744m ($1.689m) which included the net impact of upward asset revaluations, $28.893m ($0.672m).

Consistent with the Comprehensive Surplus of $30.744m, Council's Net Assets increased to $48.238m, up from $17.494m the previous period. As at 30 June 2012, Council had Net Working Capital of $3.411m, up from $2.103m at 30 June 2011.

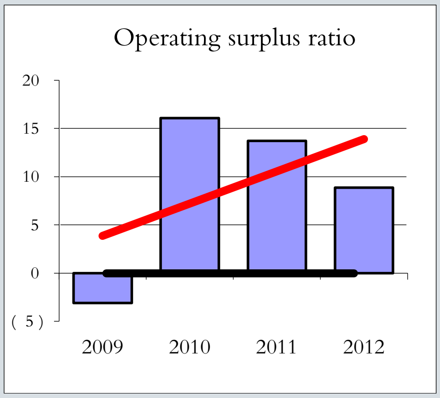
## Assessment of financial sustainability

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

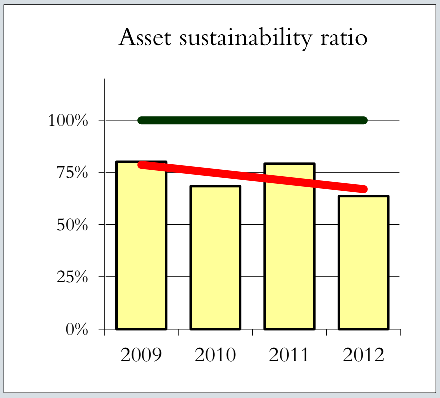
### Relevant financial sustainability ratios

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

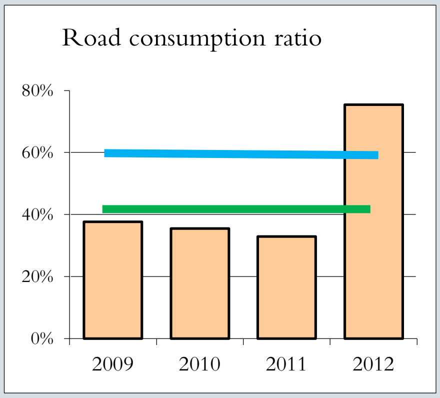
In general, the ratios indicate:




Positive Operating surplus ratios reflect Council's operating surpluses in three of the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operational requirements, including its depreciation charges. The deficit in 2008-09 was due to the timing of revenue and expenditure for Pirates Bay visitor centre. The expenditure was recorded in 2008-09, whereas the funding was received in the previous year.

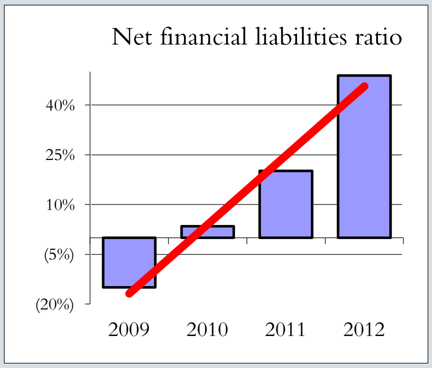



Asset sustainability ratio was below benchmark in all four years and averaged 73% over the four year period, which indicates that Council was under investing in existing assets. Council needs to address the declining trend in the ratio to ensure sufficient investment in these assets.




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

The graph indicates that at 30 June 2012 Council had used (consumed) approximately 25% of its road assets indicating that, at that point in time, its roads had the capacity to continue to provide service to its ratepayers. Council undertook a full revaluation (referred to earlier) of its roads assets in 2011-12, which included a condition assessment and concluded that the remaining service potential of its roads assets was high.




Council's Net financial liabilities ratio improved over the four year period, with the positive ratio at 30 June 2012 indicating liquid assets well in excess of total liabilities. Council was in a strong liquidity position able to meet its current commitments. The improvement in 2009-10 resulted from the transfer of borrowings to Southern Water. Further improvements since then were due to growing cash and receivable balances relative to liabilities.

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

### Governance

A review of governance arrangements indicated that Council does not have:

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

## Conclusion as to financial sustainability

From a financial operating perspective, Council's operating surpluses indicate it is generating sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, that it under invested in existing assets over the last four years. Despite this, Council's Road consumption ratio improved in 2011-12 to the point where its consumption risk was low.

Net financial liabilities ratio was positive at 30 June 2012 demonstrating Council had the capacity to service debt and could borrow should the need arise.

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

Based on these ratios and governance arrangements, we concluded that at 30 June 2012 Council was at high financial sustainability risk from a governance perspective, moderate risk from an asset management perspective and a low risk from operating and financial liabilities perspectives.

Audit Committee – Council remains unconvinced of the necessity from, or benefits of, an audit committee in an organisation the size of Tasman Council. Before such a committee is created and implemented, further justification with likely terms of reference, composition etc would be sought to determine a cost/benefit outcome that would then warrant its adoption.

Asset Management Plan – Council adopted and endorsed a Transport (Roads and Bridges) Asset Management Policy and Plan at their September 2012 Ordinary Council meeting. With improvements to financial reporting of maintenance activities implemented in 2012-13, a 12 month review of the Plan will result in the robustness of the underpinning data being confirmed and/or improved.

Council holds an alternative view to the approach adopted by the TAO that there should be nil residual value in unsealed pavement, that all affected roads be depreciated commencing in one financial year and that the same approach be adopted on the seal and pavement of sealed roads.

Council adjusted the unsealed pavement residual from 95% to nil as requested by the TAO which resulted in the WDV decreasing by $4.238m and depreciation being impacted in conjunction with the asset sustainability ratio. Council, however, is not aware over a significant period of time of an example whereby an unsealed (or any) road at Tasman Council has become obsolete and replaced with an alternate road or where it was rebuilt and none of the existing pavement was re-used.

It is Council's view that the likelihood of an unsealed pavement in Tasman Council having nil residual value over it's useful life and that all unsealed roads be depreciated 100% and all commencing at the same time, is unrealistic. If this approach is adopted, then Council respectfully submits that it should be applied consistently to all Councils and that the depreciation be adjusted based on the current age/condition of the asset.

A buildings and reserves asset management plan will also be developed and implemented in 2012-13 to feed into the LTFP.

Long-term Financial Plan – A 10 year LTFP will be developed and implemented in 2012-13. During 2011-12 the following was achieved in establishing a sound foundation for the development of the LTFP:

- Revised and updated municipal road map;
- Road and bridge asset condition rating;
- Road and bridge asset revaluation;
- Road and bridge asset management policy and plan – 2012-13.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 3 671 | 3 686 | 3 552 | 3 347 |
| Fees and charges | 287 | 390 | 403 | 429 |
| Grants ** | 1 026 | 945 | 888 | 1 073 |
| Other revenue | 192 | 231 | 240 | 478 |
| **Total Revenue** | **5 176** | **5 252** | **5 083** | **5 327** |
| Employee costs | 1 111 | 1 135 | 1 176 | 1 143 |
| Depreciation | 1 101 | 1 197 | 985 | 960 |
| Other expenses | 3 115 | 2 578 | 2 300 | 2 331 |
| **Total Expenses** | **5 327** | **4 910** | **4 461** | **4 434** |
| **Net Operating Surplus (Deficit) before** | **(151)** | **342** | **622** | **893** |
| Finance costs | (54) | (54) | (55) | (85) |
| Interest revenue | 74 | 194 | 151 | 58 |
| **Net Operating Surplus (Deficit)** | **(131)** | **482** | **718** | **866** |
| Capital grants | 0 | 571 | 145 | 264 |
| Contributions - non-monetary assets | 0 | 513 | 130 | 0 |
| Financial assistance grant received in advance ** | 0 | 502 | 219 | 235 |
| Offset Financial assistance grant in advance ** | 0 | (219) | (200) | (167) |
| **Net Surplus (Deficit)** | **(131)** | **1 849** | **1 012** | **920** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | 28 893 | 672 | 460 |
| Current year fair value adjustment Southern Water | 0 | 2 | 5 | 0 |
| **Comprehensive Surplus (Deficit)** | **(131)** | **30 744** | **1 689** | **1 638** |

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

*** Grants received in advance have been shown separately after Net Operating Surplus.*

*The offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenue of $0.342m, a decrease of $0.280m from the 2010-11 surplus of $0.622m, but $0.493m better than budgeted. The lower Net Operating Surplus before net financing revenue was primarily driven by:

- higher Depreciation of $0.212m, being the full year impact of the revaluation of road assets indexation adjustment in 2010-11
- higher Other expenses of $0.278m, due to increased spending on a sealed road patching program, $0.133m, Nabeena Road Slump, $0.050m, Port Arthur Recreation Ground,$0.046m, and revaluation expenses, $0.044m.

The above factors were partially offset by

- increased Rates of $0.134m, due to a higher general rate and fire levy and waste management charges
- higher Grants, $0.057m
- lower Employee costs of $0.041m, due to staff turnover and several positions were replaced with employee at lower salary bands.

After accounting for interest revenues and finance costs, Council generated a Net Operating Surplus of $0.482m (2010-11, $0.718m).

Council's Net Surplus amounted to $1.849m in 2011-12, a $0.837m improvement from the $1.012m surplus in 2010-11. The improvement was predominantly due to:

- Contributions – non-monetary assets received for Footpath and Kerbs identified as Council owned, $0.513m, compared to Land identified as Council owned $0.130m in 2010-11
- higher Capital grants,$0.426m, due mainly to the receipt of Roads to Recovery grants in 2011-12 covering the previous two years of $0.328m and Blackspot project funding of $0.108m.

Other Comprehensive Income resulted in a surplus of $30.744m, primarily due to fair value revaluation of roads and bridges assets, $28.893m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000s |
| Cash and financial assets | 3 057 | 1 973 | 1 677 |
| Receivables | 523 | 219 | 274 |
| Other financial assets | 250 | 250 | 0 |
| Inventory | 6 | 0 | 0 |
| **Total Current Assets** | **3 836** | **2 442** | **1 951** |
| Payables | 267 | 181 | 307 |
| Borrowings | 84 | 89 | 219 |
| Provisions - employee benefits | 74 | 69 | 50 |
| Other | 0 | 0 | 196 |
| **Total Current Liabilities** | **425** | **339** | **772** |
| **Net Working Capital** | **3 411** | **2 103** | **1 179** |
| Property, plant and equipment | 44 553 | 15 215 | 14 595 |
| Investments in associates | 66 | 39 | 50 |
| Investment in Southern Water | 922 | 920 | 915 |
| Intangible assets | 29 | 15 | 48 |
| **Total Non-Current Assets** | **45 570** | **16 189** | **15 608** |
| Borrowings | 670 | 743 | 907 |
| Provisions - employee benefits | 47 | 20 | 20 |
| Other | 26 | 35 | 68 |
| **Total Non-Current Liabilities** | **743** | **798** | **995** |
| **Net Assets** | **48 238** | **17 494** | **15 792** |
| Reserves | 35 982 | 7 087 | 5 446 |
| Accumulated surpluses | 12 256 | 10 407 | 10 346 |
| **Total Equity** | **48 238** | **17 494** | **15 792** |

### Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $30.744m during 2012. Net Assets increased by the same amount to $48.238m. Reasons for major line item movements were:

- higher Cash and financial assets of $1.084m. Refer to the Statement of Cash Flows section of this Chapter for further explanation
- higher receivables of $0.304m, mainly due to Blackspot Grant of $0.119m owed from the Department of Infrastructure, Energy and Resources and increased Rates debtors of $0.061m
- increased Property, plant and equipment,$29.338m, primarily due to additions, $1.626m, and revaluation increments, $28.893m, offset by depreciation of $1.181m
- lower total Borrowings, $0.078m, as a result of loan repayments made during the year.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000 | $'000s | $'000s |
| Receipts from customers | 4 272 | 4 408 | 3 891 |
| Cash flows from government | 1 228 | 888 | 811 |
| Payments to suppliers and employees | (3 886) | (3 901) | (3 510) |
| Interest received | 174 | 199 | 56 |
| Finance costs | (54) | (55) | (85) |
| **Cash from operations** | **1 734** | **1 539** | **1 163** |
| Capital grants and contributions | 571 | 145 | 263 |
| Payment for other financial assets | 0 | (250) | 0 |
| Payments for property, plant and equipment | (1 143) | (853) | (765) |
| Proceeds from sale of property, plant and equipment | 0 | 9 | 90 |
| **Cash (used in) investing activities** | **(572)** | **(949)** | **(412)** |
| Repayment of borrowings | (78) | (294) | (215) |
| **Cash from (used in) financing activities** | **(78)** | **(294)** | **(215)** |
| **Net increase in cash** | **1 084** | **296** | **536** |
| Cash at the beginning of the year | 1 973 | 1 677 | 844 |
| Transfer on restructure | 0 | 0 | 297 |
| **Cash at end of the year** | **3 057** | **1 973** | **1 677** |

## Comment

At 30 June 2012 Council held cash and financial assets of $3.057m comprising cash at bank and on hand, $0.237m, and short-term deposits, $2.820m. No restricted cash was held.

Council's cash position improved by $1.084m during 2011-12, with Cash from operations, $1.734m, and Capital grants and contributions, $0.571m, being more than sufficient to meet Payments for property, plant and equipment, $1.143m, and Repayments of borrowings, $0.078m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.195m to $1.734m, which included:

- Council's operating surplus of $0.482m adjusted for depreciation of $1.197m, a non-cash item, providing $1.679m in operating cash flow
- additional financial assistance grants in advance of $0.283m received in 2011-12, offset by
- a net impact of $0.228m in non-cash adjustments relating to the movements in Receivables, Payables and Provisions.

Major capital expenditure projects during the period included roads and bridges $0.620m, building improvements, $0.080m, motor vehicles, $0.275m, plant, $0.107m, software, $0.030m, and work in progress, $0.032m.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus (deficit) ($'000s) | | 482 | 718 | 866 | (187 ) |
| Operating surplus ratio * | > 0 | 8.85 | 13.72 | 16.08 | (3.08) |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 64% | 79% | 68% | 80% |
| Asset renewal funding ratio* ** | 90% - 100% | n/a | n/a | n/a | n/a |
| Road asset consumption ratio * | > 60% | 75.4% | 32.9% | 35.5% | 37.7% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($000's) | | 2 662 | 1 055 | 184 | (909 ) |
| Net financial liabilities ratio * *** | 0% - (50%) | 48.9% | 20.2% | 3.4% | (15.0%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 6.27 | 8.12 | 2.70 | 1.87 |
| Current ratio | 1:1 | 9.03 | 7.20 | 2.53 | 1.53 |
| Interest Coverage | | 31.11 | 26.98 | 12.68 | (1.13 ) |
| Asset investment ratio | >100% | 95% | 87% | 80% | 160% |
| Self financing ratio | | 31.8% | 29.4% | 21.6% | (0.2%) |
| Own source revenue | | 82.6% | 83.0% | 80.1% | 61.8% |
| Debt collection | 30 days | 39 | 20 | 26 | 30 |
| Creditor turnover | 30 days | 26 | 21 | 36 | 30 |
| Rates per capita ($) | | 1,500 | 1,472 | 1 410 | 1 258 |
| Rates to operating revenue | | 67.7% | 67.9% | 62.2% | 48.1% |
| Rates per rateable property ($) | | 1 096 | 1 058 | 868 | 773 |
| Operating cost to rateable property ($) | | 1 444 | 1 312 | 1 173 | 1 658 |
| Employee costs expensed ($'000s) | | 1 143 | 1 176 | 1 143 | 2 483 |
| Employee costs capitalised ($'000s) | | 27 | 40 | 75 | 88 |
| **Total employee costs ($'000s)** | | **1 170** | **1 216** | **1 218** | **2 571** |
| Employee costs as a % of operating expenses | | 23% | 27% | 25% | 40% |
| Staff numbers (FTEs) | | 20 | 19 | 18 | 38 |
| Average staff costs ($'000s) | | 59 | 64 | 68 | 68 |
| Average leave balance per FTE ($'000s) | | 6 | 5 | 4 | 5 |

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

## Comment

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

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

Interest coverage ratio increased over these four years under review. It reflected Council's low level of finance costs associate with its borrowings and high level of cash from operations. The negative Interest coverage ratio in 2008-09 was primarily because of Council generating negative operating cash flow.

Self financing ratio indicates Council generated sufficient cash flows from operations in three of the four years under review. The negative ratio in 2008-09 was attributable to an unusually high payables balance at 30 June 2009.

Own source revenue was consistent over the last three periods. It increased significantly in 2009-10 due to a reduction in Commonwealth and State grant funds totalling $1.245m, to operate the Multi Purpose Aged Care Facility.

Debt collection days fluctuated over the period of review, doubling from 20 days in 2010-11 to 39 days in 2011-12, being affected by the timing of billing for the Blackspot grant.

Creditor turnover was consistent with prior year and was better than benchmark at 30 June 2012. Council's policy is to pay all outstanding invoices within a 30 day period.

Rates statistics remained consistent over last two periods. These ratios increased significantly from 2008-09 to 2009-10 with Rates to operating revenue up by 14.1%, as a result of higher rates charged and growth in the number of rateable properties.

Employee numbers in 2011-12 remained stable compared to 2010-11. The significant decrease from 2008-09 to 2009-10 was primarily due to:

- a pro-rata adjustment to staff numbers in 2008-09 to reflect that Multi Purpose Aged Care Facility staff were only employed by Council for the seven months ended 31 January 2009
- Brighton Council was engaged to provide services performed originally by administrative staff, with these charges included in Other expenses.

Average staff costs per FTE were lower than previous years mainly due to staff turnover and some positions replaced with employees in lower salary bands.

# WEST COAST COUNCIL

## AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2012 and an unqualified audit report was issued on 5 September 2012.

## KEY FINDINGS AND DEVELOPMENTS

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

## FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.549m in 2011-12 (2010-11, $0.559m). We note, however, that Council budgeted for a Net Operating Deficit of $0.308m.

Council reported a Net Surplus of $2.251m (2010-11, $3.425m) and a Comprehensive Surplus of $1.704m ($10.142m). The Comprehensive Surplus included net impacts of asset revaluations, a decrement of $0.574m, and a net gain on the write-up of Council's interest in Cradle Mountain Water of $0.027m.

Consistent with the Comprehensive Surplus of $1.704m, Council's Net Assets increased to $103.204m, up from $101.500m the previous year. As at 30 June 2012 Council had Net Working Capital of $4.462m, up from $3.179m in 2011, predominately due to higher cash held at year end.

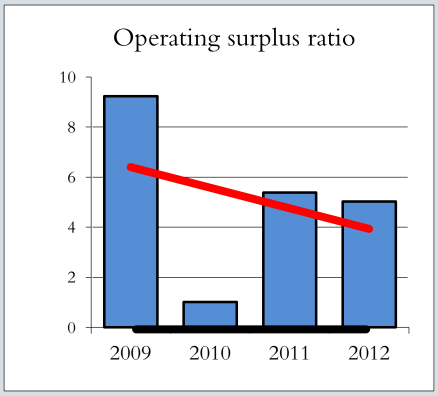
## Assessment of financial sustainability

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

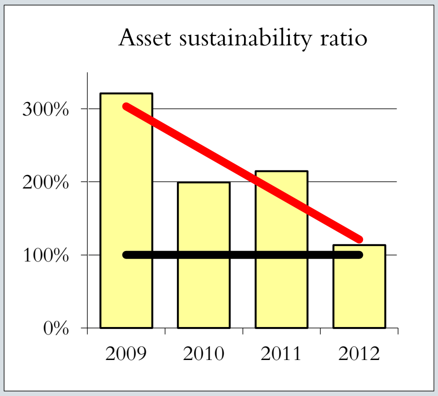
### Relevant financial sustainability ratios

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

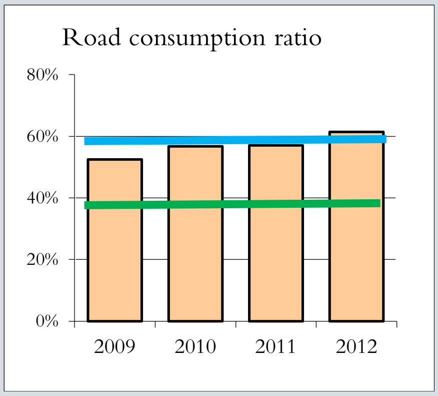
In general, the ratios indicate:




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

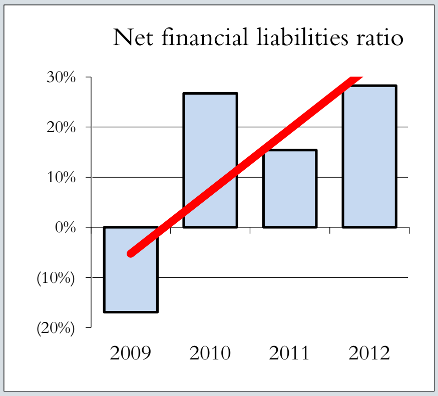



Asset sustainability ratio was above benchmark in all four years under review. Council's average ratio was 214%, well above the benchmark, indicating, Council has been adequately investing in existing assets.




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

The graph indicates at 30 June 2012 Council had used (consumed) approximately 39% of the service potential of its road infrastructure assets. This has consistently improved over the four year period and indicates a low financial sustainability risk.




Council recorded positive Net financial liabilities ratios, with liquid assets in excess of current and non-current liabilities, in three years out of the four under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet its existing commitments.

### Governance

A review of governance arrangements indicated that Council does not have:

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

## Conclusion as to financial sustainability

From a financial operating perspective, Council's operating surpluses indicate it is generating sufficient revenue to meet operating requirements.

Asset sustainability ratio indicated declining expenditure on existing assets since 2009 but with an average above benchmark. Evidence of on-going strong investment in assets is seen in the Road consumption ratio, where steady improvements resulted in the consumption ratio being under 40% at 30 June 2012, which placed Council in a low risk range.

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

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

Based on these ratios and governance arrangements we concluded that at 30 June 2012 Council was at high financial sustainability risk from a governance perspective but at a low risk from operating, asset management and financial liabilities perspectives.

## Management comments on this assessment of its financial sustainability

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

## STATEMENT OF COMPREHENSIVE INCOME

| | 2011-12 Estimate* $'000s | 2011-12 Actual $'000s | 2010-11 Actual $'000s | 2009-10 Actual $'000s |
|---|---|---|---|---|
| Rates | 6 120 | 6 160 | 5 489 | 5 074 |
| Fees and charges | 961 | 1 130 | 916 | 882 |
| Grants ** | 1 773 | 2 307 | 2 301 | 2 115 |
| Other revenue | 793 | 871 | 1 395 | 894 |
| **Total Revenue** | **9 647** | **10 468** | **10 101** | **8 965** |
| Employee costs | 3 941 | 3 619 | 3 196 | 3 048 |
| Depreciation | 2 405 | 2 633 | 2 383 | 2 297 |
| Other expenses | 3 849 | 4 024 | 4 139 | 3 741 |
| **Total Expenses** | **10 195** | **10 276** | **9 718** | **9 086** |
| **Net Operating (Deficit) before** | **(548)** | **192** | **383** | **(121)** |
| Finance costs | (103) | (94) | (102) | (27) |
| Interest revenue | 343 | 451 | 278 | 241 |
| **Net Operating Surplus (Deficit)** | **(308)** | **549** | **559** | **93** |
| Mining companies contribution to Trial Harbour Road | 0 | 0 | 250 | 250 |
| Capital grants | 182 | 789 | 2 199 | 2 164 |
| Financial assistance grant received in advance ** | 0 | 975 | 499 | 441 |
| Offset Financial assistance grant in advance ** | 0 | (499) | (441) | (403) |
| Land and buildings transferred by Crown | 0 | 97 | 163 | 295 |
| Structures transferred from MAST | 0 | 0 | 111 | 0 |
| Transfer from Westhaven Homes | 0 | 340 | 0 | |
| Adjustment for Valuation on Land and Buildings Purchased | 0 | 0 | 227 | 0 |
| Removal of Assets not Controlled | 0 | 0 | (142) | 0 |
| **Net Surplus (Deficit)** | **(126)** | **2 251** | **3 425** | **2 840** |
| **Other Comprehensive Income** | | | | |
| Fair value revaluation of non-current assets | 0 | (574) | 6 599 | 4 692 |
| Fair value initial adjustment Cradle Mountain Water | 0 | 0 | 0 | 4 471 |
| Current year fair value adjustment Cradle Mountain Water | 0 | 27 | 118 | 0 |
| **Total comprehensive income items** | **0** | **(547)** | **6 717** | **9 163** |
| **Comprehensive Surplus (Deficit)** | **(126)** | **1 704** | **10 142** | **12 003** |

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

** *Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
*The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

## Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenue of $0.192m compared to $0.383m in the prior year.

Reasons for major line items movements were:

- increased Rates revenue, $0.671m, due to a higher general rate and fixed charges
- lower Other revenue, $0.524m, caused by decreased investment income received from Cradle Mountain Water, $0.252m, and proceeds from the sale of properties to cover rates, $0.264m, inculded in 2011-11
- higher Employee costs, $0.423m, attributed to annual salaries and wages increments in accordance with Council's Enterprise Agreement and higher staffing levels
- increased Depreciation expenses, $0.250m, predominantly due to significant additions to roads and bridges that were depreciated in this period.

After accounting for interest revenues and finance costs, Council generated a Net Operating Surplus of $0.549m (2010-11, $0.559m) highlighting the relative importance of interest revenue to Council's annual operating performance. Net interest revenue averaged $0.249m per annum over the past three years. The $0.181m increase in 2011-12 was mainly from an interest reimbursement received of $0.199m as a result of the Local Government Infrastructure Assistance Program where loans taken out to generate work in the region had the interest reimbursed by Government.

Council recorded a Net Surplus of $2.251m (2010-11, $3.425m). The $1.702m improvement from the Operating Surplus was due to:

- Grants received for capital works of $0.789m
- receipt of an advance Financial Assistance Grant of $0.975m received in June 2012 from the 2012-13 allocation (2010-11, $0.499m). The advance payment in 2011-12 was for half of next year's allocation, compared to one quarter paid in advance in 2010-11
- land and buildings transferred from the Crown, $0.097m
- transfers from Westhaven Homes, $0.340m.

Council's Net Surplus was $2.377m better than budget predominately due to unbudgeted operating grants, $0.975m, which related to the Financial Assistance Grant received in advance, and unbudgeted capital grants, $0.607m.

Council recorded a Comprehensive Surplus for 2011-12 of $1.704m. This included the Net Surplus, $2.251m, Fair value revaluation decrement of non-current assets, $0.574m, and write-up of the investment its Cradle Mountain Water, $0.027m.

## STATEMENT OF FINANCIAL POSITION

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and financial assets | 5 721 | 4 166 | 5 530 |
| Receivables | 393 | 614 | 371 |
| Inventories | 35 | 42 | 39 |
| Other | 54 | 169 | 108 |
| **Total Current Assets** | **6 203** | **4 991** | **6 048** |
| Payables | 874 | 951 | 815 |
| Borrowings | 124 | 115 | 108 |
| Provisions - employee benefits | 479 | 437 | 472 |
| Other | 264 | 309 | 578 |
| **Total Current Liabilities** | **1 741** | **1 812** | **1 973** |
| **Net Working Capital** | **4 462** | **3 179** | **4 075** |
| Property, plant and equipment | 74 611 | 74 281 | 63 414 |
| Investment in Cradle Mountain Water | 25 383 | 25 356 | 25 238 |
| Other | 36 | 54 | 99 |
| **Total Non-Current Assets** | **100 030** | **99 691** | **88 751** |
| Borrowings | 1 153 | 1 277 | 1 392 |
| Provisions - employee benefits | 135 | 93 | 76 |
| **Total Non-Current Liabilities** | **1 288** | **1 370** | **1 468** |
| **Net Assets** | **103 204** | **101 500** | **91 358** |
| Reserves | 62 622 | 60 370 | 34 413 |
| Accumulated surpluses | 40 582 | 41 130 | 56 945 |
| **Total Equity** | **103 204** | **101 500** | **91 358** |

## Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Council's Total Equity increased by $1.704m.

Net Assets increased by the same amount with reasons for major line item movements including:

- higher Cash and financial assets, $1.555m, discussed further in the Statement of Cash Flows section of this Chapter
- lower Receivables, down by $0.221m, primarily related to a major debt, $0.111m, held at 30 June 2011, and decreased GST receivable
- lower Other Assets by $0.115m, predominantly due to accrued revenue at 30 June 2011 related to tax equivalents payable to Council by Cradle Mountain Water
- increased total Employee provisions, $0.084m, due to a combination of increased leave balances, wages increments and changes to the discount rate
- increased Property, plant and equipment, $0.330m, primarily due to additions, $3.110m, offset by a revaluation decrement, $0.574m, and depreciation, $2.614m.

## STATEMENT OF CASH FLOWS

| | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Receipts from customers | 7 961 | 7 029 | 6 465 |
| Cash flows from government | 3 003 | 2 468 | 2 234 |
| Payments to suppliers and employees | (7 646) | (7 375) | (6 348) |
| Interest received | 448 | 332 | 180 |
| Finance costs | (96) | (103) | 0 |
| **Cash from operations** | **3 670** | **2 351** | **2 531** |
| Capital grants and contributions | 789 | 2 199 | 2 414 |
| Distributions - Cradle Mountain Water | 429 | 560 | 266 |
| Payments for property, plant and equipment | (3 231) | (6 618) | (6 129) |
| Proceeds from sale of property, plant and equipment | 13 | 252 | 156 |
| **Cash (used in) investing activities** | **(2 000)** | **(3 607)** | **(3 293)** |
| Proceeds from borrowings | 0 | 0 | 1 500 |
| Repayment of borrowings | (115) | (108) | 0 |
| **Cash from (used in) financing activities** | **(115)** | **(108)** | **1 500** |
| **Net increase (decrease) in cash** | **1 555** | **(1 364)** | **738** |
| Cash at the beginning of the year | 4 166 | 5 530 | 5 458 |
| Less cash transferred to Cradle Mountain Water | 0 | 0 | (666) |
| **Cash at end of the year** | **5 721** | **4 166** | **5 530** |

### Comment

At 30 June 2012, Council held cash of $5.721m, comprised of cash at bank and on hand, $0.212m, and short-term deposits, $5.509m.

Council's cash position improved by $1.555m during 2011-12. Cash from operations, $3.670m, Capital grants, $0.789m, Distributions received from Cradle Mountain Water, $0.429m, and Proceeds from sale of property, plant and equipment, $0.013m, were used to fund Payments for property, plant and equipment, which mainly comprised infrastructure and road works, totalling $3.231m, and Repayments of borrowings, $0.115m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased $1.319m to $3.670m which included:

- Council's operating surplus of $0.549m adjusted for depreciation of $2.633m, a non-cash item, providing $3.182m in operating cash inflows
- net higher Financial assistance grants of $0.476m, offset by
- cash inflows from Cradle Mountain Water, $0.429m, treated as an investing activity for cash flow purposes.

## FINANCIAL ANALYSIS

| | Bench Mark | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| ***Profitability*** | | | | | |
| Operating surplus ($'000s) | | 549 | 559 | 93 | 1 079 |
| Operating surplus ratio * | > 0 | 5.03 | 5.39 | 1.01 | 9.23 |
| ***Asset management*** | | | | | |
| Asset sustainability ratio* | >100% | 113% | 215% | 199% | 321% |
| Asset renewal funding ratio* ** | 90% - 100% | n/a | n/a | n/a | n/a |
| Road asset consumption ratio * | >60% | 61.5% | 57.1% | 56.7% | 52.4% |
| ***Liquidity*** | | | | | |
| Net financial assets (liabilities) ($'000s) | | 3 085 | 1 598 | 2 460 | (1 977) |
| Net financial liabilities ratio *** | (0%-50%) | 28.3% | 15.4% | 26.7% | (16.9%) |
| **Operational efficiency** | | | | | |
| Liquidity ratio | 2:1 | 4.84 | 3.48 | 3.93 | 1.46 |
| Current ratio | 1:1 | 3.56 | 2.75 | 3.07 | 1.27 |
| Asset investment ratio | >100% | 123% | 277% | 267% | 363% |
| Interest Coverage | | 37.23 | 21.83 | n/a | 43.73 |
| Self financing ratio | | 33.6% | 22.7% | 27.5% | 32.5% |
| Own source revenue | | 78.9% | 77.8% | 77.0% | 83.2% |
| Debt collection | 30 days | 20 | 35 | 23 | 31 |
| Creditor turnover | 30 days | 46 | 33 | 31 | 36 |
| Rates per capita ($) | | 1 237 | 1 045 | 923 | 1 451 |
| Rates to operating revenue | | 56.4% | 52.9% | 55.1% | 65.1% |
| Rates per rateable property ($) | | 1 322 | 1 154 | 1 073 | 1 659 |
| Operating cost to rateable property ($) | | 1 927 | 2 064 | 1 927 | 2 313 |
| Employee costs expensed ($'000s) | | 3 619 | 3 196 | 3 048 | 3 583 |
| Employee costs capitalised ($'000s) | | 225 | 224 | 165 | 117 |
| **Total employee costs ($'000s)** | | **3 844** | **3 420** | **3 213** | **3 700** |
| Employee costs as a % of operating expenses | | 35% | 33% | 33% | 34% |
| Staff numbers (FTEs) | | 56 | 53 | 56 | 63 |
| Average staff costs ($'000s) | | 69 | 65 | 57 | 59 |
| Average leave balance per FTE ($'000s) | | 11 | 10 | 10 | 13 |

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

** *Information not available to calculate ratio.*

*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

*Where the ratio is positive, as is the case with West Coast Council, liquid assets exceed total liabilities.*

## Comment

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

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

Interest coverage ratios reflected Council's low level of finance costs, reflecting its low level of debt.

Self-financing ratio increased in 2011-12, following a gradual decline over the previous three years, due to higher Cash from operations this year, as noted in the Cash Flows section of this Chapter.

Own source revenue was constant over the past three years. The 6% drop in 2009-10 was due to reduced rates following the formation of Cradle Mountain Water. Council generated the majority of its operating revenue from its own sources.

Council's Debt collection days improved to better than benchmark in 2011-12. This was as a result of significant debtors held at 30 June 2011. Creditor turnover days were consistently worse than benchmark over the past four years.

Rates statistics steadily increased over the last three years of the review. The decrease since 2009-10 was primarily due to the transfer of the water and sewerage activities. The increase in 2011-12 was a result of higher Rates.

Employee numbers have been relatively consistent over the past three years. The significant decrease after 2008-09 was due to the transfer of seven employees to Cradle Mountain Water.

Average employee costs increased 6% in 2011-12 due to general wage increases, 3%, and as a result of an increase in full time equivalent employees. When expressed as a percentage of operating expenses Employee costs remained reasonably consistent over the four years.

# APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report entitled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising six volumes, satisfies this requirement each year. The volumes are:

- Volume 1 – Analysis of the Treasurer's Annual Financial Report
- Volume 2 – Executive and Legislature, Government Departments, other General Government State entities, other State entities and Superannuation Funds
- Volume 3 – Government Business Enterprises, State Owned Corporations and Water Corporations
- Volume 4 – Local Government Authorities
- Volume 5 - Other State entities 31 December, including University of Tasmania.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.

## FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplemented by financial analysis applying the indicators documented in the Financial Performance sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity.

Departments are required to present budget amounts on the face of their primary statements. As a consequence details and commentary in relation to these amounts have been included in this Report.

## FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating:

- performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| **Financial Performance** | | |
| Earnings Before Interest and Tax (EBIT) ($'000s) | | Result from Ordinary Activities before Gross Interest Expense and Tax |
| EBITDA ($'000s) | | Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation |
| Operating margin | >1.0 | Operating Revenue divided by Operating Expenses |
| Operating surplus (deficit) ($'000s) | | Result from Operating Revenues less Operating Expenses |
| Operating surplus ratio | >0 | Net operating surplus (deficit) divided by total operating revenue |
| Own source revenue | | Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments |
| Return on assets | | EBIT divided by Average Total Assets |
| Return on equity | | Result from Ordinary Activities after Taxation divided by Average Total Equity |
| Self financing ratio | | Net Operating Cash Flows divided by Operating Revenue |

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| **Financial Management** | | |
| Asset consumption ratio | Between 40% and 80% | Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset |
| Asset renewal funding ratio | 90%-100% | Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required |
| Asset sustainability ratio | >100% | Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets |
| Capital Investment Gap, Asset investment ratio or Investment gap | >100% | Payments for Property, plant and equipment divided by Depreciation expenses |
| Capital Replacement Gap, Asset renewal ratio or Renewal gap | 100% | Payments for Property, plant and equipment on existing assets divided by Depreciation expenses |
| Cost of debt | | Gross Interest Expense divided by Average Borrowings (include finance leases) |
| Creditor turnover | 30 days | Payables divided by credit purchases multiplied by 365 |
| Current ratio | >1 | Current Assets divided by Current Liabilities |
| Debt collection | 30 days | Receivables divided by billable Revenue multiplied by 365 |
| Debt to equity | | Debt divided by Total Equity |
| Debt to total assets | | Debt divided by Total Assets |
| Indebtedness Ratio | | Non-Current Liabilities divided by Own Source Revenue |
| Interest coverage ratio | | Net operating cashflows less interest and tax payments divided by Net interest payments |
| Interest cover – EBIT | >2 | EBIT divided by Gross Interest Expense |
| Interest cover – EBITDA | >2 | EBITDA divided by Gross Interest Expense |
| Interest cover – Funds from Operations | >2 | Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense |
| Liquidity ratio | 2:1 | Liquid assets divided by current liabilities other than provisions |
| Net financial assets (liabilities) ($'000s) | | Total financial liabilities less liquid assets |
| Net financial liabilities ratio | 0 – (50%) | Total liabilities less liquid assets divided by total operating income |

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| **Returns to Government** | | |
| CSO funding ($'000) | | Amount of community service obligation funding received from Government |
| Dividend payout ratio | 50% | Dividend divided by Result from Ordinary Activities after Tax |
| Dividend to equity ratio | | Dividend paid or payable divided by Average Total Equity |
| Dividends paid or payable ($'000s) | | Dividends paid or payable that relate to the year subject to analysis |
| Effective tax rate | 30% | Income Tax paid or payable divided by Result form Ordinary Activities before Tax |
| Government guarantee fees ($'000) | | Amount of guarantee fees paid to owners (usually Government) |
| Income tax paid ($'000s) | | Income Tax paid or payable that relates to the year subject to analysis |
| Total return to equity ratio | | Total Return divided by Average Equity |
| Total return to the State ($'000s) or total return to owners | | Dividends plus Income Tax and Loan Guarantee fees |
| **Other Information** | | |
| Average leave per FTE ($'000s) | | Total employee annual and long service leave entitlements divided by Staff Numbers |
| Average long service leave balance | Not more than 100 days | Actual long service leave provision days due divided by average FTE's |
| Average recreational leave balance | 20 days [3] | Actual annual leave provision days due divided by average FTE's |
| Average staff costs [(2)] ($'000s) | | Total employee expenses (including capitalised employee costs) divided by Staff Numbers |
| Employee costs [(2)] as a % of operating expenses | | Total employee costs divided by Total Operating Expenses |
| Employee costs capitalised ($'000s) | | Capitalised employee costs |
| Employee costs expensed ($'000s) | | Total employee costs per Income Statement |
| Operating cost to rateable property | | Operating expenses plus finance costs divided by rateable properties per valuation roll |
| Rates per capita | | Population of council area divided by rates revenue |

| Financial Performance Indicator | Benchmark[1] | Method of Calculation |
|---|---|---|
| Rates per operating revenue | | Total rates divided by operating revenue including interest income |
| Rates per rateable property | | Total rates revenue divided by rateable properties per valuation rolls |
| Staff numbers FTEs | | Effective full time equivalents |

1 *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*

2 *Employee costs include capitalised employee costs, where applicable, plus on-costs.*

3 *May vary in some circumstances because of different award entitlements.*

An explanation of most financial performance indicators is provided below:

## FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating Surplus (Deficit) or Result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating surplus ratio** – a positive result indicates a surplus with the larger the surplus the stronger surplus and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by a council through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.

## FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing existing non-current assets (caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is weakening.

## RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – the relative size an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

## OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – represents the level of employee costs expensed, ie. included in the Income Statement. This together with the Employee costs Capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

# APPENDIX 2 - AUDIT STATUS

| Entity | Balance Date | Financial statements: Financial Statement deadline | Signed Financial Statements Received | Re-signed/ Amended Financial Statements Received | Audit opinion signed | Timeliness of audit opinion issue from balance date: < 8 weeks | 8 to 10 weeks | 10 to 12 weeks | 12 to 14 weeks | 14 to 16 weeks | > 16 weeks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **LOCAL GOVERNMENT AUTHORITIES** | | | | | | | | | | | |
| **MAJOR CITY COUNCILS** | | | | | | | | | | | |
| Clarence City Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 7 September 2012 | | ✓ | | | | |
| Glenorchy City Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 11 September 2012 | | | ✓ | | | |
| Hobart City Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 10 September 2012 | | | ✓ | | | |
| Launceston City Council | 30 June 2012 | 15 August 2012 | 14 August 2012 | | 14 September 2012 | | | ✓ | | | |
| **MEDIUM COUNCILS** | | | | | | | | | | | |
| Brighton Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 26 September 2012 | | | | ✓ | | |
| Burnie City Council | 30 June 2012 | 15 August 2012 | 14 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Central Coast Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 20 September 2012 | | | ✓ | | | |
| Derwent Valley Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Devonport City Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 14 September 2012 | | | ✓ | | | |
| Huon Valley Council | 30 June 2012 | 15 August 2012 | 14 August 2012 | | 27 September 2012 | | | | ✓ | | |
| Kingborough Council | 30 June 2012 | 15 August 2012 | 27 July 2012 | | 2 August 2012 | ✓ | | | | | |
| Meander Valley Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Northern Midlands Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 27 September 2012 | | | | ✓ | | |
| Sorell Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 26 September 2012 | | | | ✓ | | |
| Waratah-Wynyard Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| West Tamar Council | 30 June 2012 | 15 August 2012 | 13 August 2012 | | 31 August 2012 | | ✓ | | | | |

| Entity | Financial statements | | | | Audit opinion signed | Timeliness of audit opinion issue from balance date | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Statement deadline | Financial Statement deadline | Signed Financial Statements Received | Re-signed/ Amended Financial Statements Received | | < 8 weeks | 8 to 10 weeks | 10 to 12 weeks | 12 to 14 weeks | 14 to 16 weeks | > 16 weeks |
| **SMALL COUNCILS** | | | | | | | | | | | |
| Break O'Day Council | 30 June 2012 | 15 August 2012 | 16 August 2012 | 28 September 2012 | 1 October 2012 | | | | ✓ | | |
| Central Highlands Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Circular Head Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Dorset Council | 30 June 2012 | 15 August 2012 | 14 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Flinders Council | 30 June 2012 | 15 August 2012 | 10 September 2012 | 31 October 2012 | 6 November 2012 | | | | | | ✓ |
| George Town Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Glamorgan-Spring Bay Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Kentish Council | 30 June 2012 | 15 August 2012 | 9 October 2012 | | | | | | ✓ | | |
| King Island Council | 30 June 2012 | 15 August 2012 | 16 August 2012 | | | | | | ✓ | | |
| Latrobe Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 30 September 2012 | | | | ✓ | | |
| Southern Midlands Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Tasman Council | 30 June 2012 | 15 August 2012 | 15 August 2012 | 26 September 2012 | 30 September 2012 | | | | ✓ | | |
| West Coast Council | 30 June 2012 | 15 August 2012 | 13 August 2012 | | 5 September 2012 | | ✓ | | | | |
| **LOCAL GOVERNMENT BUSINESS UNITS** | | | | | | | | | | | |
| Copping Refuse Disposal Site Joint Authority | 30 June 2012 | 15 August 2012 | 3 August 2012 | 28 September 2012 | 30 September 2012 | | | | ✓ | | |
| Cradle Coast Authority | 30 June 2012 | 15 August 2012 | 3 September 2012 | | 18 October 2012 | | | | | ✓ | |
| Dulverton Regional Waste Management Authority | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 28 September 2012 | | | | ✓ | | |
| Northern Tasmanian Development Board | 30 June 2012 | 15 August 2012 | 15 September 2012 | 23 October 2012 | 28 October 2012 | | | | | | ✓ |
| Southern Tasmanian Councils Authority | 30 June 2012 | 15 August 2012 | 15 August 2012 | | 17 September 2012 | | | ✓ | | | |
| Southern Waste Strategy Authority | 30 June 2012 | 15 August 2012 | 17 July 2012 | | 22 August 2012 | ✓ | | | | | |

# APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| BAC | Burnie Airport Corporation Unit Trust |
| BSE | Burnie Sports and Events |
| CDO | Collateralised Debt Obligation |
| CPM | Creative Paper Mills Pty Ltd |
| DHHS | Department of Health and Human Services |
| EBA | Enterprise Bargaining Agreement |
| FTE | Full Time Equivalents |
| GASP! | Glenorchy Art & Sculpture Park |
| KWS | Kingborough Waste Services Pty Ltd |
| NTER | National Tax Equivalency Regime |
| QVMAG | Queen Victoria Museum and Art Gallery |
| TAFE | TAFE Tasmania |
| TCU | Tas Communications Unit Trust |

# APPENDIX 4 - RECENT REPORTS

| TABLED | | No. | TITLE |
|---|---|---|---|
| May | 2011 | 97 | Follow of special reports 69–73 |
| May | 2011 | | Volume 5: Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania |
| Jun | 2011 | 98 | Premier's Sundry Grants Program and Urban Renewal and Heritage Fund |
| Jun | 2011 | 99 | Bushfire management |
| Jun | 2011 | | Volume 4 Part 1: Local Government Authorities and Business Units 2009–10 |
| Jun | 2011 | | Volume 4 Part 2: Local Government Authorities and Business Units 2009–10 |
| Jul | 2011 | 100 | Financial and economic performance of Forestry Tasmania |
| Sep | No. 1 of 2011–12 | | Tourism Tasmania: is it effective? |
| Sep | No. 2 of 2011–12 | | Children in out of home care |
| Nov | No. 3 of 2011–12 | | Financial Statements of State Entities: Volume 1 — Analysis of the Treasurer's Annual Financial Report 2010–11 |
| Nov | No. 4 of 2011–12 | | Financial Statements of State Entities: Volume 2 — Executive and Legislature, Government Departments and other General Government Sector entities 2010–11 |
| Nov | No. 5 of 2011–12 | | Financial Statements of State Entities: Volume 3 — Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010–11 |
| Nov | No. 6 of 2011–12 | | Financial Statements of State Entities: Volume 4 Part I — Local Government Authorities 2010–11 |
| Dec | No. 7 0f 2011–12 | | Financial Statements of State entities: Volume 5 — Other State Entities 30 June 2011 and 31 December 2010 |
| Mar | No. 8 of 2011–12 | | The assessment of land-use planning applications |
| Jun | No. 9 of 2011–12 | | Financial Statements of State Entities: Volume 6 — Other State Entities 30 June 2011 and 31 December 2011 |
| Jun | No. 10 of 2011–12 | | Public Trustee: Management of minor trusts |
| Jun | No. 11 of 2011–12 | | Updating the Motor Registry System |
| Jun | No.12 of 2011–12 | | Follow up of special Reports 75–81 |
| Jul | No. 1 of 2012–13 | | Sale of TOTE Tasmania |
| Oct | No. 2 of 2012-13 | | TasPorts: benefits of amalgamation |

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed via the Office's homepage www.audit.tas.gov.au

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## Our Vision

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## 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 the Office.

**This report is printed on recycled paper.**

# AUDIT MANDATE AND STANDARDS APPLIED

## MANDATE

Section 17(1) of the *Audit Act 2008* states that:

> "An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects."

Under the provisions of section 18, the Auditor-General:

"(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1)."

Under the provisions of section 19, the Auditor-General:

"(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards.

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority."

## STANDARDS APPLIED

Section 31 specifies that:

"The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards."

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Tasmanian
Audit Office

Photo courtesy of Tourism Tasmania & Garry Moore


| | | | |
|---|---|---|---|
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