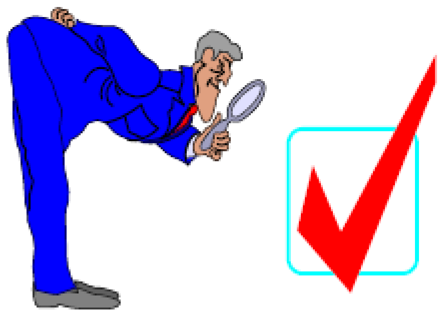
# EXECUTIVE SUMMARY



Council's Financial Statements were completed within the statutory timeframe and the audit report was unqualified this year.

## SUMMARY OF FINANCIAL REPORTS FOR THE YEAR

| Year ended 30 June | Budget 2010 $'000 | Actual 2010 $'000 | Actual 2009 $'000 |
|---|---|---|---|
| **Income Statement** | | | |
| Income from Continuing Operations | 90,631 | 93,928 | 93,503 |
| Expenses from Continuing Operations | 81,864 | 77,560 | 74,195 |
| Profit/(Loss) from Disposal of Assets | | (1,454) | (1,832) |
| Surplus (deficit) before revenue for capital purposes | (3,517) | 6,445 | (507) |
| Surplus after revenue for capital purposes | 8,767 | 16,368 | 19,308 |
| **Balance Sheet** | | | |
| Total current assets | | 63,227 | 43,776 |
| Total current liabilities | | 29,840 | 19,932 |
| Total non-current assets | | 1,162,388 | 909,720 |
| Total non-current liabilities | | 54,247 | 43,581 |
| Total equity | | 1,141,528 | 889,983 |
| **Cash Flow Statement** | | | |
| Net Cash from Operations | 27,290 | 26,707 | 39,588 |
| Net Increase (Decrease) in Cash Held | (9,625) | 2,150 | 8,592 |
| Cash at End of Reporting Period | (4,408) | 15,959 | 13,809 |
| Proceeds from Sale of Assets (excluding Investment Securities) | 4,546 | 960 | 1,669 |
| Purchase of Property, Plant & Equipment | 59,867 | 28,027 | 41,551 |
| **Other financial information** | | | |
| Unrestricted current ratio | 1:1 | 1.61:1 | 1.95:1 |
| Debt service ratio | 0.08:1 | 0.10:1 | 0.09:1 |
| Rates coverage ratio | 0.50:1 | 0.47:1 | 0.45:1 |
| Rates outstanding percentage | < 5% | 2.84% | 3.22% |

## *Income Statement*

Calculation of the surplus (or deficit) is not an exact science and requires professional judgements made within the guidelines of the NSW Local Government Accounting Code and "generally accepted accounting practice". The exclusion of capital expenditure and inclusion of depreciation of assets has a major effect on the Council's results and is one of these judgements. A surplus (or deficit) thus calculated is at best only an indicator as to whether a Council might be running down the assets (deficit situation) or asking the current generation to contribute too much to the revenue (surplus situation).

On the surface Council has achieved sufficient revenues to meet all its expenses including depreciation however there are concerns about financial sustainability. The revaluation of infrastructural assets and asset management planning will assist clarification going forward. The surplus from ordinary activities after revenue for capital items was around $16.3m in 2010 (from $19.3m previous year). There was a surplus of about $6.5m before recognising revenue for capital items.

Notable factors affecting the net result:

1. Increased Ordinary Rates revenue (2009/10 $18.7m; 2008/09 $18.0m; Difference $0.7m).
2. Increased Annual Charges revenue for water supply and sewer services (2009/10 $19.0m; 2008/09 $17.8m; Difference $1.2m).
3. Decreased grants for capital purposes as a result of water and sewer infrastructure projects (2009/10 $9.9m; 2008/09 $19.8m; Difference $9.9m).
4. Net Loss on Disposal of Assets of $1.4m mainly due to write off on various transport, water and sewer assets as a result of renewals and flood damage ($1.5m).
5. Due to improving investment markets, Council revalued its Investments in CDO's by $0.76m after having to write them down by $0.85m in the previous year. This is disclosed in Interest and Investment Revenue.
6. Council received an interest free loan of $8.69m for the Batemans Bay sewer treatment plant project. An interest premium of $2.48m was recognised in accordance with accounting standards and is disclosed in Interest and Investment revenue.
7. Other Revenues includes an amount of $0.85m for part of the decrease in remediation expenditure expected to be required to rehabilitate waste facilities at the end of their useful lives.
8. Transport infrastructure assets were revalued to fair value which increased Councils equity by $235m.
9. Recognition of assets (non-cash) provided by developers ($1.2m).

## Other Financial Factors?

It should be recognised that all Councils are different – they differ in size, location, growth and future direction.

Eurobodalla Shire Council falls into the 'developing/growing' group of councils. Significant resources and funding are required to conduct the growth in services, facilities, infrastructure and environment protection that is expected by residents, visitors and the residents of the future. With those demands come risks that must be managed and there is a tendency to have higher debt and rate coverage.

## Unrestricted Current Ratio

The unrestricted current ratio measures the degree to which current obligations are covered by uncommitted current assets, and is a close approximation of the unencumbered working capital of a council

After adjusting for funds subject to external legal restrictions, such as developer contributions, sewer water and waste, the unrestricted current ratio (funds over which Council has discretion), has decreased to 1.6:1 (from 1.95:1 last year). This is within industry standards for this ratio.

After further adjusting for internal restrictions, i.e. Funds which Council itself has restricted for specific purposes, the amount of discretionary funds remaining is still positive.

## Debt Service Ratio

The debt service ratio of 10% is an assessment of the operating revenue committed to the repayment of debt. This is well within Department of Local Government guidelines and reached a low point in 2007/08. It is now increasing in response to Councils' five year capital expenditure program.

Water, sewer and waste borrowings represent 48% ($27.9m) of all loans. Even while continuing to construct significant infrastructure and facility projects such as water and sewer works, transport, streetscaping and foreshore projects, the debt service ratio has increased by only a minor amount compared to the previous year. Prior to borrowing Council reviewed its available funds, developer contributions etc and was able to reduce the required amount. However it should be noted that this ratio is expected to increase in future years based on the Council's plans to expend on significant capital developments.

## Rate Cover Ratio

The rate cover ratio indicates the extent to which the Council relies on rates versus grants and other revenue. This ratio is affected by the Council's ability to source grants and its user fees and charges policies. Other sources of income help to minimise rates or provide additional funding for services, but can create other risks if the income is variable or ceases. For 2009/10 about 47% of total revenues were rates and charges and this has been fairly stable.

## Rates Outstanding Percentage

Levels of outstanding uncollected rates (2.84%) remain low compared to most other Councils through a combination of effective administration and ratepayer cooperation. There has been a slight decrease during 2009/10, as this has been affected by the improved economic situation and debt collection activity.

## Asset Management /Condition of Assets

While most assets are considered to be reasonably well maintained in the circumstances, asset condition factors for roads and bridges raise some concern. Consent for some additional general rates funding towards addressing this was sought and obtained for the 2003/04, 2005/06 and 2006/07 financial years. There are also some similar concerns relating to sewer and to a lesser degree water infrastructure. Long term asset management issues will be examined further as asset management systems and strategies are completed and further information becomes available. The Council has adopted an Integrated Water Cycle Management Plan and related long term financial modelling. The water cycle and waste business/asset management strategies are currently due for review. More information on asset condition is available from Special Schedule 7, included in Appendix A.

During 2009/10, $6.1 million was spent on renewal of existing buildings and infrastructure assets. When compared to Council's $12.8 million depreciation expense for building and infrastructure assets, it also indicates the possibility that Council is not maintaining all its past assets/services or will reach a point where catch up is required. Water and sewer functions have, for example, deferred some renewal works during the current period of heavy investment in new infrastructure. 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.