

The Mayor
Councillor Liz Innes
Eurobodalla Shire Council
PO Box 99
MORUYA NSW 2537

Contact: Karen Taylor
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Our ref: D1728388/1722

27 October 2017

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2017
Eurobodalla Shire Council**





I have audited the general purpose financial statements of the Eurobodalla Shire Council (the Council) for the year ended 30 June 2017 as required by s415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2017	2016	Variance
	\$m	\$m	%
Rates and annual charges revenue	57.7	55.1	4.7 
Grants and contributions revenue	37.0	34.9	6.0 
Operating result for the year	23.1	23.5	1.7 
Net operating result before capital amounts	7.0	9.7	27.8 

Rates and annual charges revenue

Growth in revenue from rates and annual charges of 4.7 per cent is consistent with the special rate variation and the 2016–17 budget.

Grants and Contributions.

The advance receipt of \$3.3 million for the 2017–18 financial assistance grant contributed to the overall increase in grants and contributions revenue. Operating grants and contributions of \$20.8 million represented 16.1 percent (2016: 16.9 percent) of total income from continuing operations. Capital grants and contributions amounted to \$16.2 million and represented 12.6 percent (2016: 10.9 percent) of total income from continuing operations.

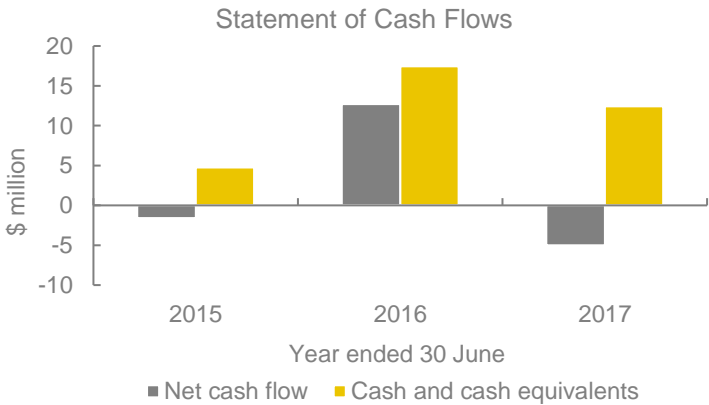
Operating Result.

Council’s operating result was also impacted by a \$3.9 million loss on disposal of assets. Depreciation and amortisation of \$29.1 million (2016: \$29.2 million) was consistent with the prior year and favourable against the budget of \$29.8 million.

The operating result before capital amounts was impacted by higher capital grants and contributions in the current year.

STATEMENT OF CASH FLOWS

Council’s cash and cash equivalent balances decreased by \$5.0 million to \$12.4 million, with \$53.6 million being provided from operations, \$63.6 million net used in investing activities to acquire or sell financial assets and non-current assets, and \$5.0 million provided from financing activities.



FINANCIAL POSITION

Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	60.9	49.3	Council's externally restricted cash and investments increased by 23.5 per cent mainly due to: <ul style="list-style-type: none"> • developer contributions for the general, water and sewer funds exceeding related expenditure by \$2.6 million • positive cash results in water supply, sewer and domestic waste management services were retained for future investment.
Internal restrictions	20.9	18.3	
Unrestricted	22.6	26.8	
Cash and investments	104.4	94.4	

Council's internally restricted cash and investments increased by 14.6 per cent largely due to advance receipt of the 2017–18 financial assistance grant.

Council's unrestricted cash and investments have decreased by \$4.2 million, but they have sufficient liquidity for day-to-day operations.

Debt

Council has access to lines of credit totalling \$2.3 million, including an overdraft facility of \$2.0 million. The bank overdraft facility was not utilised.

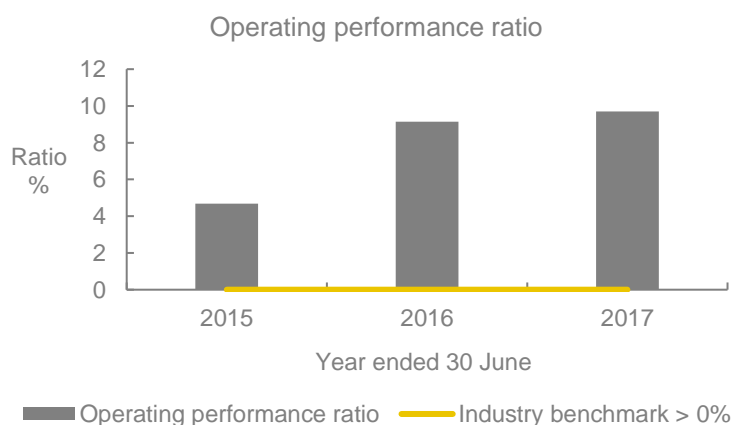
PERFORMANCE RATIOS

Operating performance ratio

Council's operating performance ratio of 9.7 percent in 2016–17 continues to exceed the benchmark.

The main factor contributing to the improved ratio was the advance receipt of the 2017–18 financial assistance grant.

The 'operating performances ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.

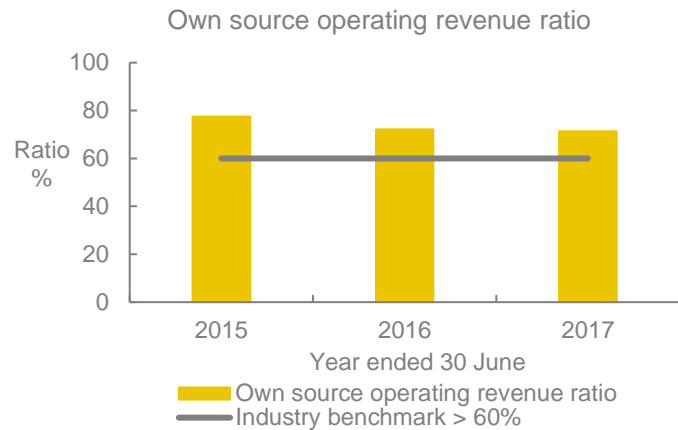


Own source operating revenue ratio

Council's own source operating ratio of 71.3 percent reflects a low level of reliance on grant revenue and exceeds the benchmark.

The ratio has remained relatively stable over the last three years with the 2016–17 ratio slightly affected by the advance receipt of the 2017–18 financial assistance grant.

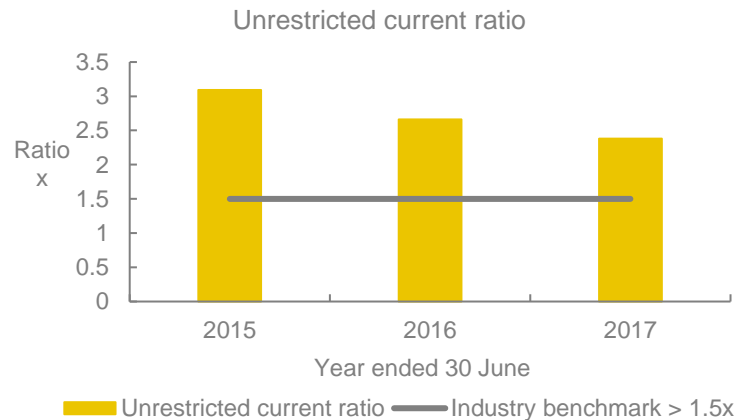
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

This ratio indicates that Council currently has \$2.38 of unrestricted assets available to service every \$1.0 of its unrestricted current liabilities. This reflects a sufficient operating buffer for use in Council's operations and exceeds the benchmark.

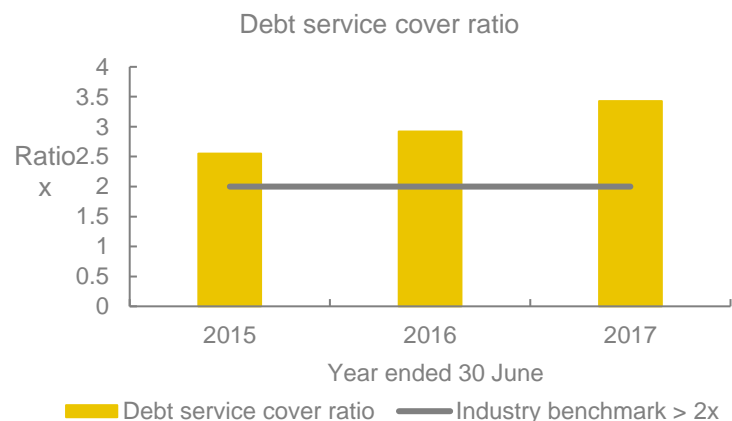
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council's debt service cover ratio of 3.4 times continues to exceed benchmark. The ratio improved due to lower borrowing costs this year.

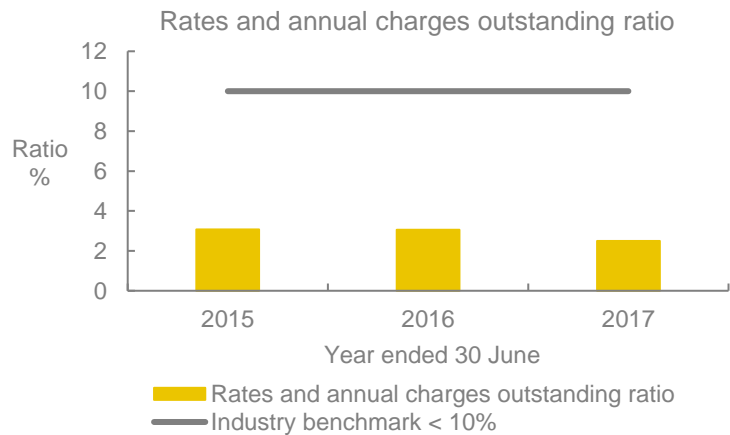
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

Council's outstanding rates and charges ratio of 2.5 percent remains within the benchmark.

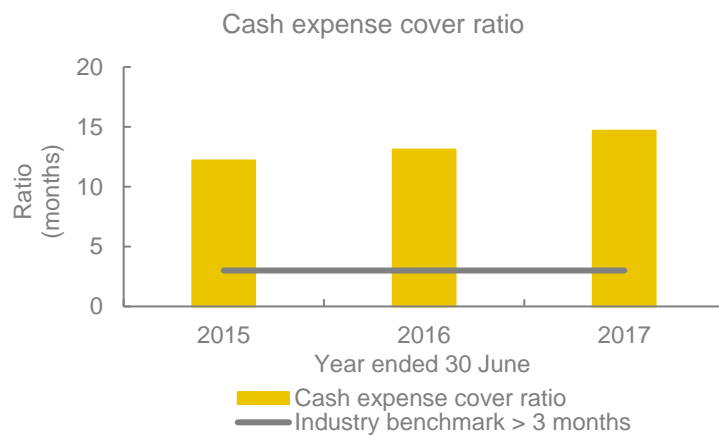
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils.



Cash expense cover ratio

Council's cash expense cover ratio of 14.7 months continues to exceed the benchmark. This reflects the substantial balance of cash and term deposits.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

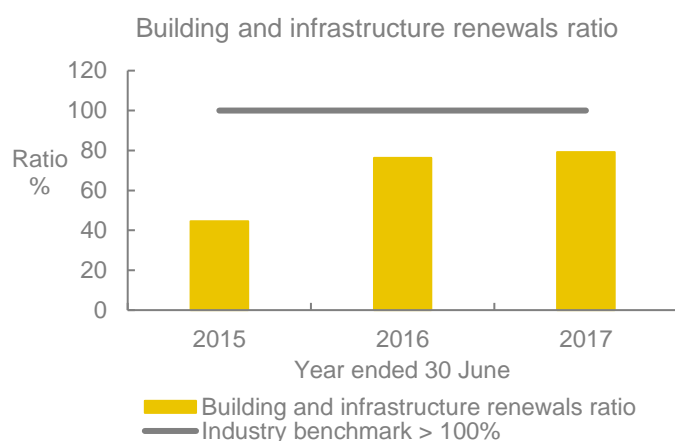


Building and infrastructure renewals ratio

Council's infrastructure renewals ratio is below industry benchmarks. This ratio has improved due to Council's increased commitment to asset renewal.

The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from information contained in council's Special Schedule 7 which has not been audited.



OTHER MATTERS

New accounting standards implemented

AASB 124 'Related Party Disclosures'	
Effective for annual reporting periods beginning on or 1 July 2016	AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public sector entities. Council's financial statements disclosed the: <ul style="list-style-type: none">• compensation paid to key management personnel• nature of their related party relationships• amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Karen Taylor
Director, Financial Audit Services