



FREQUENTLY ASKED QUESTIONS

Q Why doesn't the Council just prepare a simple receipts and payments statement the same as the local footy club instead of all this complicated stuff?

A *The Council is subject to virtually the same financial reporting standards as public companies operating in the private sector. It is also required to meet accounting and other statutory requirements of the State Government (NSW) and is monitored by the Department of Local Government (NSW). Cash receipts and payments accounting does not provide sufficient information to judge the financial performance and position of large public organisations.*

Q Accounts are boring, where can I find out about non financial performance and Council achievements?

A *Schedule 7 provides some information on the condition of public works and the Annual Report covers key non financial performance indicators under the "Performance" section of the Annual Report within the "Corporate Indicators" area. These are not required to be audited.*

Q How will the Council cope with the huge amounts of money lost as a result of the global credit crisis?

A *Council acknowledges that it has incurred losses and is exposed to the risk of further losses in respect of "CDO" investments. All of Councils investments met state Government requirements were AAA or AA rated and its policy fortunately limited its exposure to these products which in hindsight were not worthy of their ratings.*

These losses while viewed seriously will not in themselves cause serious implications for liquidity or forward budgeting. Interest on investments makes up only 1-2% of Councils total revenue.

The following is a summary of the situation. Figures may be subject to variance depending on the exact dates applied:

The total purchase price of CDO's carried before the crash were up to or around \$9.4m. Council has sold or successfully traded to maturity \$1.6m leaving \$7.8m. Of this Council accepts that losses of about \$1.5m have been crystallised and any recovery can only be through due legal process. This then leaves \$6.3m. The market value of these remaining CDO's purchased at \$6.3m is now \$4.1m (Investing report to Council's August meeting) implying a further loss of \$2.2m if all CDO's were sold now. This would equate to total losses of \$3.7m including those already crystallised of \$1.5m. There is however the prospect that Council can retain these CDO's to maturity and be paid out in full. On the positive side is the additional interest and capital gains made from CDO's over a longer period. The Council is trying to do everything it can to mitigate the situation but there is no simple quick fix and a wrong move could crystallise further losses.





Q How come the Council made a \$16.4m "surplus"? I must be paying too much in rates.

A *The income statement "surplus" does not measure cash funds. It measures the increase in Council's net assets or equity. Ideally there should be a reasonable surplus in the income statement and positive cash flows from operations as indicated by the Council's results. This can assist development and counter the effects of inflation. Reductions of net assets without an acceptable explanation might indicate the Council was running its assets down.*

This year the surplus includes an amount of about \$9.9m of grants and contributions towards capital developments of which about \$1.2m are non cash assets contributed by subdividers, \$3.3m of developer contributions and about \$2.2m of Government assistance towards water supply projects such as the Moruya River to Deep Creek Dam pipeline.

There are also concerns throughout Local Government that Councils may be overstating annual surpluses due to the accounting methods (original cost) used. The adoption of depreciation calculations based on "fair value" commenced 2 years ago with buildings, water and sewer assets previously revalued. This year Council has adopted "fair value" for transport infrastructure and next year will be recreational assets. The depreciation for 2010/11 will include the transport infrastructure assets at their new fair value and this should start to provide a more accurate reflection of the result.

Q Liquidity. The Council is holding about \$53m of cash and investment securities, why not have a rates holiday for 1 year?

A *About \$31m of this amount is restricted for particular purposes such as developer contributions plans, waste, water and sewerage purposes etc.*

The balance is required for working capital and to fund the revotes of budgeted and committed projects not completed in the previous year. The official audited result for unrestricted net current assets is 1.61 (current assets) to 1 of (current liabilities). The Department of Local Government preference is in the range 1.5 to 2.0 to 1. Therefore it is not considered that the Council has excessive liquidity. There is at least some, ready access to liquidity in an emergency situation which can be immediately complemented with existing arrangements for overdraft accommodation.

Any interest earned assists the budget program.

Q What's this business about the debt service ratio?

A *Councils use debt as a way of ensuring that the burden of paying for expenditure on assets with long lives are fairly spread over time, rather than excessively burdening current ratepayers. At the moment the costs of servicing debt are about 10% of operating revenue which is considered to be fairly reasonable. However this will tend to increase over the next few years as a result of*





the financial strategy and capital program being undertaken by Council. Borrowing is considered to be an appropriate and fair way of sharing the costs over time.

Council will reconsider the optimum levels of debt in conjunction with the Community Strategic Plan and Long Term financial Planning processes now commenced.

Q Why is the Council so reliant on rates?

A *The Council obtained 47% of its revenue from rates. Of the remaining revenue, 24% from grants and contributions (including developer contributions) and 20% from user fees and other charges. Councils have to pick up the tab for essential services that are unlikely to be provided reliably by the private sector, as the ability to recover from users by normal market/pricing is limited. While the Council is pro-active in identifying alternative fair and equitable funding sources there are limitations and indeed risks of relying too heavily on income that is variable or proves unsustainable.*

In recent years there has been a national independent inquiry into financial sustainability in Local Government and it is hoped that this will address a number of issues. In 2009 IPART has completed a report on the Revenue Framework for Local Government which includes a review and discussion of rates applying.

It remains to be seen to what extent the State Government will change and adopt the recommendations of the above inquiries and reviews.

Q The Council has over a \$1m of uncollected rates outstanding, why should I pay mine?

A *The rates outstanding represent <3% of the total struck/due for the year. Anything under 5% is considered to be a very good result. The percentage is cyclical and varies according to economic and other factors. The Council is fortunate in that the huge majority of people are totally cooperative in paying rates and sees this as a good sign. Rates represent a first charge against the property and therefore are very secure and eventually are recovered including costs and interest.*

Q Why doesn't the Council stick to its budgets?

A *The overall result generally followed original plans. However, it is necessary for the Council to continually revise its plans based on the facts at the time. For example, it is common for additional grants to become available and these enable expenses not previously budgeted. Council reviews progress every quarter and makes adjustments to its budgets on a rolling basis. Details of approved major variations from the original budgets are contained in note 16 of the financial statements.*

Q Light, power & heating costs are a significant component of Other Expenses and increasing each year - what is Council doing to minimise these costs?

A *A large proportion of these costs are for water pumping, especially from Council's river intakes to Deep Creek Dam and other reservoirs. Electricity tariffs have increased, as have pumping*





requirements during periods of low rainfall and higher water consumption. Council is currently reviewing its consumption of energy in the context of reducing greenhouse gas emissions.

Q Costs of fuel are rising, what is the Council doing?

A *While fuel is significant it is still only one element of total costs. A major consideration is also which purchases give the most favourable resale result on disposal. Council is continually reviewing options for fuel saving and has significantly reduced 6 cylinder sedans in favour of 4 cylinder. There is a notable increase in diesel vehicles which can demonstrate significantly improved consumption compared to petrol equivalents. LPG, hybrid vehicles and Bio-Fuels may offer some future relief and Council continues to monitor and invest to some degree in these options on a value for money basis.*

When entering into contracts it joins with other Council's to achieve greater economies of scale in pricing.

At this stage the Council has not entered into hedging arrangements to fix the costs of energy out into the future as while this achieves some certainty it is only a short term solution that may equally lead to additional cost/administration.

Q Note 4 expenses indicates borrowing (\$111,000) and depreciation (\$34,000) expenses for future reinstatement of tips. Are rates going to have to increase to pay for this and why does Council need to do it?

A *All Australian reporting entities, including Councils, were required to comply with the International Financial Reporting Standards introduced on 1st January 2005. Council is required to annually recognise the estimated cost to reinstate tips, gravel pits and quarries at the end of their useful lives. Although the calculations rely on estimates and judgements the intention is to provide better information and encourage better pricing decisions. The information now available may well be used to adjust the future "reasonable cost" ie pricing of waste. However this has not been used for that purpose to date. One argument against it is that the cost of remediation could be borne by future ratepayers rather than the present because ultimately the space occupied for this service might provide other future services such as playing fields and open space etc. It is an interesting debate.*

Q What is the Other Expenses "Other" amount in Note 4?

A *Note 4, "Other Expenses" itemises various operating expenses, of which "Other" at \$0.4m makes up only about 5%. Amongst the more significant expense contributing to this amount is; incentive payments for water saving rebates, etc.*

Q What is the "Subdivider Dedication" revenue (in note 3) and if it's not cash why show it?

A *Subdivider dedications are assets acquired by Council as a result of developments. These are usually in addition to developer costs. Some may argue they are a liability to maintain. However*





they increase the Council's "net" assets. Accounting standards require any increase in net assets (cash or non cash) to be disclosed as income. In a wider sense additional assets/infrastructure usually results in increased properties and land values and thus generates income growth.

Q How did the Council manage to generate 5% additional rates revenue when the State Government has "capped" this source of income.

A *General and Environment Funds are capped but each year the State Government allows for an adjustment (3.5% in 2009/10) to reflect rising prices etc. Developments such as subdivisions also increase land values and numbers of property assessments which are permissible revenue growth (about 0.5% 2009/10). Council may apply for special variations (applications were unsuccessful in 2009/10 and the preceding year). Functions such as Sewer, Waste and Water are not "capped". Sewer increased significantly but water and waste were below the Ministerial determination for General Rates.*

Q There's talk about financial sustainability of Councils. What's Eurobodalla's situation?

A *During 2009/10, less was spent on renewal of existing assets compared to Council's \$16.1 million depreciation expense. This adds weight to the contention that Council is not maintaining all its past assets/services and will reach a point where catch up is required. In particular there is a concern about some roads constructed in the 1960s. This is an issue that is affecting local government generally and is the subject of the inquiry into financial sustainability.*

There is now clear evidence that Council is progressively slipping further below the average general rates for group 4 NSW Councils and this will further exacerbate concerns that it is not able to budget to fully maintain and renew its existing assets and what the implications of that might be for the long term future.

Q Why does the Council employ so many staff (428 FT at 30/06/10)?

A *Council manages net assets of over \$1b which is indicative of the assets to be managed. With annual turnover budgeted in 2010/11 of around \$90m and wide ranging services it is a large and complex operation. General rates are 12% less than average for Councils classified as group 4 and above average services in the predominantly grant funded community well being (social) and environment areas are provided. It is also worth noting that the supply of water and sewerage services is a major activity undertaken by Council which is not provided by all NSW Councils. Resourcing has to be a combination of employees, materials and services (such as consultants and contractors). Council has a resourcing strategy including employees through which it believes it delivers value for money. There is a fair proportion of grant funded programs so those employees are not paid from rates and their employment in many cases is subject to the grant funding.*

Q Why is Interest and Investment Income so high this year?





- A** *For 2009-10 the amount was approximately \$5m compared to \$0.8m in the previous year. There are two main reasons for the large result this year and both are non cash book entries that are required to comply with accounting standards.*

Council received an interest free loan of \$8.69m for a major sewer project. An interest premium of \$2.48m was recognised to account for difference between the face value of the loan and its fair value. In laymen's terms this could be thought of as the interest Council will save over the term of the loan. The receipt of interest free loans is very economically advantageous to Council and something to be actively pursued if an opportunity arises.

Council revalued certain investments, such as CDO's, that are required to be held at fair value. The investment market has improved from last year so these investments were revalued up by \$0.8m (compared to the write down last year of around \$0.8m).

- Q** **Why revalue Councils infrastructure assets if we don't have to sell them?**

- A** *The accounting standards and Local Government code of accounting practice state that Council must revalue its infrastructure network to fair value. Fair value is the amount it would cost to replace the asset taking into account its position in its useful life. Whilst Council does not intend to sell the assets it needs to replace them when they come to the end of their useful life. It therefore needs to be able to measure accurately the amount of the replacement value to allocate each year to expenses based on the useful life of the asset (ie its consumption or decline in service potential). It is important that depreciation expense is based on current replacement costs and not what it cost to originally build the asset, which in some cases is more than 30 years ago. This then enables the community to see whether Council has sufficient revenue to meet its expenses including depreciation or not. This may imply that it is running down funds (net assets) and require explanations.*

