

EXECUTIVE SUMMARY



Council's Financial Statements were completed within the statutory timeframe. The audit report was qualified again this year as a result of the auditor being unable to gather sufficient evidence on the fair values of CDO investments. Other Councils in NSW with CDO investments have similar qualifications to their audit reports.

SUMMARY OF FINANCIAL REPORTS FOR THE YEAR

| Year ended 30 June | Budget 2009 \$'000 | Actual 2009 \$'000 | Actual 2008 \$'000 |
|--|--------------------------|--------------------------|--------------------------|
| Income Statement | | | |
| Income from Continuing Operations | 87,778 | 93,503 | 80,760 |
| Expenses from Continuing Operations | 70,605 | 74,195 | 67,844 |
| Profit/(Loss) from Disposal of Assets | | (1,832) | (1,161) |
| Surplus (deficit) before revenue for capital purposes | (1,466) | (507) | 408 |
| Surplus after revenue for capital purposes | 17,173 | 19,308 | 12,916 |
| Balance Sheet | | | |
| Total current assets | | 43,776 | 42,617 |
| Total current liabilities | | 19,932 | 21,907 |
| Total non-current assets | | 909,720 | 880,079 |
| Total non-current liabilities | | 43,581 | 38,555 |
| Total equity | | 889,983 | 862,234 |
| Cash Flow Statement | | | |
| Net Cash from Operations | 30,884 | 39,588 | 32,072 |
| Net Increase (Decrease) in Cash Held | (5,066) | 8,592 | (20,626) |
| Cash at End of Reporting Period | 151 | 13,809 | 5,217 |
| Proceeds from Sale of Assets (excluding Investment Securities) | 2,625 | 1,669 | 1,720 |
| Purchase of Property, Plant & Equipment | 58,303 | 41,551 | 48,505 |
| Other financial information | | | |
| Unrestricted current ratio | 1.24:1 | 1.95:1 | 1.90:1 |
| Debt service ratio | 0.09:1 | 0.09:1 | 0.06:1 |
| Rates coverage ratio | 0.49:1 | 0.45:1 | 0.47:1 |
| Rates outstanding percentage | < 3% | 3.22% | 3.01% |

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).

Overall the Council has achieved sufficient revenues to meet all its expenses including depreciation and the surplus is considered to be reasonable.

The surplus from ordinary activities after revenue for capital items was around \$19.3m in 2008 (from \$12.9m previous year). There was a deficit of about \$0.507m before recognising revenue for capital items.

Notable factors affecting the net result:

1. Increased Ordinary Rates revenue (2008/09 \$18.0m; 2007/08 \$17.4m; Difference \$0.6m).
2. Increased Annual Charges revenue for water supply and sewer services (2008/09 \$17.8m; 2007/08 \$16.1m; Difference \$1.7m).
3. Increased grants for capital purposes as a result of water and sewer infrastructure projects (2008/09 \$19.8m; 2007/08 \$12.5m; Difference \$7.3m).
4. Increased Employee Benefits & On-Costs (2008/09 \$27.5m; 2007/08 \$25.0m; Difference \$2.5m) due to Defined Super Benefit Scheme contributions resumed due to market conditions, higher workers compensation premium, a lower vacancy rate mainly in Planning and Development, increased grant funded positions in Community Services, annual review, works overtime (Roads & Recreation, Water & Sewer), Brou Tip now managed by employees, less reliance on outsourcing including Strategic Planning and deferred leave.
5. Net Loss on Disposal of Assets for \$1.8m mainly due to Southern Dam write-off (\$981k), loss on various water and sewer assets disposed as a result of renewals (\$686k), loss on disposal of investments, and demolition of buildings.
6. Due to the global credit crisis, Council was required to write down the value of its Investments in CDO's by a further \$0.85m. This was recognised as an offset to investing revenue.
7. Revaluation decrement (\$1.3m) on investment properties.
8. Recognition of assets (non-cash) provided by developers (\$3.6m).

Other Financial Indicators

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 increased to 1.95:1 (from 1.9:1 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 0.096:1 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 35% (\$15.6m) of all loans. Even while continuing to construct significant infrastructure and facility projects such as water and sewer works, roading, 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 significantly 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 2008/09 about 45% of total revenues were rates and charges and this has been fairly stable.

Rates Outstanding Percentage

Levels of outstanding uncollected rates (3.22%) remain low compared to most other Councils through a combination of effective administration and ratepayer cooperation. There has been a slight increase during 2007/08, as this has been affected by the economic situation.

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 2008/09, \$4.6 million was spent on renewal of existing buildings and infrastructure assets. When compared to Council's \$11.2 million depreciation expense for building and infrastructure assets, it also indicates the possibility that Council may not be 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.

PRINCIPAL ACTIVITIES STATEMENT

| PRINCIPAL ACTIVITY | INCOME | | EXPENSES | | OPERATING RESULT | | CAPITAL WORKS | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Actual \$'000 | Budget \$'000 | Actual \$'000 | Budget \$'000 | Actual \$'000 | Budget \$'000 | Actual \$'000 | Budget \$'000 |
| Year ended 30 June 2009 | | | | | | | | |
| Better Living, the Economy | | | | | | | | |
| Development & Building Control | 1,384 | 1,427 | 3,477 | 3,669 | - 2,093 | - 2,242 | - | - |
| Economic & Industrial Development | 3 | 3 | 172 | 168 | - 169 | - 165 | - | - |
| Other Economic Services | 4,602 | 4,467 | 6,566 | 5,386 | - 1,964 | - 919 | 1,166 | 90 |
| Public Amenities | 1,013 | 524 | 2,650 | 1,811 | - 1,637 | - 1,287 | 2,027 | 2,998 |
| Transport | 7,131 | 4,094 | 12,077 | 11,228 | - 4,946 | - 7,134 | 11,128 | 6,229 |
| Total | 14,133 | 10,515 | 24,942 | 22,262 | - 10,809 | - 11,747 | 14,321 | 9,317 |
| Better Living, the Environment | | | | | | | | |
| Bush Fire & Emergency Services | 906 | 427 | 1,461 | 1,117 | -555 | - 690 | 417 | 147 |
| Environmental | 1,575 | 1,375 | 2,208 | 1,467 | - 633 | - 92 | 184 | 152 |
| Sewerage Services | 16,935 | 13,950 | 12,925 | 12,269 | 4,010 | 1,681 | 4,021 | 12,043 |
| Waste | 7,433 | 7,048 | 7,290 | 6,972 | 143 | 76 | 1,428 | 1,315 |
| Water Services | 20,501 | 25,386 | 10,170 | 10,543 | 10,331 | 14,843 | 15,299 | 31,201 |
| Total | 47,350 | 48,186 | 34,054 | 32,368 | 13,296 | 15,818 | 21,349 | 44,858 |
| Better Living, the Community | | | | | | | | |
| Community Services | 4,696 | 3,291 | 5,678 | 4,478 | - 982 | - 1,187 | 21 | 38 |
| Public Order & Safety | 225 | 178 | 932 | 832 | - 707 | - 654 | 111 | 5 |
| Public Health | 77 | 25 | 136 | 143 | - 59 | - 118 | | |
| Recreation & Culture | 2,016 | 740 | 7,818 | 5,624 | - 5,802 | - 4,884 | 1,640 | 1,080 |
| Total | 7,014 | 4,234 | 14,564 | 11,077 | -7,550 | - 6,843 | 1,772 | 1,123 |
| Good Government, the Council | | | | | | | | |
| Governance & Overheads | 433 | 249 | 265 | 4,893 | 168 | -4,644 | 4,084 | 3,006 |
| General Rates and Revenue | 24,573 | 24,594 | 370 | 6 | 24,203 | 24,588 | | |
| Total | 25,006 | 24,843 | 635 | 4,899 | 24,371 | 19,944 | 4,084 | 3,006 |
| TOTAL ALL ACTIVITIES | 93,503 | 87,778 | 74,195 | 70,606 | 19,308 | 17,172 | 41,526 | 58,304 |

Note: The results in this statement reconcile to the annual accounts overall. Individual line items may differ to those of a similar description in note 2 of the audited financial statements. This statement is based on Council's own definition of activities which differs from note 2. It treats internal dividends as additional income in General Rates & Revenues and reductions of revenue in Water and Sewer. Significant variations between budget and actual are reported in note 16.