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 gain on investment revaluation, is that just creative accounting as we all know the Council has lost money on its investments?

A *The Council fully acknowledges it has lost money on investments. While the losses are extremely regrettable they were limited compared to some organisations through diversification and clear limits placed on the CDO portfolio and term investments. Interest on investments represents only about 2% of Council income. All of Council's investments met state Government requirements and were at least A rated, in most cases AAA or AA. The CDO's are valued according to the market and a considerable amount was initially written off but as the market recovers it has to write any increments back as a gain on investment revaluation. This has been the case for the last two years.*

Q Is the $61.784m revaluation decrement of Community Land indicative that Council is mismanaging its community land assets?

A *All NSW Councils were required to revalue Community Land as at 30 June 2011 and most are showing significant revaluation decreases. This is because the methodology for the valuation has been refined since it was first recognised, it is not because community land itself has lost value. The current valuation of Community Land is based on the Valuer-Generals valuations for rating purposes which takes into account the restricted uses of this land as general public land and thus its relative lower value compared to Operational Land. The previous valuation in 1994 used the average cost of all land purchased by Council in that financial year and did not take into account the restrictions placed on Community Land, hence its lower value.*

Council has on its books land that is either classified as Operational or Community Land. Community Land is general public land such as public parks and Council is restricted in its use of *this land. However, Council is not restricted in its use of Operational Land and is able to hold it as an investment, restrict public access or to conduct its operations such as work depots.*

Some Councils have elected to book the decrement direct to Retained Earnings to avoid what they see as a one off distortion to the income statement, this is not compliant with Accounting Standards. Council has elected to show the decrement through the Income Statement to comply with the accounting standards and to avoid a qualified audit report.

The decrement is a book entry only, has no cash flow impact, is very unlikely to occur again and is not a cause for concern.

Q Liquidity. The Council is holding about $52m of cash and investment securities, why not have a rates holiday for 1 year?

A *About $34m of this amount is restricted for particular purposes such as developer contributions plans, waste, water and sewerage purposes etc.*

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 2.07 (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.

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 reasonable. 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.*

Council will reconsider the optimum levels of debt in conjunction with the Community Strategic Plan and Long Term financial Planning processes now commenced.

Q Why is the Council so reliant on rates?

A *The Council obtained 46% of its revenue from rates. Of the remaining revenue, 28% from grants and contributions (including developer contributions) and 20% 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.*

Q The Council has around $1.4m of uncollected rates outstanding, why should I pay mine?

A *The rates outstanding represent around 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 ratepayers are totally cooperative in paying and it sees this as a good sign. Rates represent a first charge against the property and therefore are very secure and eventually are recovered including any legal 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 *Council is always looking for ways to save energy. A recent report to council (FS11/70) summarised a number of energy efficiency projects either completed or underway that will save council over $280,000/year. Council has also committed to implementing a number of additional measures that will save a further $55,000/year. Despite these savings it is difficult to keep up with rapidly rising electricity tariffs. Council will continue to investigate other energy efficiency opportunities and prioritise the implementation of cost-effective energy saving measures.*

Q Costs of fleet 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 fleet 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.*

Council has had its fleet operations independently reviewed and is implementing a number of recommendations.

When entering into contracts it joins with other Councils to achieve greater economies of scale in pricing.

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 **Note 4 expenses indicate borrowing ($99,000) and depreciation ($43,000) 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 **Why has depreciation expense increased by $5m?**

A *The road and bridges infrastructure network was revalued in 30 June 2010 to its replacement value from its previous historical cost. This significantly increased the values of the network and hence the depreciation charge which spreads the replacement value across the life of these assets.*

Q **Why is the net loss on disposal of assets higher this year by $2.2m?**

A *The carrying amount of infrastructure written off represents the value left on Council's books of infrastructure assets that have been renewed during the year. This year the amount written-off was compounded by the March flood event that saw the complete write-off of some roads and bridges plus the change in accounting policy for the significant resheet and reseal program which is now recorded in Council's asset registers and depreciated over useful life and not expensed up front.*

Q **What is the "Subdivider Dedication" revenue (in note 3) and if it's 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 rates income growth.*

Q **How did the Council generate less than 1% additional rates revenue when the IPART rates determination was much higher at 2.6%?**

A *General and Environment Funds are capped but each year the State Government allowed for an adjustment (2.6% in 2010/11) to assist with rising prices etc. Developments such as subdivisions also increase land values and numbers of property assessments which are permissible rates revenue growth (about 0.65% 2010/11). Council may apply for special variations (applications were unsuccessful). Functions such as Sewer, Waste and Water are not "capped". Sewer increased significantly and waste was marginally above the Ministerial determination for General Rates. On the other hand rate assessment charges for water were decreased in favour of metered user charges in accordance with best practice pricing. This was the main factor in the overall low rates and charges revenue increase.*

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

A *During 2010/11, less was spent on renewal of existing assets compared to Council's $21.9 million depreciation expense. This adds weight to the contention that Council is not maintaining all its past assets/services and 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.*

There is now clear evidence that Council is progressively slipping further below the average general rates for group 4 NSW Councils and this will further exacerbate concerns that it is not able to budget to fully maintain and renew its existing assets and what the implications of that might be for the long term future.

Q **Why does the Council employee so many staff (434 FT at 30/06/11)?**

A *Council manages net assets of over $1b which is indicative of the assets to be managed. With annual turnover budgeted in 2011/12 of around $90m and wide ranging services it is a large and complex operation. General rates are 14% less than average for Councils classified as group 4 and above average services in the predominantly grant funded community well being (social) and environment areas are provided. It is also worth noting that the supply of water and sewerage services is a major activity undertaken by Council which is not provided by all NSW Councils. Resourcing has to be a combination of employees, materials and services (such as consultants and contractors). Council has a resourcing strategy which focuses more on utilising employees through which it believes it delivers value for money. There is a fair proportion of grant funded programs so those employees are not paid from rates and their employment in many cases is subject to the grant funding.*