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 **The Council has received a qualified audit report, what does this mean?**

A *Normally Council receives an unqualified audit report (no issues to be drawn to the readers attention). However, similar to last year, as a result of the global credit crisis the audit report was qualified due to the lack of reliability in the valuations of some investments. These investments were Collaterised Debt Obligations or more commonly known as CDO's. The valuations used led to the decision to write down the investments by a further $0.853m, they were the best information available. As the markets are improving but still currently dysfunctional there was limited market evidence of real trades to back up the valuations. There is no suggestion that Council has acted improperly.*

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

A In 2008/09, Council *wrote down the value of investments by about $1.2m ($3.5m 2007/08). As at the 30 June 2009 the actual realised losses are about $1.0m. These losses to date while viewed seriously will not in themselves cause serious implications for liquidity or forward budgeting. However it is not possible to predict how much further this crisis will go. Council's exposure to CDO's was limited by the strict rules of its investing policy and all investments purchased were of the highest independent ratings available at the time of purchase. In hindsight, it appears the ratings were questionable and this is a world wide issue. After the write downs of $4.7m the remaining estimated value of CDO's is about $4.5m. Council is working with financial and legal advisers to mitigate and seek redress for losses where possible.*

Q **How come the Council made a $19.3m "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 $19.8m of grants and contributions towards capital developments of which about $3.6m are non cash assets contributed by subdividers etc. Also included is about $7.6m of Government assistance towards water supply projects such as the Moruya River to Deep Creek Dam pipeline and $3.3M for the Bodalla and Wallaga Lake Sewerage Schemes.

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 this year for water and sewer and Council has to adopt "fair value" accounting and depreciation for roading by 30/06/2010 and should start to provide a more accurate reflection of the result.

Q **Liquidity. The Council is holding about $37m of cash and investment securities, why not have a rates holiday for 1 year?**

A *About $22m of this amount is restricted for particular purposes such as developer contributions plans, waste, water and sewerage purposes etc. Total cash and investments are reducing as a result of the Councils adopted plans. Last year there were significant reductions in working funds as Council endeavoured to avoid borrowing at a time when interest rates were still high for Councils' long term borrowing.*

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 1.95 (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.

There may be a modest future opportunity for General Fund to lend to other funds such as Water and Sewer and reduce external investments, while still achieving a fair return.

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 9% of operating revenue which is considered to* *be fairly low. 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.*

Q Why is the Council so reliant on rates?

A *The Council again obtained 45% of its revenue from rates. Of the remaining revenue , 36% from grants and contributions (including developer contributions) and the balance of 19% 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.*

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

A *The rates outstanding represent about 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.

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 Please explain why Note 12 on "commitments" shows $22m of capital commitments for Water and $13 million of expenditure commitments for waste management services?

A *The water commitment is affected by the Northern Water Treatment Plant project to commence construction in 2009/10. The waste expenditure commitments correspond to the contract entered for waste collection services until 2010 and beyond.*

Q Note 4 expenses indicates borrowing ($185,000) and depreciation ($95,000) 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 Developer Contributions revenue is still significantly down, what does this mean?

A *Developer contributions revenue was $2.0m (previous year $1.8m). Council bases water and sewer developer contributions on full recovery. This may be causing a deferring of developments so that the payment of contributions and the cash flow from sales are more closely aligned. Furthermore there tends to be a "boom and bust" cycle. This cycle peaked about 5 years ago. There are a number of significant developments expected to progress in the near future but until that happens there are no guarantees the income will happen this year. Given the prolonged downturn in activity and the global economic situation it has been necessary to adjust the financial strategy to some degree based on current growth and trends. Already following the finalisation of 2008/09 statements there are signs of increased development activity.*

Q What is the "Subdivider Dedication" revenue (in note 3) and if its 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 6% 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 (3.2% 2008/09) 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% 2008/09). Council may apply for special variations (this did not happen in 2008/09, nor preceding year). Functions such as Sewer, Waste and Water are not "capped". Water increased significantly, sewer somewhat and waste was also above the Ministerial determination for General Rates.*

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

A *During 2008/09, less was spent on renewal of existing assets compared to Council's $15.3 million depreciation expense. This indicates the possibility that Council may not be maintaining all its past assets/services or 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.*

Q **Why does the Council employee so many staff (445 FT at 30/06/09)?**

A *There are many different ways to provide or facilitate services. Council does competitively price many of its supplies and has recourse to specialist services which it cannot efficiently provide itself. However in other cases staff organises and provides services. Many of Council's programs are subject to continued grant funding (i.e. not rates funded).*