

EXECUTIVE SUMMARY



Council's Financial Statements were completed within the statutory timeframe and it is pleasing to note that again the audit report is unqualified.

SUMMARY OF FINANCIAL REPORTS FOR THE YEAR

Year ended 30 June	Budget 2011 \$'000	Actual 2011 \$'000	Actual 2010 \$'000
Income Statement			
Income from Continuing Operations	89,018	97,631	93,928
Expenses from Continuing Operations	81,827	85,209	76,418
Profit/(Loss) from Disposal of Assets		(3,701)	(1,454)
Surplus (deficit) before revenue for capital purposes & revaluation decrement for Community Land	(2,835)	778	9,300
Surplus after revenue for capital purposes & revaluation Decrement for Community Land	7,191	(49,362)	17,510
Balance Sheet			
Total current assets		64,540	63,227
Total current liabilities		24,607	29,840
Total non-current assets		1,109,062	1,122,282
Total non-current liabilities		54,800	54,247
Total equity		1,094,195	1,101,422
Cash Flow Statement			
Net Cash from Operations	27,188	34,955	28,656
Net Increase (Decrease) in Cash Held	(8,971)	(7,861)	2,150
Cash at End of Reporting Period	6,988	8,098	15,959
Proceeds from Sale of Assets (excluding Investment Securities)	1,555	1,454	960
Purchase of Property, Plant & Equipment	45,148	39,818	29,976
Other financial information			
Unrestricted current ratio	1:1	2.07:1	1.61:1
Debt service ratio	8.0%	9.2%	6.6%
Rates coverage ratio	0.50:1	0.45:1	0.47:1
Rates outstanding percentage	< 5%	3.41%	2.84%

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 Council achieved sufficient operational revenues to meet all its expenses including depreciation (after eliminating a one off revaluation decrement to Community Land. Concerns about financial sustainability continue despite operational revenues exceeding expenses overall. There was a surplus of about \$0.7m before recognising revenue for capital items and the revaluation decrement to Community Land. Most of this surplus is generated by the sewer and water services. The services funded by general rates resulted in a deficit of \$1.7m which was about \$0.5m improvement on the original budget (noting the June review unaudited indicated savings of \$2m but these were based on total budget including operations and capital items).

Notable factors affecting the net result:

1. Revenue targets for water user charges not met due to continued reductions in use as a result of increasing metered charges and consumer adaptation. These reductions in use also provide a major contribution to achieving reduction of emissions.
2. Increased grants for capital purposes as a result of water and building infrastructure projects and developer contributions (2010/11 \$11.6m; 2009/10 \$8.2m; Difference \$3.4m).
3. Net Loss on Disposal of Assets of \$3.7m mainly due to write off on various transport, water and sewer assets as a result of renewals and flood damage (\$1.6m 2009/10).
4. Due to improving investment markets, Council revalued its Investments in CDO's by \$0.61m (\$0.76m 2009/10). This is disclosed in Interest and Investment Revenue.
5. Community Land was revalued with a decrement of \$61.78m being shown in the Income Statement. See Note 20 in the General Purpose Financial Statement for detailed explanation.
6. Recognition of assets (non-cash) provided by developers (\$2.9m).

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 increased to 2.07:1 (from 1.61:1 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 9% 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 Council's five year capital expenditure program.

Water, sewer and waste borrowings represent 41% (\$31.1m) of all loans. The debt service cost has increased this year due to borrowing in 2009/10 for significant infrastructure and facility projects such as water and sewer works, transport, streetscaping and foreshore projects. The ratio is expected to further increase slightly 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 2010/11 about 46% of total revenues were rates and charges and this has been fairly stable.

Rates Outstanding Percentage

Levels of outstanding uncollected rates (3.41%) remain low compared to most other Councils through a combination of effective administration and ratepayer cooperation. There has been a slight increase during 2010/11 due to the vacancy of the Recoveries Officer and current economic environment.

Asset Management /Condition of Assets

During 2010/11, \$8.1 million was spent on renewal of existing buildings and infrastructure assets. When compared to Council's \$18.8 million depreciation expense for building and infrastructure assets, indicating the possibility that Council is not sufficiently renewing its assets/services or will reach a point where catch up is required.

While most assets are considered to be reasonably well maintained and renewed in the circumstances, asset condition factors for roads and bridges raise the greatest concern. In particular there is a concern about some roads constructed in the 1960s. This is an issue that is affecting local government generally and was the subject of the Local Government inquiry into financial sustainability.

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. More is required.

There are some lesser concerns relating to sewer and water infrastructure. Long term asset management issues are being examined as asset management systems and strategies are improved and further information becomes available. The Council adopted an Integrated Water Cycle Management Plan and related long term financial modelling. This has formed a basis for the current community strategic plan and related resourcing options being discussed with the community. More information on asset condition is available from Special Schedule 7, included in Appendix A.